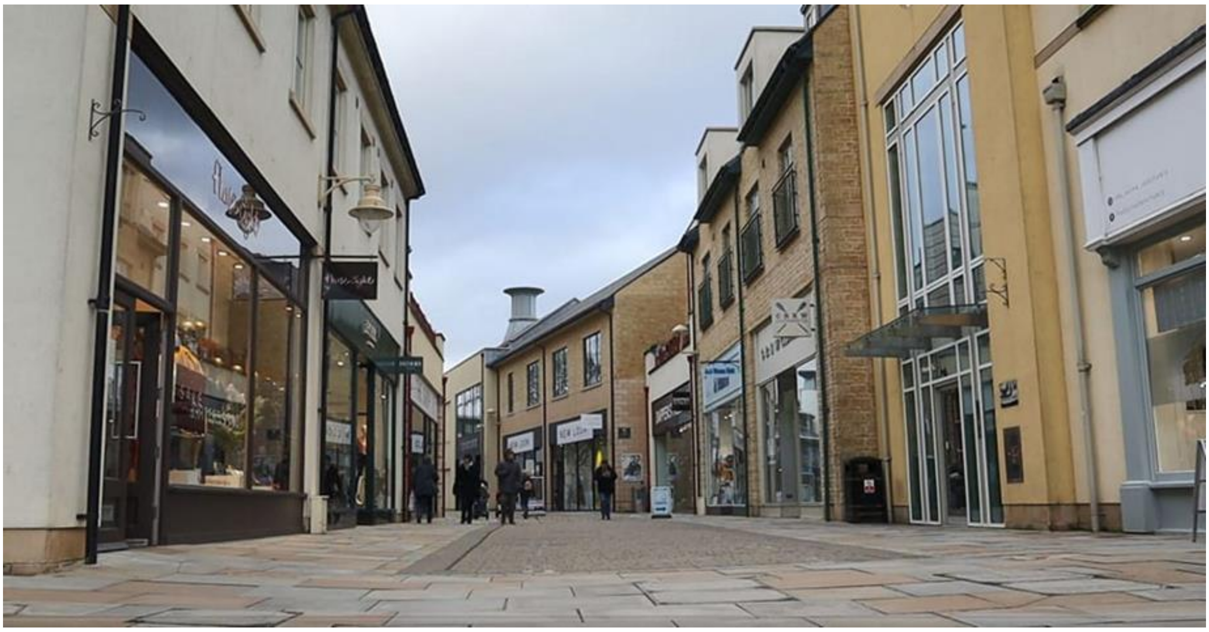
Annex K

Capital Strategy Report 2023/24

West Oxfordshire District Council

Summary

West Oxfordshire District Council's capital plans are close to completion on some of our affordable housing projects and have a few notable items included in the coming year such as the exemplar housing development at Walterbush Road in Chipping Norton and the repair of the roof on Chipping Norton Leisure Centre. We continue to pursue our Council set investment strategy to deliver on our Council priorities whilst also covering the cost of capital and supporting our revenue budget and had a high profile successful addition to our portfolio in 2022/23. This ambitious strategy was laid out in 2020 but it has proved difficult 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 and clears the hurdle rates set out in the Council's investment strategy.



Marriott's Walk, Witney

In last year's budget we revised downward our expected level of investment in the Medium Term Financial Strategy (MTFS) but were fortunate enough to find the opportunity of Marriott's Walk in Witney. An investment that gives us the opportunity to influence the strategic direction of the centre, encouraging its development as a shopping destination that not only benefits existing tenants but attracts new ones and in turn extends that benefit of increased footfall to the whole high street. We are realistic however that appropriate investment opportunities are relatively ad hoc and that while we always seek to find them, there isn't a reliable pipeline of them available so we cannot place too much reliance on new income in future years generated from that source. We are taking a financially responsible approach to all of our plans, ensuring that optional expenditure is at the very least cost neutral to the Council and, 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.

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 will require the Council to borrow. This can be because it is outside of our normal revenue expenditure or, previous internal borrowing, which is discussed at greater length later in this paper, means that we now need external borrowing to fund the expenditure.

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 2023/24, the Council is planning new capital expenditure of £12.07m:

Estimates of capital expenditure in £m

	2021/22 Actual £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Capital Expenditure	5.69	30.60	12.07	12.01	6.37

Governance: Service managers will typically update Finance, as part of the budget process, who include projects in the Council's capital programme. Proposals are collated by the Finance team who calculate the financing cost (which could 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.

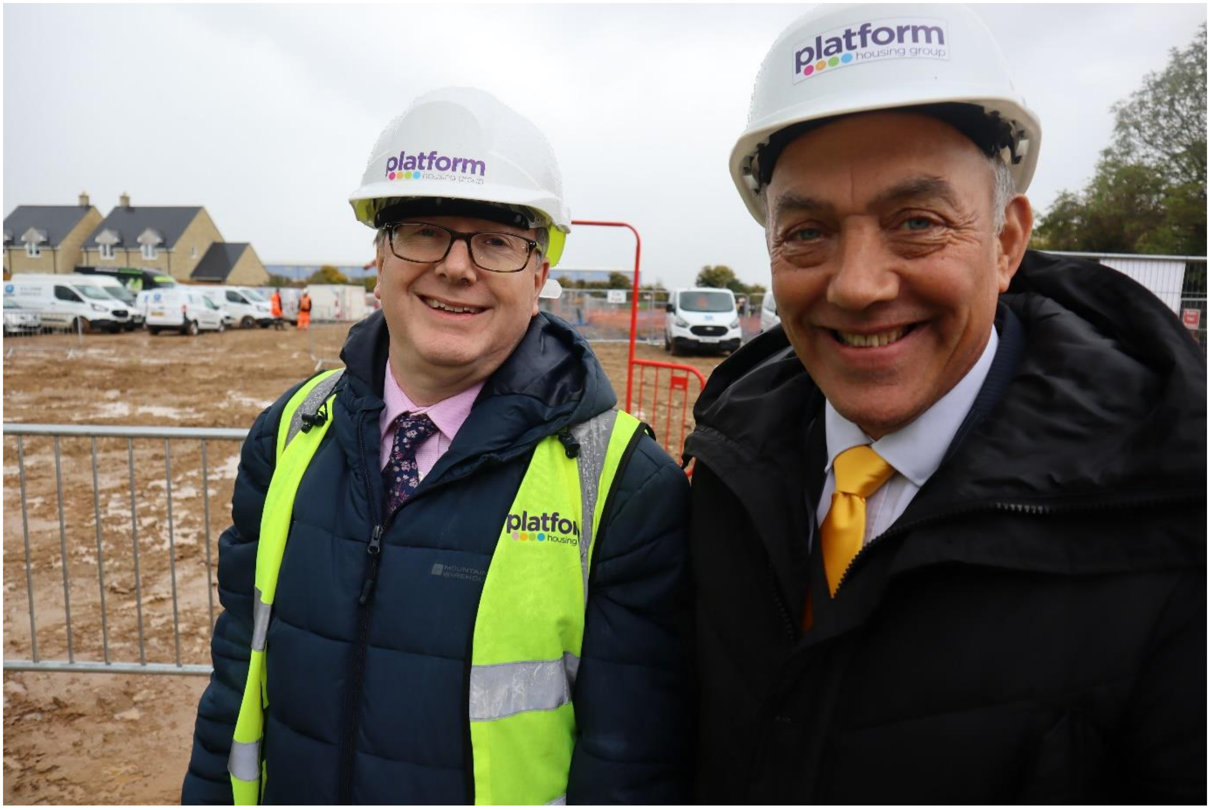
For full details of the Council's proposed capital expenditure see Annex D which holds the detail of the proposed capital programme.

Where future expenditure is estimated for the purpose of calculating our borrowing requirement and projecting a cost of capital through the MTFS, individual projects still require business cases to be presented to the S151 officer, Executive 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

	2021/22 Actual £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
External Sources	1.61	2.38	0.80	0.80	0.80
Own Resources	0.54	4.21	0.92	0.54	0.54
Internal & External Borrowing	3.53	24.01	10.35	10.67	5.03
	5.69	30.60	12.07	12.01	6.37



Cllrs Geoff Saul and Andy Graham

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. We are using them to support the development at Weaver's Fold in Chipping Norton – allowing houses that would otherwise have been sold at market value to be sold as affordable. It also helped facilitate the purchase of Langel Common in Witney in conjunction with residents, protecting a much valued area for public use.
- 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.

Cllr Carl Rylett and Phoebe Lloyd at Langel Common in Witney

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 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.

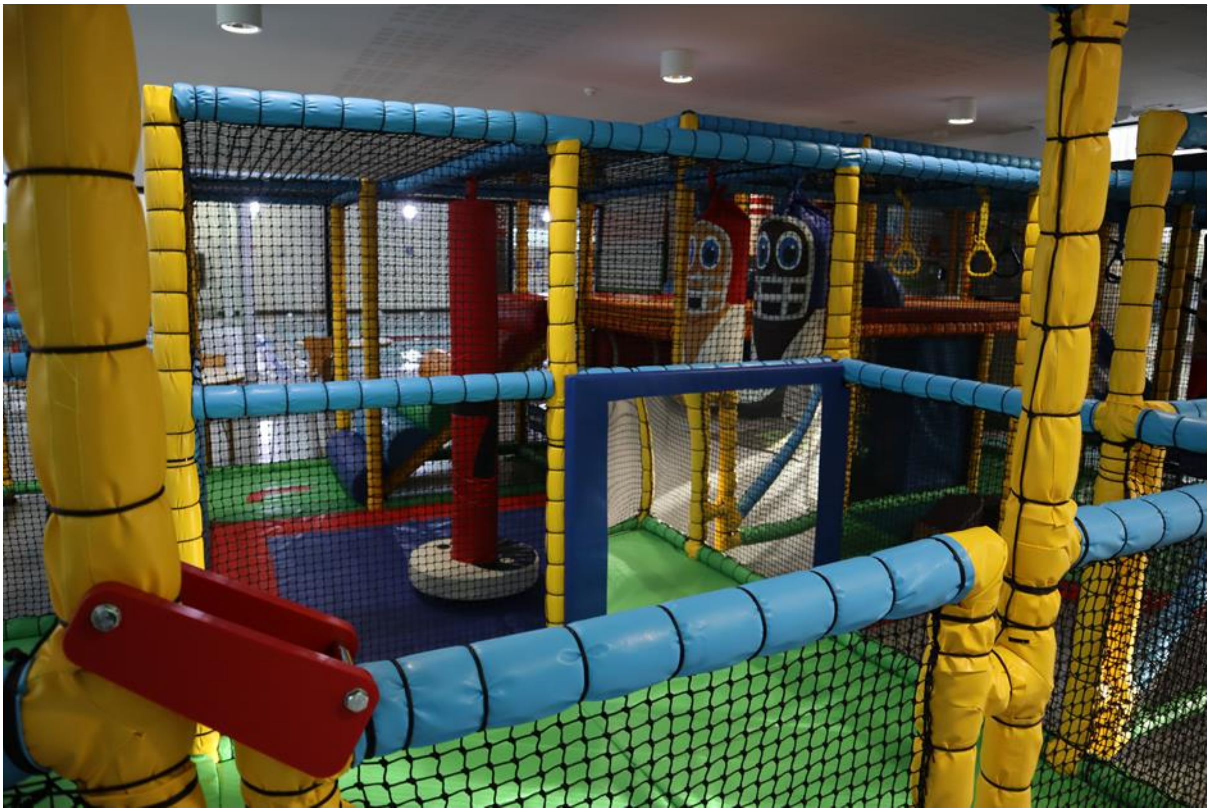
If appropriate, shorter repayment periods (i.e. less than asset life) may be used for new investments.

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 £813,391 for 2023/24

MRP

	2021/22 Actual £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
MRP on internal/external borrowing	1.03	1.19	1.78	2.28	2.77
Capital Receipts (exc Asset Disposal)	0.69	0.80	0.96	1.26	1.61
MRP provision applied	0.34	0.39	0.81	1.02	1.16



The newly opened soft play at Chipping Norton Leisure Centre

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 £8.4m during 2023/24. Based on the figures shown above for expenditure and financing, the Council's estimated CFR is as follows:

Capital Financing Requirement (CFR)

	2021/22 Actual £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
General fund services	9.35	10.04	13.44	16.83	14.09
Capital Investments	16.52	29.62	34.62	39.62	44.62
Total CFR	25.87	39.66	48.06	56.45	58.71

WODC's Elmfield offices

As always, one of the ongoing large items of capital expenditure is the waste fleet. Waste vehicles typically have a long lead time but the pandemic has pushed that to over a year now causing expenditure for vehicles ordered in one year to take place the following year. The Council are working closely with Ubico to extend the timescales on the fleet as much as possible without increasing the costs of repairs and maintenance too much as the vehicle lives are extended.

Each replacement vehicle is reviewed to see whether lower running costs create sufficient savings for us to purchase a more expensive electric vehicle but this is not always practical for the heavy collection vehicles that make up the core of the fleet. In a rural district such as ours, most of the collection fleet have to have an operational range that exceeds that currently offered by their electrical alternatives. 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. We have used additional funding from the Council's New Initiatives fund to cover the additional cost of two electric sweepers to help with our objective of reducing carbon emissions.

Another large item of ongoing expenditure is the Council's investment strategy which was approved in October 2020. The Council approved the investment of £75m over the following 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, only £12.3m has been spent so far and the MTFS includes a more modest £5m per annum in 23/24, 24/25 and 25/26.

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

	2021/22 Actual £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Asset Disposal	0	0	0	0	0
Leases and Loans	0.69	0.80	0.96	1.26	1.61
	0.69	0.80	0.96	1.26	1.61

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 the past all asset purchases, even those that might have been expected to require external borrowing to fund them, have been able to be funded out of existing cash balances, also known as internal borrowing. Our cashflow forecast shows that this is no longer possible and we will need to borrow externally before the end of 2022/23 and for most capital expenditure going forward unless funded by a future receipt of external funding.

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

	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
Capital Financing Requirement (CFR)	39.66	48.06	56.45	58.71	55.81
Operational Boundary	41.66	50.06	58.45	60.71	57.81
Authorised Borrowing Limit	46.66	55.06	63.45	65.71	62.81

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

	2021/22 Actual £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Interest Payable	0	0.016	0.522	0.795	0.998
MRP	0.345	0.391	0.813	1.020	1.155
Total borrowing costs	0.345	0.407	1.336	1.814	2.153
Net Revenue Stream (per MTFS)	13.91	11.21	7.17	7.55	7.93
Proportion of Net Revenue Stream	2.48%	3.63%	18.63%	24.04%	27.14%

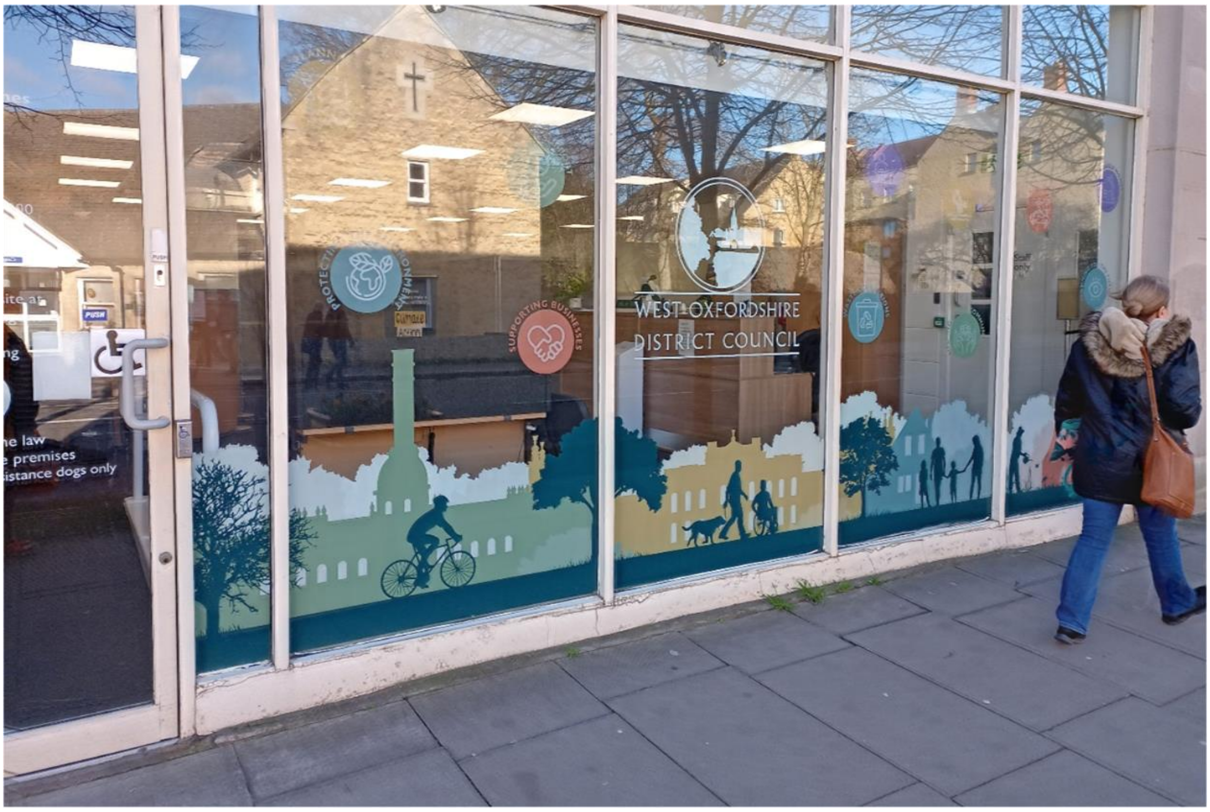
The Council makes investments to assist local public services, including the successful support of the Gigaclear broadband rollout across the district and the purchase of the waste vehicle fleet. Many of these are crucial to our statutory provision of services but where the expenditure is not mandatory, 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.

Net income from commercial & service investments to net revenue stream

	2021/22 Actual £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Capital Investments	4.06	3.92	5.37	5.37	5.37
Service Investments	0.20	0.20	1.25	1.61	1.71
	4.26	4.12	6.63	6.98	7.08
Net Revenue Stream (per MTFS)	13.78	11.21	7.17	7.55	7.93
Proportion of Net Revenue Stream	30.92%	36.74%	92.40%	92.54%	89.25%

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.



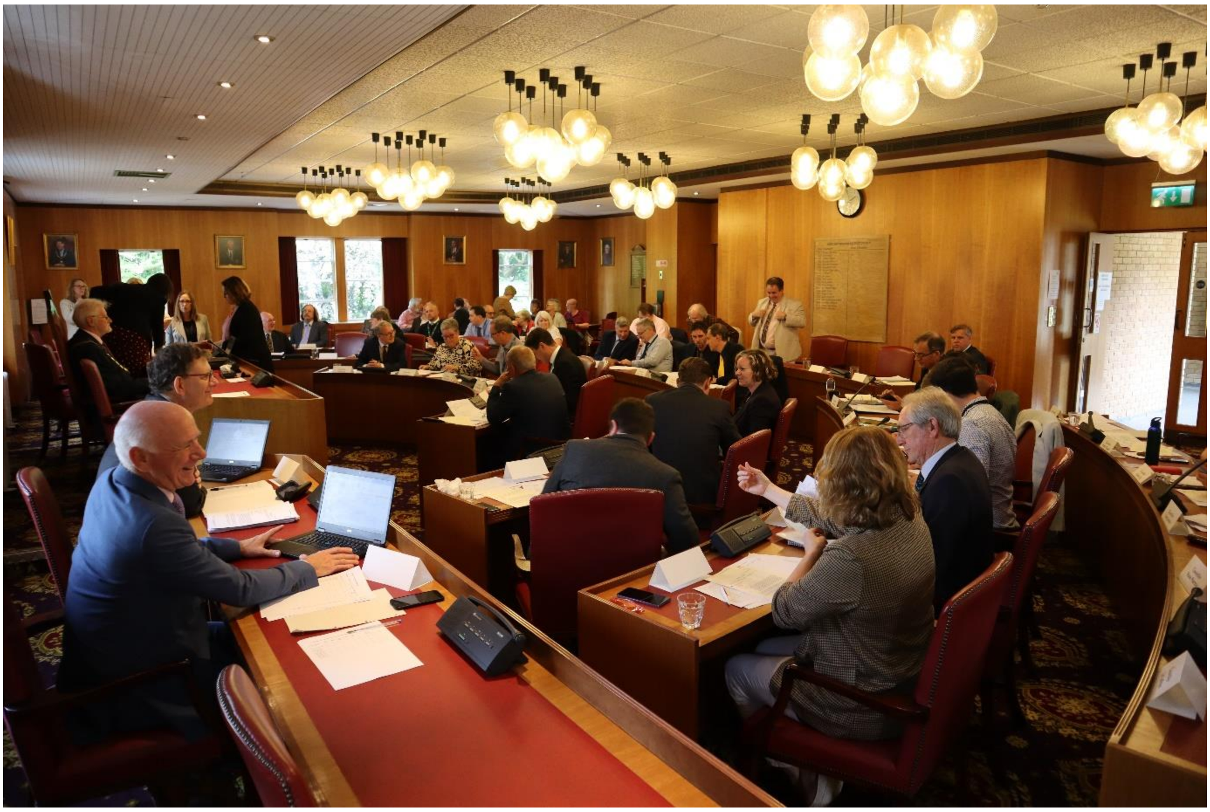
WODC's town centre location in Witney

Current Projects

In addition to the ongoing programme of investments in the Council's investment strategy, the Council is investing in a range of capital initiatives. The recent successful purchase of Marriotts Walk in Witney will invigorate that area with further work expected in the short to medium term. A small scale development of exemplar housing is underway at Walterbush Road in Chipping Norton, support by S106 affordable housing funds. The Council has already undertaken work on its Welch Way Office, transforming it into a customer access centre with further investment in that location planned in the coming year. The assessment of Council owned buildings for rooftop solar continues with proposals expected to come forward for investment in the coming financial year. This will provide green energy to the building's tenants and generate additional income for the Council.

Some remedial work on the Chipping Norton leisure centre has already taken place this year with a longer term solution being developed for the roof issues and expected to come forward in the next couple of months.

One of the most exciting projects underway is our agile working transformation. As with many organisations, the Council has given staff the option of hybrid working. This has reduced our need for office space and staff currently based in our Elmfield offices will join their colleagues in the Woodgreen offices with teams moving around within the building to spaces better suited to their new footprint. This gives us the opportunity to reduce our carbon footprint by reducing the office space required and frees up space to be rented to local businesses, helping them by providing sought after quality office space and generating another much needed income stream for the Council.



WODC Council chamber

Another aspect of the agile work project is the planned changes to the Council chamber. During the pandemic, we were able to hold our civic meetings online and this platform allowed members of the public to view proceedings from their homes. When the temporary allowance of online meetings ended and meetings were mandated to be in person again, this was no longer an option. Thanks to some grant funding we have been able to invest in a multi-media system that will allow meetings in the committee rooms and the Council chamber to be streamed going forward and allow hybrid participation of officers, members of the public and Cllrs who are unable to attend in person. Since modern hybrid working has also allowed people to work over wider geographical areas this is a great improvement in efficiency with officers no longer needing to drive long distances to make brief contributions to meetings. It also supports the Council's commitment to make proceedings more accessible to residents, allowing them to watch meetings without the need to travel to the Council offices.

As part of our modernisation of the Council chamber we also intend to remove the fixed furniture, replacing it with more flexible furniture that can be moved or removed as required. This will allow our chamber and meeting rooms to be rented for use by members of the public or local businesses to hold events and meetings which can also take advantage of the multi-media system to allow friends, family or colleagues to attend and participate even if they cannot be there in person.

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 of 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:

- Fellows of the Chartered Institute of Legal Executives (CILEx)
- Student Member of the Chartered Institute of Legal Executives
- Solicitors

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