Capital Strategy Report 2022/23

West Oxfordshire District Council

Summary

West Oxfordshire District Council's capital plans are both bold and cautious in equal measure. We have recognised as a Council that there is a need to find investments that will deliver long term support to our revenue budget in the context of government funding cuts. This ambitious strategy was laid out last year but to date we have not been able to find many suitable investments that meet the criteria set by the PWLB – which is a source of lending we are not currently in a position to forego our eligibility to and deliver a yield that makes the risk of investment worthwhile.

We continue to seek opportunities but the revised Medium Term Financial Strategy (MTFS) reflects a lower level of investment that we hope is more realistic over the coming years. We are also taking a more commercial approach to some of our other potential investments, ensuring that optional expenditure is at the very least cost neutral to the Council or, where possible, delivers ongoing revenue to support services.

Some capital expenditure is of course unavoidable in the delivery of statutory services and our other activities and investments need to deliver financial returns in order to support those. The lease on our waste depot is coming to an end in the next couple of years and a new location may either need to be found or created. Cabinet recently supported a request for additional consultancy support to investigate options around this so that action can be taken in a timely fashion. The cost of this though, along with the replacement of the bulk of the fleet which will be reaching the end of their serviceable lives in 2025, are large capital expenditures which far outweigh any income generating potential through chargeable services such as green waste. There is also likely to be a requirement over the coming years for repairs or replacement of some of our leisure facilities, a sector which has been particularly hard hit by the pandemic and has still not fully recovered.

Introduction

This Capital Strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

While the annual revenue budget can often feel like the main focus for the Council each year, the Capital Strategy affects not only the in year activity but the longer term elements in the MTFS.

While some elements of the capital programme are financed by revenue, some of the projects in it are plans that the Council has under its Investment Strategy and it will be financed in part by cash currently in pooled funds or by borrowing as discussed in the Treasury Strategy.

What is Capital Expenditure?

Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this can include spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

For details of the Council's policy on capitalisation, see the Council's accounting policies which are contained within the annual Statement of Accounts:

In 2022/23, the Council is planning new capital expenditure of £16.44m:

Estimates of capital expenditure in £m

	2020/21 actual £m	2021/22 forecast £m	2022/23 budget £m	2023/24 forecast £m	2024/25 forecast £m
Estimated capital expenditure	13.40	6.39	16.44	31.17	6.83

Part of West Oxfordshire District Council's waste fleet

Governance: Service managers will typically update Finance, as part of the budget process, who include projects in the Council's capital programme. Bids are collated by the Finance team who calculate the financing cost (which can be nil if the project is fully funded by external contributions). The financing cost is included in the Medium Term Financial Strategy and detailed budgets for the forthcoming financial year.

For full details of the Council's proposed capital programme see Annex D which holds the detail of the proposed capital programme.

Where future expenditure is estimated for the purpose of budgeting, individual projects require business cases to be presented to the S151 officer, Cabinet and Council as appropriate for approval before expenditure can be committed.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is as follows:

Sources of capital funding £m

	2020/21 actual £m	2021/22 forecast £m	2022/23 budget £m	2023/24 forecast £m	2024/25 forecast £m
External sources	3.33	0.62	3.42	0.61	0.61
Own resources	3.59	1.60	1.50	0.54	0.55
Internal & External Borrowing	6.48	4.17	11.52	30.03	5.67
	13.40	6.39	16.44	31.17	6.83

External funding could come in the form of:

- Govt grants – these have been used successfully to support the rollout of Gigaclear high speed broadband, ensuring that our rural district is well connected.
- Section 106 contributions from developers – these are used to provide additional infrastructure in communities where new homes increase the number of residents. They have funded play parks, community facilities, new affordable housing and public art amongst other things.
- The disabled facilities grant (DFG) which funds adaptations to residents' homes and other supporting activities.
- The Oxfordshire Growth Deal (now delivered through the Future Oxford Partnership) which has funded the provision of affordable housing in partnership with registered providers such as Cottsway Housing or Heylo.

Minimum Revenue Provision

Before the start of the financial year, a statement of MRP policy for the forthcoming financial year must be approved by Full Council.

The Local Government Act 2003 requires the Authority to have regard to the Ministry of Housing, Communities and Local Government's (MHCLG's) *Guidance on Minimum Revenue Provision* (the Guidance), most recently issued in 2018.

Borrowing, both internal and external, must be paid back and so every year the Council calculates how much has to be charged to the Revenue Budget to pay off the borrowing over the life of the asset – this is called the Minimum Revenue Provision – MRP.

It is in effect a replacement for the depreciation that you would expect to see within a company's accounts in the private sector. In local government accounting, depreciation is charged and then reversed out so it does not affect the level of Council Tax required to fund the Council's costs, however MRP is charged to the General Fund and therefore does affect the required level of funding.

For the purpose of the calculation we determine the useful life of each asset between as no less than 5 and no more than 50 years. The broad aim of the Policy is to ensure that MRP is charged over a period that is reasonably consistent with the period over which the capital expenditure, which gave rise to the debt, provides benefits. Where a local authority's overall Capital Financing Requirement (CFR) (see below) is £nil, or a negative amount, there is no requirement to charge MRP.

If no life can be reasonably attributed to an asset, such as freehold land, the life is taken to be a maximum of 50 years. In the case of freehold land on which a building or other structure is constructed, the life of the land will be treated as equal to that of the structure. In exceptional cases, where a Qualified Valuer has estimated the useful life of the asset to be more than 50 years, that useful life will be used.

So if we borrowed £1m to buy an asset with a useful life of 40 years we would need to provide (1,000,000/40) = £25,000 per year for 40 years in our revenue budget. If the asset were only

expected to last for 7 years, like for example some of our vehicles, then the charge to the revenue budget would be £1m / 7 = £142,857 per year.

There are two main ways we could calculate MRP – the equal instalment method and the annuity method. The equal instalment method has been used in the example above while the annuity method has lower repayments in the early years which increase every year over the repayment period. MRP is only concerned with the repayment of the principal amount borrowed, so, if viewed like a repayment mortgage, the repayment of the principal under the annuity method is much lower in the early years.

MRP commences in the financial year following that in which the expenditure is incurred or, in the year following that in which the relevant asset becomes operational.

Where capital loans and finance leases made to third parties are repaid in annual or more frequent instalments of principal, these "capital receipts" arising from principal repayments reduce the capital financing requirement and thereby the need for MRP.

West Oxfordshire District Council has chosen to use the Equal Instalment Method in general but uses the Annuity Method where this most closely matches corresponding capital receipts, for example in the case of the loan to Cottsway housing which is being repaid in that profile. This avoids a mismatch between attributable MRP and the offsetting capital receipt.

If appropriate, shorter repayment periods (i.e. less than asset life) may be used for new investments.

Taking all available advice into account, the final decision on the determination of asset life rests with the Chief Finance officer.

The General Fund MRP charge using the above method is estimated at £454,902 for 2022/23

MRP

	2020/21 actual £m	2021/22 forecast £m	2022/23 budget £m	2023/24 forecast £m	2024/25 forecast £m
MRP on int & ext borrowing	0.94	1.07	1.18	1.65	2.64
Capital receipts (exc disposal)	(0.60)	(0.69)	(0.72)	(0.88)	(1.17)
MRP provision required	0.34	0.38	0.45	0.77	1.47

Capital Financing Requirement

The Council's cumulative outstanding amount of debt finance is expressed as its Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and is reduced by MRP and capital receipts used to replace debt. The CFR is expected to increase by £10.34m during 2022/23. Based on the figures shown above for expenditure and financing, the Council's estimated CFR is as follows:

Capital financing requirement (CFR)

	2020/21 actual £m	2021/22 forecast £m	2022/23 budget £m	2023/24 forecast £m	2024/25 forecast £m
General Fund Services	9.25	9.34	10.04	14.04	18.32
Capital Investments	14.12	16.22	25.86	50.23	48.98
Total CFR	23.37	25.56	35.90	64.27	67.30

The main drivers of the increase in capital spend are large scale service requirements such as the imminent requirement to replace most of the waste fleet. The Council are working closely with Ubico to extend the timescales on this as much as possible without increasing the costs of repairs and maintenance too much as the vehicle lives are extended.

Extending the lives of the vehicles longer than seven years clearly has a budgetary benefit for the Council in the same way that you would benefit overall from running your car for longer before buying a new one or having appliances in your home that you delayed replacing and

The Council has sought to replace its diesel fleet with electric vehicles where possible (pictured) but this may not be practical for the heavy collection vehicles that make up the core of the fleet. The type of vehicle required not only costs around twice as much as the existing fleet but has practical issues around time to charge, charging infrastructure required and operational range. Ubico are investigating alternative fuel vehicles such as hydrogen powered and the hope is, that with a little more time, that technology will have developed far enough to be more readily available and affordable and will offer a practical solution that can deliver at the scale required.

The increase in Capital Investments is mainly driven by the Council's investment strategy which was approved in October 2020. The Council approved the investment of £75m over the next few years but this has proven challenging in the context of both increasingly constraining PWLB lending criteria and a lack of suitable investment opportunities. On this basis, while there is still authorisation for investments of up to £75m, the financial forecasts have included a more modest £10m in 22/23 and £15m in 23/24.

When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. In the current situation though, where PWLB guidance would not permit the Council to purchase replacement assets if it were to sell some of its current portfolio, it's unlikely that we would benefit in the long term from high levels of asset

disposal. As can be seen from the table below, the estimates of potential asset sale are very low and are estimated based on previous years.

The lease and loan repayments relate to vehicles purchased and then leased to Ubico and loan repayments from Cottsway Housing Association and Southill Solar.

Capital Receipts

	2020/21 actual £m	2021/22 forecast £m	2022/23 budget £m	2023/24 forecast £m	2024/25 forecast £m
Asset Disposal	0.08	0.1	0.1	0.1	0.1
Leases and Loans	0.60	0.69	0.72	0.88	1.17
	0.68	0.79	0.82	0.98	1.27

Southill Solar Farm

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortfall in cash may be met by borrowing. Treasury management is discussed in more detail in the Treasury Management Strategy paper but in terms of Capital we will look at the impact that our capital plans have on projected borrowing requirements.

In spite of high levels in the past of internal borrowing, the Council expects in the coming year to be able to fund all operational expenditure from working capital but would expect to need to borrow

should £10m of suitable investments be found to invest in line with the longer term investment strategy.

The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

As part of the review of prudential indicators, the Council is asked to approve the following:

Authorised limit and operational boundary for external debt £m

	2020/21 revised £m	2021/22 forecast £m	2022/23 budget £m	2023/24 forecast £m	2024/25 forecast £m
CFR	23.37	25.56	35.90	64.27	67.30
Operational boundary	25.37	27.56	37.90	66.27	69.30
Authorised borrowing limit	**30.37**	**32.56**	**42.90**	**71.27**	**74.30**

Although capital expenditure is not charged directly to the revenue budget, as has been explained above, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants and expressed as a percentage of that.

Estimates of financing costs to net revenue stream

	2020/21 actual £k	2021/22 forecast £k	2022/23 budget £k	2023/24 forecast £k	2024/25 forecast £k
Interest Payable	0	0	65	322	541
MRP	345	379	455	766	1,468
Total borrowing costs	345	379	520	1,088	2,010
Funding per MTFS	11,273	12,232	12,488	8,967	9,339
Proportion of Funding	3.06%	3.09%	4.16%	12.13%	21.52%

The Council makes investments to assist local public services, including the successful support of the Gigaclear broadband rollout across the district and the purchase of the waste vehicle fleet. Many of these are crucial to our statutory provision of services but where the expenditure is not mandatory, the Council is required to find the most efficient way of delivering this service and where possible, seek grants or external funding to provide additional investment. Proposals should be brought forward with an appropriate business case to protect the Council from risk around unforeseen costs and to ensure that wherever possible any opportunity to raise additional revenue to support service delivery for the Council is explored.

Governance: Decisions on service investments are made by the Council on advice from the Chief Finance Officer and must comply with the Capital Strategy and Investment Strategy. Most loans are capital expenditure and purchases will therefore also be approved as part of the capital programme.

Further details on service investments can be found in the Investment Strategy.

Gigaclear engineers laying broadband cable

Current Projects

The Council has recently purchased and renovated The Old Court House, which was bought to house people in need of temporary emergency accommodation. It has also invested in warehousing facilities in Carterton, with plans to carry out restorative works to the property.

The Council has improved the efficiency of the waste fleet by installing new in-cab technology, reducing the number of bins missed on collection rounds.

In the coming year we plan to invest in more solar on the rooftops of our commercial properties, providing green energy to the tenants and generating additional income for the Council. We are also working with grant funding to reassess the heating systems in Carterton Leisure Centre, reducing our reliance on fossil fuels on that site.

The agile work project currently underway gives us the opportunity to reduce our carbon footprint by reducing the office space required and freeing up office space for local businesses or even perhaps hot desking individuals to utilise.

The development of new Exacom system holding the details of all S106 monies received and available for use in the community along with community engagement webinars has improved our connection to local town and parish councils and helped facilitate the continued rollout of development funded infrastructure projects across the district. We are also looking at sites with development potential within West Oxfordshire.

The Council's Finance and Management Overview and Scrutiny Committee receives an annual report on the Council's investment property portfolio. In addition, the Council's Audit Committee also receives information on the Council's asset portfolio as part of the financial statements.

Knowledge and Skills

The Council employ (directly or through Publica Ltd), professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Chief Finance Officer and several members of her team are qualified accountants with extensive experience. The Council pays for junior staff to study towards relevant professional qualifications such as the Chartered Institute of Public Finance and Accountancy (CIPFA).

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. The Council employs other specialist consultants to advise upon specific, extra-ordinary transactions as required. Examples of such transactions include property acquisitions, and loans to third parties. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

The Council has experience of investing in commercial property in recent years. The Council's property service is provided through its strategic service provider Publica Group (Support) Ltd. The team of property officers have the following qualifications:

- BSc Hons Real Estate Management
- Associate Member Royal Institute Chartered Surveyors
- Member Royal Institute Chartered Surveyors
- Royal Institute Chartered Surveyors Registered Valuer

- Member institute welfare & facilities management
- Technical member for institute for occupational safety and health
- CIMA cert BA

The Council's legal team have experience of carrying out due diligence checks, particularly for commercial property acquisitions, and the legal officers have the following qualifications:

- Fellow of the Charter Institute of Legal Executives (FCIlex)
- Associate Member of the Charter Institute of Legal Executives (FCIlex)
- Solicitors

The Property and Legal teams work together with the Finance team to support the Council's Chief Finance Officer and the Publica Finance Director in developing investment proposals for the Council. External specialist advice is obtained when required to support these teams.