Section 4.10

The Capital Strategy - 2018/19 to 2027/28

Background

1. In September 2017, CIPFA issued a consultation on proposed changes to the Prudential Code. This included the proposal to introduce the requirement for Council to approval a Capital Strategy annually as part of the budget setting process. The purpose being 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. The updated code was issued in December 2017 and is effective from 2018/19. However, it was recognised that the requirement to produce a Capital Strategy may require a longer lead in time and there is recognition that this requirement may not be fully implemented until 2019/20. It is expected that this strategy will be required to be updated in 2019/20 to reflect all requirements of the code but this initial version has been produced and is included in the suite of papers for approval by Council.

Introduction

2. The Capital Strategy is a policy document that outlines Oxfordshire County Council's approach to capital investment 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)
   - The Local Transport Plan
   - The Strategic Property Asset Management Plan
   - The Highways Asset Management Plan
   - The Finance Strategy including the Medium Term Financial Plan
   - The Treasury Management Strategy

3. The Council is currently in a process of transformation, designing a new operating model to ensure it is “Fit for the Future”, The Capital Strategy will need to remain under review during 2018/19 so that it is consistent with the future direction of a new operating model, and enables the delivery of change on a timely basis.

4. The Capital Strategy complements the key documents above by defining the approach, structure and governance for the effective financing and management of our capital investment needs and ambitions. It outlines how the Council’s existing capital resources will be effectively managed to meet the planned needs and opportunities for meeting the ambitions for future longer term capital investments

5. It is inevitable that the level the 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 Strategy is to ensure that no capital programme or project proposal is approved without determining whether there are better ways of achieving the stated objectives or better ways of using the available resources.

6. 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 strategy is to ensure that capital investment plans are affordable, prudent, sustainable and demonstrate value for money.

7. The Capital Strategy sets out the County Council's capital investment plans and explains how capital investment contributes to the Council's Vision and Priorities. It shows how the Council prioritises, targets and measures the performance of its capital resources. It also shows how the Council intends to maximise the value of its investment to support the achievement of its vision and priorities. It provides the framework for determining capital spending plans and the effective use of the Council's capital resources.

8. The areas considered by the Capital Strategy are:

   - The financial context including the opportunity for income generation and growth.
   - The delivery of corporate priorities and infrastructure needs through capital investment
   - Capital governance and decision-making
   - A robust, appropriate and sustainable financial strategy

The Council's Vision and Priorities

9. The Vision for Oxfordshire, set out in the Corporate Plan is **"Thriving communities for everyone in Oxfordshire"**

10. To achieve our vision, we will listen to residents so we can continuously improve our services and provide value for money. Our priorities are:

    Thriving communities
    - We help people live safe, healthy lives and play an active part in their community
    - We provide services that enhance the quality of life in our communities, and protect the local environment

    Thriving people
    - We strive to give every child a good start in life, and protect everyone from abuse and neglect

- We enable older and disabled people to live independently and care for those in greatest need

Thriving economy

- We support a thriving local economy by improving transport links to create jobs and homes for the future

11. The Capital Strategy emphasises the significant contribution that the capital programme can make in delivering the corporate priorities and in bringing benefits for wider communities. It also seeks to ensure that resources are used in the most efficient way and support the Council's objectives most effectively.

Local Context

12. Oxfordshire's population is around 683,100[1] and the county's area is 260,500 hectares. It is the most rural county in the South-East region; over 50% of Oxfordshire's population live in settlements of fewer than 10,000 people. Almost a quarter of Oxfordshire's population live in the city of Oxford with a similar proportion in its market towns and the remaining half living in rural areas. The population is ageing with substantial recent growth in the number of people aged 85 and over.

13. The County is facing significant demographic pressures. Economic prosperity and the quality of the environment make Oxfordshire an attractive place in which to live and work. Between 2015 and 2030 Oxfordshire's total population is forecast to grow by over 27%, whilst over the same period, the number of people aged 85 and over is projected to grow by 92%. This will increase the number of people requiring intensive support from the social and health care system. In addition, the increase in fertility rates in the existing population residing in existing housing will lead to an increase in the number of children requiring school places.

14. Oxfordshire will experience significant housing and employment growth to 2031, with an ambition for an additional 100,000 homes in Oxfordshire. This would see housing delivery of 5,100 dwellings per year, the current average has been 2,400 dwellings per annum. There will therefore be a need for considerable investment in new infrastructure to meet the pressures on essential services such as schools, roads, waste and extra-care housing provision. A key challenge will be to make sure that there are sufficient resources to fund, forward plan and implement this level of growth effectively.

15. Oxfordshire's local authorities worked collectively through the Growth Board on an Oxfordshire Infrastructure Strategy (OxIS) designed to identify, map

[1] Office of National Statistics (ONS) Mid-2016 Population estimate

and prioritise Oxfordshire's infrastructure requirements to 2040 and beyond. Significant elements of this were completed and published in the course of 2017.

16. Following this, negotiations with national government partners have led to an outline agreement securing £215m of government investment in measures to support the delivery of housing, promote affordable housing, and secure required infrastructure. Final agreement of a detailed delivery plan is expected to take place through councils, cabinets, and with national government, in February 2018.

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 already 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 secure a Housing and Growth Deal for Oxfordshire;
    - OxLEP to deliver Local Growth Fund projects; and
    - Oxfordshire District Councils and the City Council to deliver One Public Estate Projects;

Financial Context

20. Since 2010, local government has seen significant reductions in the revenue funding received from government to address the national deficit, however, national capital funding allocations, despite large initial reductions, have returned to or increased from the pre-2010 levels. The establishment of Local Enterprise Partnerships (LEPs) in 2011 has resulted in significant funding for large infrastructure schemes through the Local Growth Fund. The government have committed to borrow for investment in infrastructure and innovation which will boost productivity through the National Productivity Investment Fund established in 2016, gives additional funding for housing, infrastructure and research & development.

21. For the Council, government capital grants have continued for basic need, school’s structural maintenance and highways maintenance.

22. A key source of capital funding for the council is developer contributions. There have been significant contributions to the schools and transport programmes in recent years. With the upturn of the housing market and identification of strategic sites it is expected that developer contributions will continue to be an important funding source for the council to deliver the infrastructure needed in these growth areas.

23. Due to the sharp reduction in the value of capital receipts experienced in 2010, that were slow to recover, the income derived from the sale of council assets has not been as significant in the last few years compared to the past. In addition, the squeeze on the revenue budget has made it very difficult for the Council to increase its prudential borrowing provision significantly. This has meant that there has been little resource available to meet the needs or priorities of the council beyond the statutory requirements of providing school places and school and highway maintenance.

County Council's Infrastructure and Asset Base

24. The County Council has a wide range of infrastructure and property assets including schools, offices, highways depots, roads, bridges, park and ride sites, waste recycling centres and county farms.

25. The Council's capital assets were valued at £1,134.8m in the 2016/17 Statement of Accounts. The summary of the consolidated balance sheet is set out in the table below.

Category	Value £m
Intangible Assets	1.9
Investment Property	7.2
Land & Buildings	578.1
Vehicles, Plant, Furniture & Equipment	93.3
Infrastructure	409.7
Surplus Assets and Assets Held for Sale	3.6
Assets Under Construction	41.0
TOTAL	**1,134.8**

26. The Council's Estate includes 520 assets in the school's estate and 615 assets in the corporate estate. The Council is also responsible for maintaining over 2,750 miles of public highway, 1,970 miles of footway, 2,900 bridges and 80,000 street lights.

27. Over the period September 2011 to September 2016, the Council created an additional 4,559 school places in existing Primary and Secondary schools. The forecast is that an additional 3,468 places will be provided over the next

4 years. In addition, 2,445 school places have been created in new schools on major housing developments and a further 2,580 places will be created by September 2020.

Capital Programme Proposals

28. The current capital programme for 2017/18 to 2020/21 totals £430.6m[2]. The figures for the years 2019/20 onwards are draft based on an indicative programme put forward to Cabinet. The programme includes some indicative projects where no firm costings or business cases have been produced. Projects are only progressed after a formal approval process, as outlined in this capital strategy.

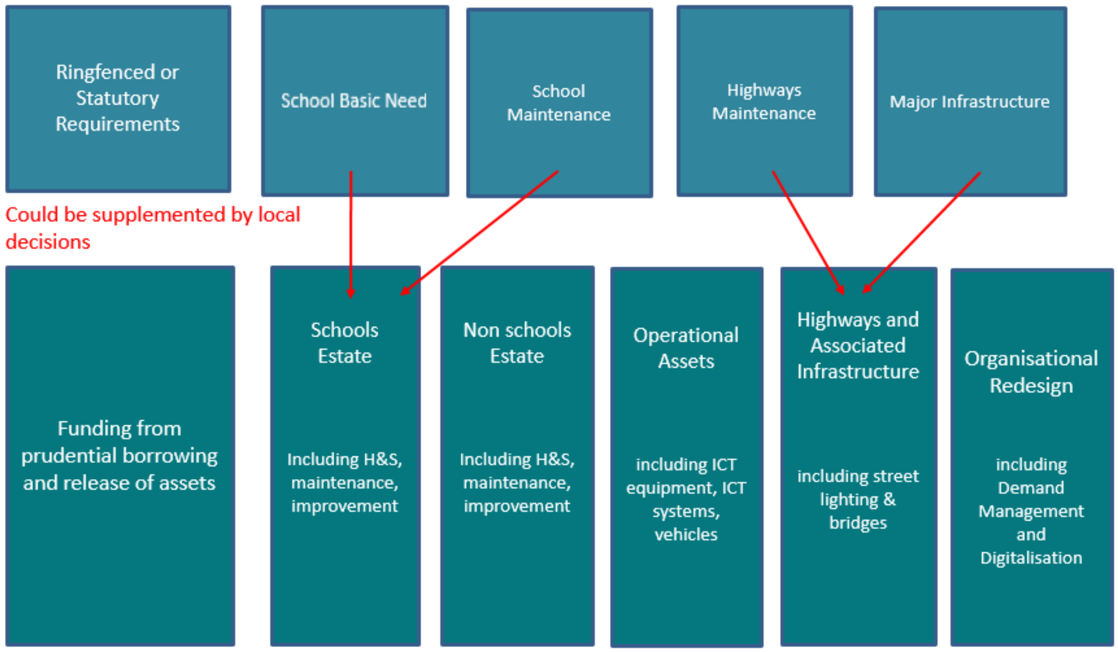
29. The programme predominately includes School Basic Need projects, the annual highways maintenance programme and large transport schemes that have received specific government grant funding, such as City Deal or Local Growth Fund.

30. The new capital programme proposed alongside this capital strategy, extends the programme period to 2027/28 to enable strategic choice and options around developing our community assets, responding to issues such as rising demand in adults and children's services and allows for a planned approach to the replacement of assets.

31. With this in mind, the overall vision for the capital programme is to have a diverse portfolio of activity, ensuring the continued creation of new infrastructure; maintenance of existing infrastructure; plus, replacement of old infrastructure, for the benefit of Oxfordshire residents and businesses. This will deliver value for money within an affordable financial envelope by generating income and growth, enabling the delivery of savings and focussing on creating better places to live and work. This is all underpinned by the needs of the people and businesses of Oxfordshire to meet the Council's overall vision.

32. To support this vision a portfolio area approach has been adopted for the development of the capital programme. The portfolio areas are in addition to the ringfenced and statutory requirements of school basic need, school maintenance, highways maintenance and major infrastructure schemes. In setting these portfolios, it is recognised that the Council may wish to invest more than the specific grant funding provided for the schools and non-schools estate. The portfolio approach allows for a policy led approach or the ambition to achieve a desired outcome. The portfolio areas are shown in the following diagram:

[2] Based on the Capital Programme presented to Cabinet in December 2017



Financing the Capital Programme

33. The funding assumptions for government grants has been estimated to the year 2027/28. This includes a forecast of £14.0m of basic need funding, £13.8m of school's maintenance funding and £125.4m of highways maintenance funding. These forecasts will be revised each year as further funding announcements are made.

34. The change of approach in the use of surplus assets, to consider them on a case by case basis and maximise the value the Council achieves from them, is expected to provide in the region of £45m additional funding over the ten-year period. Managing capital resources over a longer term will allow some schemes to proceed earlier in the programme with the expectation of a capital receipt at a future date. It will be important to ensure that there is a suitable balance of planned expenditure in advance of any capital receipt to allow for delays or revaluations.

35. The following table summarises the estimated funding available and the proposed allocations against the portfolio areas included in the proposed capital programme.

	£m
<u>Estimated Funding Available:</u>	
Additional estimated funding up to and for 2027/28	153.2
Capital Receipts & other resources	40.5
Earmarked Reserves released for reallocation	12.1
Total Estimated Funding Available	**205.8**

Proposed Allocations:	
Grant Funded Streams	
Schools Basic Need	-22.8
Schools Maintenance (Annual Programme)	-13.0
Highways Maintenance (Annual Programme)	-102.4
Portfolio Areas	
Schools Estate	-5.0
Non-Schools Estate	-6.9
Operational Assets	-15.2
Highways and associated Infrastructure	-20.0
Operational Redesign	-15.0
Capital Programme Contingency	-5.5
Total Funding Requirement	**-205.8**
Total Surplus(+)/Shortfall(-)	**0.0**

36. The portfolio area 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 bid for the funding. For the portfolio areas, detailed business cases will be brought forward to the Capital Investment Programme Board who will approve them or make recommendations to Cabinet for inclusion in the capital programme, depending on the approval thresholds in the Financial Procedure Rules (FPRs).

37. The £205.8m increase in the capital programme is funded from additional grant and capital receipts, therefore there is no additional pressure placed on the revenue budget that can occur from prudential borrowing. However, the Council may wish to undertake prudential borrowing in response to the changed approach to the capital programme to enable strategic choice and to respond to issues such as rising demand in adults and children's services.

Capital Programme Financing Strategy Principles

38. The Council's capital programme financing strategy principles are:

- 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.
- Capital receipts are also treated as a corporate resource and used across the capital programme flexibly.
- 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.

- Ringfenced resources are used for the purposes for which they are issued.
- Prudential borrowing will still be considered where:
  - capital investment will result in future revenue savings and the cost of borrowing can be met from the savings; or
  - the council has a significant unmet capital need. The borrowing is repaid from revenue over the life of the asset and this implication is taking into account when assessing the affordability of the proposal.
- 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.
- The Capital Programme will maintain a 3% contingency level.
- 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.

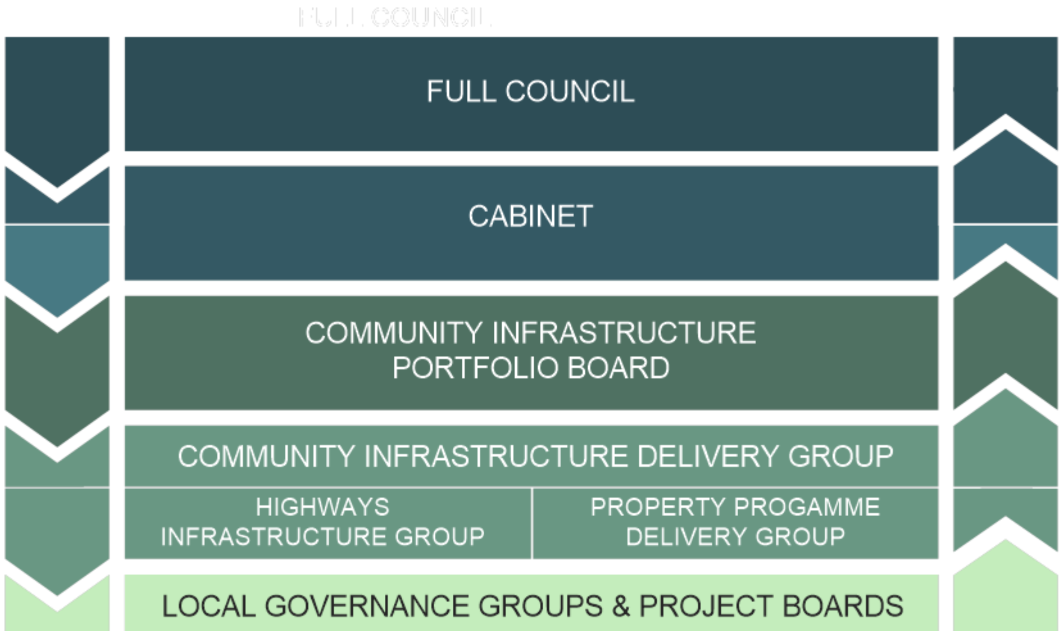
Investment Approach

39. Linked to the new approach to capital programme planning, the Council will be developing an Investment Strategy. The primary objective of the Investment Strategy will be to achieve policy benefits or service outcomes (whether this is supporting economic growth, delivery of services, creating affordable housing etc.) rather than investing purely for financial return. This is approach is very much in the spirit of the revised Prudential Code, which whilst does not preclude investment for return only, does require authorities to disclose what contribution investment activities make to core functions and what dependence the authority has on commercial activity.

Governance and reporting

40. The Council has the vision of "developing a truly corporate approach to strategic capital investment, infrastructure and asset planning". It recognises that implementing a high-profile total capital governance structure is essential to fulfil this vision and ensure success in the capital arena.

41. As a result, capital governance arrangements were reviewed during 2017 and a new structure was put in place to establish a strong link between the mainstream capital programme and capital investment needs arising from the growth agenda and from organisational strategic issues such as rising demand in adults and children's services. The new structure is shown below:



Council and Cabinet

42. 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.

The Community Infrastructure Portfolio Board (CIPB)

43. The Community Infrastructure Portfolio Board (CIPB) is a director-level working group to be the senior point of contact in the delivery of all capital infrastructure projects. It takes its decision-making power from the delegated authority of member officers as per Financial Procedure Rules and the council's Constitution. It makes decisions only where priorities are already agreed by the Cabinet as part of the Council's budgetary framework. It also ensures that necessary consultation is carried out with the Informal Cabinet and relevant Directors as part of the decision-making process.

44. The board controls the implementation programme of strategic capital investment for Oxfordshire and ensures that the investment is planned and delivered effectively. It facilitates effective decision-making and provides officer leadership, governance and challenge in the capital and asset portfolios.

The Community Infrastructure Delivery Group

45. The Community Infrastructure Delivery Group (CIDG) is a working group with a remit and function to be the first point of contact in the delivery of all capital infrastructure matters. It takes decision-making power from the delegated authority of member officers as per the Financial Procedure Rules. It makes decisions only where priorities are already agreed by Council as part of the Council's budgetary framework.

46. The group will provide oversight on cost control / timescales / quality of individual major capital projects. The group enables the development of a programme of strategic capital investment for Oxfordshire and ensures that strategic capital investment is planned and delivered in the most effective way possible. It aims to facilitate effective decision-making and provides officer leadership, governance and challenge in the capital and asset arena.

Programme/Project Delivery Boards

47. The Over-arching Programme Delivery Boards deal with capital and asset management issues across portfolio areas and report progress to CIDG. Sub-programme and project delivery boards are responsible for effective programming of commissioned programmes/projects within the given scope and budget.

Capital Programme Implementation

48. 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.

49. 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.