

## Capital & Investment Strategy - 2020/21 to 2029/30

### Purpose and Objectives

1. The Prudential Code for Capital Finance in Local Authorities was updated by the Chartered Institute of Public Finance and Accountancy in December 2017. The code requires that for each financial year, a local authority should prepare at least one Investment Strategy which should contain the disclosures and reporting requirements specified in the guidance. The Strategy must be approved by full Council.
2. The definition of an investment covers all the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations.
3. The objectives of the Prudential Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.
4. The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long-term financing implications and potential risks to the authority.
5. The Prudential Code sets out that in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy. The capital strategy should set out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.
6. This Capital & Investment strategy sets out the requirements of the Prudential Code covering all the investments of the authority and covers the following areas:
  - The Council's Corporate Plan priorities and the local context
  - Financial context and funding streams
  - Approach to capital investment
  - Capital Programme financing principles

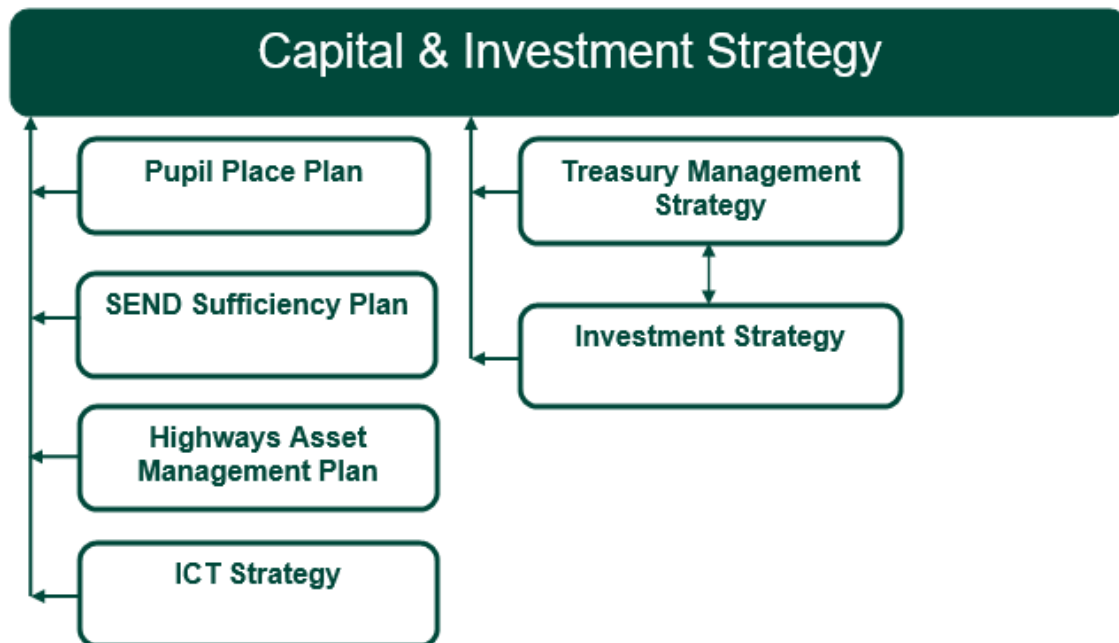
- Capital programme approach and overview of existing Capital Programme
- Capital investment proposals for 2020/21 – 2029/30
- Capital governance and decision-making
- Prudential Indicators for capital finance
- Treasury Management Strategy Statement (including external debt)

### Introduction

7. The Capital & Investment Strategy is a policy document that outlines Oxfordshire County Council's approach to investments over the next ten years. It is closely linked to other key strategic and policy documents, such as:
  - The Corporate Plan
  - The Oxfordshire Infrastructure Strategy (OxIS)
  - Oxfordshire Local Industrial Strategy
  - Oxfordshire Joint Statutory Spatial Plan
  - The Financial Strategy including the Medium Term Financial Plan
8. This strategy reflects the ambition for the Capital Programme where the schemes contained in the programme will all be defined from council strategies that determine the management of its assets, services and needs. The structure of the Capital Programme has been amended and is now based around the supporting strategies rather than the previous structure that was presented on a Directorate basis. The main supporting strategies include Pupil Place Planning, Highways Asset Management Plan, Investment Strategy, Oxfordshire Infrastructure Strategy, the developing Property Strategy (see paragraph 24), and the ICT Strategy.
9. During 2021/22 there will be a fundamental review of the capital programme against these strategies, but in the forthcoming year, the proposal is that only essential requirements will be built into the programme.
10. The new capital programme is structured as follows:
  - **Pupil Place Plan:** including basic need (new schools and expansion), maintenance, health and safety and improvements
  - **Property and Estates:** including health & safety, maintenance, improvements and the Investment Strategy
  - **Highways and structural maintenance:** including street lighting, and bridges
  - **ICT Strategy:** including broadband and End User equipment
  - **Passported Funds:** including Disabled Facilities Grant and Devolved Schools Capital
  - **Vehicles and Equipment:** including fire and rescue vehicles and equipment

- **Major Infrastructure:** including Growth Deal
- **Corporate:** including earmarked reserves and contingency

11. The proposed allocations are based on a combination of identified schemes with known budget requirements, identified schemes with estimated budget requirements and general allocations where services can bring forward business cases to add specific schemes to the programme.
12. This diagram shows relationship between the Capital and Investment Strategy and supporting plans and strategies:



13. The Capital & Investment Strategy complements the key documents above by defining the approach, structure and governance for the effective financing and management of the Council's capital investment needs and ambitions. It outlines how capital investment contributes to the Council's priorities and how the Council's existing and proposed capital resources will be effectively managed to meet the planned needs plus opportunities for meeting the ambitions for longer term capital investments.
14. It is inevitable that the level of capital resources required to meet capital investment needs and aspirations will exceed the actual resources available. Therefore, one of the key purposes of the Capital & Investment Strategy is to ensure that capital projects or programmes are only approved where they accord with the capital investment principles.
15. The Council seeks to employ a variety of different resources to close the funding gap. In this context, the second key purpose of the Capital & Investment Strategy is to ensure that capital investment plans are affordable, prudent, sustainable and demonstrate value for money. It provides the framework for

determining capital spending plans and the effective use of the Council's capital resources.

## **The Council's Corporate Plan Priorities**

16. The Capital & Investment Strategy emphasises the significant contribution that the capital programme can make in delivering the corporate priorities of thriving communities, thriving people and thriving economy and in bringing benefits for wider communities. It embraces the Council's philosophy of putting residents at the heart of everything we do; and, through the delivery of programmes and schemes will ensure adherence to the Council's own strategy for Climate Action. This strategy also seeks to ensure that resources are used in the most efficient way and support the Council's objectives most effectively.

## **Partnership Working**

17. The Council has a strong vision to create sustainable places by working closely with its partners. It recognises that it can only achieve its objectives through partnership working and is therefore committed to working with public, private, voluntary and community organisations.
18. The Council has a history of pursuing joint-working and joint-service delivery initiatives for better outcomes for communities and residents of the County. It will continue to actively seek opportunities to work in partnership to provide capital investment in Oxfordshire.
19. The Council is currently working with:
  - All Oxfordshire District Councils, the City Council and OxLEP to deliver the Housing & Growth Deal;
  - OxLEP to deliver Local Growth Fund projects;
  - Cherwell District Council through our joint partnership arrangements; and
  - Oxfordshire District Councils and the City Council to deliver One Public Estate Projects.

## **Capital Investment Principles**

20. The Council's approach to capital investment is integral to the Council's financial planning processes. The approach aims to ensure that:
  - a. Capital expenditure contributes to the achievement of the priorities set out in the Corporate Plan;
  - b. An affordable and sustainable capital programme is agreed;
  - c. Use of resources and value for money is maximised;
  - d. A clear framework for making capital investment decisions is provided;
  - e. A corporate approach to the use of capital resources is maintained;

- f. Sufficient assets to provide services are acquired, or built, and maintained;
- g. Invest to save initiatives to make efficiencies within the Council's revenue budget are encouraged;
- h. Investment in existing assets to enhance their value, including acquisition of land, is supported;
- i. An appraisal and prioritisation process for new schemes is robust

## **Capital Programme Financing Principles**

21. The Council's capital programme financing principles are:

- a. The government grants received for basic need, school maintenance and highways maintenance are treated as a single flexible pot that fund the statutory requirements of the provision of school places and school and highways maintenance as the first priority.
- b. Capital receipts are also treated as a corporate resource and used across the capital programme flexibly.
- c. The Council will continue to be proactive in ensuring, as far as possible, that all additional capital investment needs arising from new developments are funded from developer contributions.
- d. Ringfenced resources are used for the purposes for which they are issued.
- e. Prudential borrowing will be considered where:
  - i. capital investment will result in future revenue savings and the cost of borrowing can be met from the savings; or
  - ii. the council has a significant unmet capital need. The borrowing is repaid from revenue over the life of the asset and this implication is taken into account when assessing the affordability of the proposal.
  - iii. It contributes towards the overall investment approach, subject to clear and demonstrable business case;
- f. The Council will try wherever possible to influence investment through the targeted use of its limited capital resources to lever in other investment to meet its objectives. However, the Council is clear that projects that may bring in further investment will only be supported if they meet the Council's priorities and objectives. The Council also evaluates long-term implications of accepting any external funding provision, in particular on its revenue budget.
- g. The Capital Programme will maintain a 3% contingency level.
- h. The Council will continue to employ an effective year-end financing strategy that is aimed at minimising the liability on the revenue budget. The first calls on capital resources are therefore external funding (including S106), grants, capital receipts and reserves. The final calls, where necessary, are on prudential borrowing.

## **Investment Strategy**

22. In September 2019 Council approved the Investment Strategy. This is included at Annex C - Appendix B. The Investment Strategy sets out an investment framework under which the Council can undertake investments against the following broad categories:
- investments in property funds, bond funds, equities and multi asset classes;
  - maximising the use of and value of our own assets (land & buildings);
  - acquisitions & investments, which derive a service outcome or Council priority, and which generate a commercial return;
  - investments for policy, social, community benefits.
23. The Prudential Code requires that where authorities have commercial investments, that local authorities should disclose the contribution they make towards the service delivery objectives and/or place making role of the authority. In addition, the types of investment, due diligence processes, the proportionality of those investments and the local authority's risk appetite are also required to be set out. Currently there are no such investments but going forward these will be included in the annual update of this strategy.

## **Developing Property Strategy**

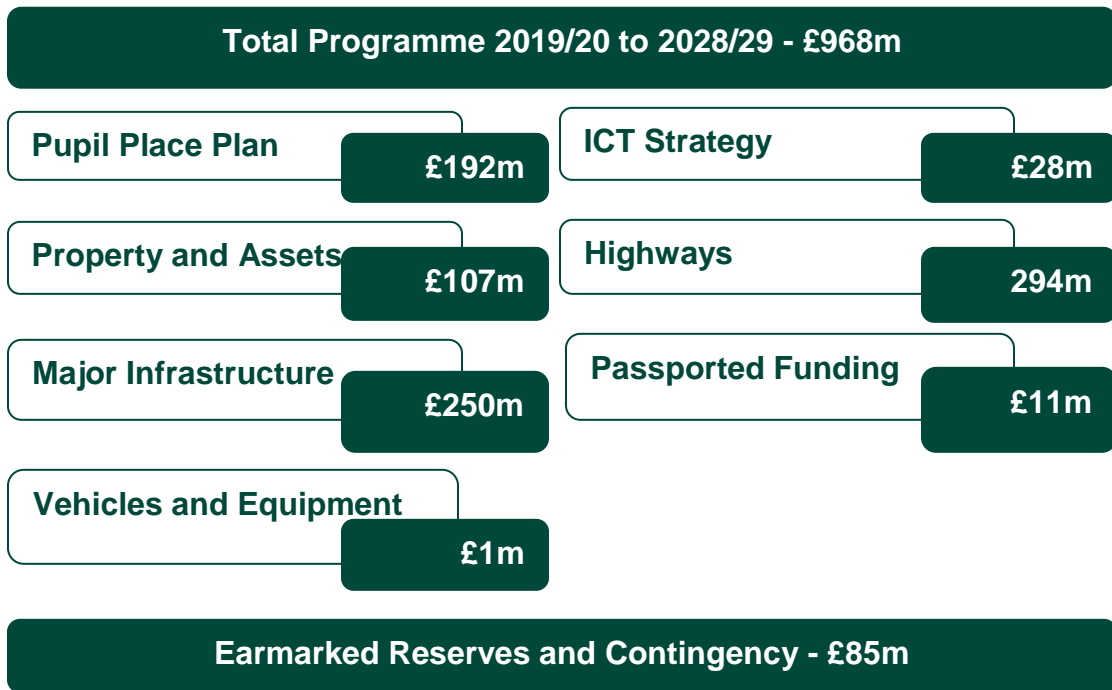
24. The Investment Strategy will be supported by the development of a Property Strategy which in turn will be informed by an organisation wide workforce strategy.
25. The Property Strategy will act as a mechanism for assessing the property portfolio from all angles and will be directly linked with the wider ongoing work to:
- a. support service areas across the county to deliver their services to residents
  - b. enable and support the Council's workforce strategy
  - c. act as a catalyst for service co-location and integration
  - d. inform opportunities that can feed into the investment strategy
26. The development of the property strategy will involve all the service directorates of the Council, who will be responsible for providing the information required in terms of their service delivery needs from a property point of view. In that way we will be able to develop the most appropriate strategy which fits exactly the needs and objectives of each area to enable them to execute their delivery strategies in the future.
27. A draft Implementation plan will then be generated that captures models for operational and non-operational sites which optimises the use of existing

assets and considers the necessity of the creation of new assets to meet the ongoing needs of the council over the next five to 10 years.

28. Various workshops will be facilitated by the Property, Investment and Facilities Management team with all key stakeholders to establish some key principles for the development of the property strategy. This will include items such as:
- a. Clear direction of each directorate’s service short/medium/long-term delivery strategies
  - b. Engagement and co-location opportunities with partners
  - c. Localities, community hubs and area-based service designs
  - d. Climate Action impact
  - e. Financial impact
  - f. Identify and evaluate key assets for investment opportunities

**Capital Programme Overview**

29. The current capital programme for 2019/20 to 2028/29 totals £968m<sup>1</sup>. The diagram below sets out the current programme summary:



30. The existing programme includes School Basic Need projects, the annual highways maintenance programme and large transport schemes that have received specific government grant funding. These include City Deal, Local

<sup>1</sup> Based on the Capital Programme presented to Cabinet in December 2019

## **Annex 3 – Appendix A**

Growth Fund, the Housing and Growth Deal. The current programme also includes investments in the street lighting estate (£41m) funded by prudential borrowing. The borrowing cost for this investment will be funded by the reduction in revenue costs in relation to street lighting.

31. The programme includes a further £120m investment in highways maintenance (£80m) and property (£40m) funded by prudential borrowing. This borrowing can be afforded based on an assumption that the growth in the Council Tax base will be above the level assumed in the Medium Term Financial Plan.
32. The £80m investment in highways maintenance was approved by Cabinet in September 2018. The investment has enabled an increase to the annual maintenance programme over the 10-year programme. Making repairs to roads already in poor condition will reduce the number of potholes that arise and improve the longevity of future repairs in these areas, thus reducing the increasing pressure on revenue resources.
33. In September 2018 Cabinet approved a £40M investment in Property to manage legacy issues relating to property maintenance and the demise of Carillion. That investment has enabled essential works to be completed, with clarity to the programme work required going forward. The priority is to ensure that the estate remains compliant with statutory and health and safety requirements.
34. The Pupil Place Plan programme includes an investment of £19.5m linked to the SEND strategy, agreed by Cabinet in December 2018, to increase the provision of Special School places in the county. £10m of this relates to the rebuild of Northfield School with an expanded number of places. Further amounts are available for additional SEN bases at mainstream schools and the expansion of existing special schools. The school's estate allocation also includes provision to increase the number of early year's places across the county.

### **Capital investment proposals 2019/20 - 2028/29**

35. The new Capital Programme proposed alongside this strategy, extends the programme period to 2029/30. Details of proposed new capital investments are set out in Annex 3 – Appendix C.
36. In addition to extending the programme by a year, the allocations have been reviewed in light of emerging proposals, agreed programmes and revised funding levels.



37. The Pupil Place Plan sets out the need for school expansions and new schools. Section 3.3 of the plan sets out the schemes already in development as a result of adopted Local Plans and other known growth. An additional allocation of £50.7m is proposed over the ten year programme to meet the identified need.
38. The proposed programme includes a £10.0m allocation within the Property and Asset programme for the new Investment Strategy. As business cases come forward they will be subject to the governance arrangements and criteria as set out in the Investment Strategy.
39. Within the Highways and Structural Maintenance programme an allocation of £53m is proposed for urgent works to Kennington Bridge. A submission has been made to Department for Transport for grant funding of £30m and third-party contributions of £18m are also sought. The remaining £5m coming from corporate resources. This may need to be reviewed if the grant application is unsuccessful.
40. The Information and Communication Technology Strategy was approved by Cabinet on 19 December 2019. The proposed ICT programme includes the reallocation of existing £9m block to meet the initial outcomes of the strategy. This includes investment of £7.8m in an End User Computing refresh to improve ICT services for all staff and customers which is tangible in the day to day use of technology and in how ICT staff operate. It is expected that investment in ICT will support better decision making, reduce the overall cost of ICT to the Council and provide better value for money.

### **Governance Arrangements**

41. The Prudential Code sets out that the responsibility for decision making and on-going monitoring in respect of capital expenditure, investment and borrowing, including prudential indicators, remains with full council. Although detailed implementation and monitoring may be delegated to a committee.
42. The capital governance arrangements were reviewed during 2019 and interim arrangements were agreed which are still in place. The governance arrangements will be reviewed during 2020.

### *Council and Cabinet*

43. Council and the Cabinet are the key democratic decision-making bodies as per the Council's constitution. The Council approves the key policy documents and the capital programme as part of the Council's Policy and Budgetary Framework. The Cabinet recommends priorities, policy direction and the capital programme to the Council for approval. The Cabinet also approves new

inclusions to the capital programme in line with the scheme of delegation and the financial procedure rules.

### *Delegated Powers to Officers*

44. Delegations to officers are set out in full in Section 5 of the Council's Financial Regulations. In addition, all officers are bound by the scheme of delegation.
45. The Section 151 Officer, jointly with the Corporate Director Communities, are responsible for ensuring that appropriate arrangements are in place to monitor the capital programme and resources, control expenditure against approved budgets, and address any problems of overspending or resource re-allocation.

### *Capital Programme Implementation*

46. The Council operates a two-stage approval process for capital resource allocation. If a project is approved at stage 1, it is accepted in principle to the capital programme and is allocated a project development budget. This stage is also called "commit to investigate". At stage 2, the project receives full approval for work to commence and expenditure to be incurred, subject to the budget constraints of the project delivery budget allocation.
47. A business case supports each approval stage that has:
  - Analysed a range of possible solutions at the feasibility phase of each major capital investment;
  - Based the options appraisal on the life cycle costs of possible solutions, including the discounted cost of future expenditures to determine their affordability;
  - Explored different project delivery models that, where possible, include partnerships, sharing costs with other organisations, obtaining grant contributions or generates revenue income;
  - Recommended the option that ensures the capital investment secures the maximum benefit.

### *Capital Expenditure Definitions*

48. Expenditure which qualifies as capital under this strategy is set out on the Council's intranet using the link below. It also sets out information on de-minimus values, abortive costs, abnormal costs and leases.

<https://intranet.oxfordshire.gov.uk/cms/content/what-capital-expenditure>