APPENDIX 1

SOUTH STAFFORDSHIRE COUNCIL

CAPITAL STRATEGY

2024/25 – 2028/29

Document Contents

1. Background and Scope

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a Capital Strategy to demonstrate how capital expenditure, capital financing and treasury management contribute to the achievement of corporate objectives. The Prudential Code has been updated to incorporate changes which restrict councils using borrowing to finance commercial property investment for the sole purpose of generating financial returns. This strategy is fully compliant with these requirements.

1.2 The Council Plan 2020-24 is the primary strategic document of the Council. The Capital Strategy is to be viewed as the means through which Capital Assets can be best acquired, maintained and disposed of in order to contribute towards the aims and objectives within the Council Plan.

1.3 The Council Plan is delivered through the two priority areas, each with five key objectives as set out below:

Priority Area 1 - Prosperous communities:

- Provide business friendly services through locality community hubs to enable businesses to set up and grow.
- Attract inward investment.
- Deliver economic growth through property acquisitions and commercial developments.
- Support Economic growth through quality planning management.
- Provide support to people to overcome barriers to employment.

Priority Area 2 - Vibrant communities:

- Improve the health and wellbeing of people by providing excellent leisure facilities.
- Provide a quality environment that we can all be proud of.
- Work with our communities and developers to bring forward new housing opportunities.
- Lead, engage and support our communities through the locality + programme.
- Utilise digital technology to enhance resident access and achieve service efficiencies.

1.4 **Each of the objectives is supported by the delivery of five key delivery arms:**

- Financial stability
- Embracing technology
- Flexible and skilled council
- Working with our communities
- To create a business and community hub.

2. The Capital Strategy

2.1 As mentioned above, the aim of Capital Strategy is to ensure that the Council manages the acquisition, maintenance and disposal of its Capital Assets to best achieve the aims of the Council Plan.

2.2 In addition to the Council Plan, the Capital Strategy is also closely linked to the following documents.
Approved Medium Term Financial Strategy (MTFS) Link to MTFS
Approved Treasury Management Support Strategy Link to TMSS
Detailed Asset Management Plan

2.3 All Capital activity will be fully compliant with the CIPFA Prudential Code.

2.4 The detailed application of this Capital Strategy shall ensure that:

- Property acquisitions and commercial developments to deliver economic growth, are properly appraised, budgeted and financed to ensure Council Plan objectives are achieved.
- Capital acquisitions that do not clearly meet economic objectives can demonstrably achieve other objectives listed in the Council Plan.
- The proper maintenance of the capital asset base is considered in the medium term and appropriately budgeted for and financed.
- Processes exist for the ongoing appraisal of the asset base and a rigorous methodology applied should any decision be required in relation to disposal.
- The required budget and financing in relation to all capital decisions is fully incorporated into the Medium Term Financial Strategy (MTFS).

3. Economic and Political Context

3.1 On 22 November 2023, the Chancellor of the Exchequer delivered the Autumn Statement.

3.2 Within the Autumn Statement, it was reported that the OBR is forecasting:

- The economy to grow more slowly over the forecast period, leaving the level of real GDP only 0.5% higher in the medium term than the March forecast.
- Inflation is expected to be more persistent and domestically fuelled than previously thought, falling below 5%by the end of this year but not returning to its 2%target until the first half of 2025.
- Markets now expect interest rates to remain higher for longer to bring inflation under control.

3.3 The implications of the latest economic conditions above for the application of the Capital Strategy are as follow:

- Capital acquisitions can be viewed as carrying potentially more risk (in the short term) if demand for rented industrial properties reduces.
- Capital developments and maintenance of assets may be impacted adversely by ongoing high inflation.
- The cost of capital remaining high may make new acquisitions unattractive as returns from relatively risk free treasury investments may be higher better. In the medium term however, if the purchase price of capital acquisitions lowers future purchases may present more attractive yields.

3.4 Public finances are expected to remain tight and there can be little expectation of significant, new capital resources becoming available through the Financial Settlement for 2024/25.

3.5 However, wider policy agendas remain including the Shared Prosperity Fund and Net-Zero ambitions. The achievement of these targets will require local authority partnership with other stakeholders and is also addressed within this Capital Strategy.

4. Capital Programme

4.1 The Capital Programme is the budget ascribed to each approved Capital scheme.

4.2 Affordability constraints materialise in two forms, namely the revenue impact of capital expenditure and / or the financing of the Capital Programme itself. The latter is detailed in Appendix 3.

4.3 The revenue impact of each item within the Capital Programme should be fully incorporated within the business case prepared for decision.

4.4 The costs to the Medium Term Financial Strategy will be through an interest charge (either incurred, or if internal resources used, interest receipt foregone) and (unless revenue resources directly applied), a minimum revenue provision (MRP). The latter is intended to meet the capital costs of the asset through the revenue budget across the assumed lifespan of the asset.

4.5 If there are assumed economic benefits arising from the capital expenditure, the additional income streams (or potentially cost savings) would also be factored into the MTFS. If the primary purpose of the spend is commercial, there would be an expectation over the medium term that these benefits should exceed costs in order for the proposal to proceed for incorporation in the capital programme.

4.6 If the development is not commercial in nature but is instead envisaged to contribute towards wider aims of the Council Plan, then it is still important that the impact across all years of the MTFS is transparent and that the intended advantages (non-financial) are justified this increase in costs.

5. Capital Acquisitions

5.1 The Council Plan makes explicit reference to deliver economic growth through property acquisitions and commercial developments. This strategy has to date produced an economic yield of benefit to the MTFS as well as enhancing investment in the wider South Staffordshire economy.

5.2 The CIPFA Prudential Code refers to such capital expenditure as 'undertaking investments for commercial purposes'. It is acknowledged that the primary purpose is to make a financial return which will in due course enhance the long term affordability of the MTFS.

5.3 The Prudential Code does not discourage local authorities from making such investments but requires councils to acknowledge the additional risk involved and ensure that such acquisitions are subject to enhanced decision making and scrutiny.

5.4 As a minimum, due diligence shall take full account of prevailing interest rates to ensure that the expected return from the investment can make a positive contribution to the MTFS on a net present value basis.

5.5 The accounting rate of return and payback period shall also be considered in understanding that risk associated in relation to investments for a return, increases across longer time horizons, even if the NPV shows a positive return. Factors such as any inherent optimism bias (both in terms of costs incurred and time factors for completion and commencement of revenue streams) should be taken into account.

5.6 The decision to acquire an investment property shall follow the following approval process:

- CLT (Outline Business Case)
- CLT (Full Business Case)
- Cabinet
- Asset Scrutiny Panel for decision

5.7 Noting that achieving a commercial return is the primary, but not the sole reason for undertaking the investment, the final decision shall not be solely determined by the outcome of the financial appraisal but shall fully consider:

- All forecast costs and income streams
- Due assessment of risk and consequence (including any optimism bias)
- Other competing priorities
- Non-financials that also impact upon the Council Plan.

6. Asset Maintenance

6.1 It shall be explicitly acknowledged within the Asset Strategy that if an asset is worth acquiring and/or holding, it should be maintained in good condition in order to ensure that it continues to meet the aims of the Council Plan.

6.2 The methods by which this is achieved shall be:

- All assets are included in the schedules forwarded to the Council's insurers at up to date replacement cost value to insure against material loss due to insurable events.

- Revenue budgets are held to ensure ongoing maintenance can be delivered.
- Asset condition register is maintained to establish a programme of major works to be undertaken to a proscribed timetable.
- A sink fund is established, funded via revenue and incorporated into the MTFS. Major works when undertaken according to timetable shall be funded via this reserve.
- The adequacy of the sink fund is reviewed alongside the proposed programme of major works as an integral part of the budget setting and MTFS process each financial year.

7. Asset Disposal

7.1 An asset shall be considered for disposal if it is deemed that:

- Financial returns are no longer being achieved (and there is no medium term prospect of such returns being achieved) in line with the original business case.
- Wider economic benefits to the organisation and wider objectives within the Council Plan are not being met by retaining the asset.
- There is an active market for the asset and a potential purchaser (or purchasers) has been identified.
- The opportunity to contribute to the priorities in the Council Plan is better achieved through realising the value of the asset.

7.2 The process for deciding upon disposing an asset will mirror that to acquire an asset and therefore will comprise of:

- CLT (Outline Business Case)
- CLT (Full Business Case)
- Cabinet
- Asset Scrutiny Panel for decision

8. Climate Change

8.1 With a number of council's declaring a 'Climate Emergency', councils are taking urgent action in their local areas with partners and their local communities to combat the negative impacts of climate change and to deliver net zero carbon by 2050.

8.2 South Staffordshire Council has established a specific Earmarked Reserve with a view to developing its sustainability agenda and encouraging investment in initiatives progressing towards net zero.

8.3 The Climate Change strategy will increasingly play an important role in the Council Plan and Capital Strategy, and it will be important that sustainability considerations are incorporated into all outline business cases for capital acquisitions and disposals.

8.4 The Council's maintenance programme for its asset base shall also take into account climate change considerations.

9. Conclusions

9.1 The Capital Strategy of the Council is an important document outlining the objectives by which the Council undertakes its capital expenditure and maintains (or disinvests from) its asset base.

9.2 The Capital Strategy is also closely aligned to and is informed by other key strategic documents of the Council including (but not necessarily limited to):

- Council Plan
- Treasury Management Strategy
- Medium Term Financial Strategy (MTFS)
- Asset Management Plan

9.3 The Capital Strategy shall be reviewed on an annual basis and approved by Full Council alongside the MTFS.

9.4 Cabinet will also receive a report on performance against the Council Plan alongside the provisional outturn report when the draft Statement of Accounts (pre-audit) is published.

Appendix 1 – Existing Asset Base

Table 1: Analysis of Council Assets as at 31/3/2023

Description	Industrial Premises	Codsall Community HUB	Digital Technology	Lane Green Depot	Other	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Land and Buildings	28,994	9,523	0	272	3,655	**42,444**
Vehicles/Equipment	0	791	178	253	627	**1,849**
Infrastructure	0	0	0	107	0	**107**
Community Assets	0	0	0	0	1,369	**1,369**
Surplus Assets	0	0	0	0	51	**51**
Heritage Assets	0	0	0	0	122	**122**
	28,994	**10,314**	**178**	**632**	**5,824**	**45,942**

Appendix 2 – Capital Programme

Table 2 below details the current (2023/24) Capital programme of the Council.

Table 2, Capital Programme

Capital Programme	Budget 2023/24	Budget 2024/25	Budget 2025/26	Budget 2026/27	Budget 2027/28	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
Corporate Services						
Asset Strategy	4,359					4,359
Asset Strategy – Wombourne Redevelopment	3,173					3,173
Restoration of Unit 4E Fire Damaged	3,260					3,260
I-Trent Upgrade	20					20
Community Hub – Driveway	30					30
Capital Programme Contingencies	220					220
Total Corporate Services	**11,062**	**0**	**0**	**0**	**0**	**11,062**
Digital Transformation and Estate Management						
Replacement of workstations	160	45	45	45	45	340
Civica Licences	60					60
Digital Services	150		290	10		450
Total Business Transformation and Estate Management	**370**	**45**	**335**	**55**	**45**	**850**
Welfare Services						
Renovation & Disabled Facilities Grant	1,935	1,126	1,126	1,126	1,126	6,439
Total Welfare Services	**1,935**	**1,126**	**1,126**	**1,126**	**1,126**	**6,439**
Community Services						
Street Scene Fleet	166					166
Refuse Vehicles New Contract		3,046				3,046
Waste Bins	10	790				800
Ten Year Leisure Cardiovascular renewal	97					97
Leisure Centre Indoor Cycling Renewal	12					12
Leisure Centre Resistance Equipment	70					70
Leisure Centre Air Conditioning	28					28
Leisure Centre Refurbishment	961					961
Wombourne Leisure Centre 3G Pitch	69					69
Total Community Services	**1,413**	**3,836**				**5,249**
Planning and Business Enterprise						
Regional Housing Board	126					126
Total Planning and Business Enterprise	**126**	**0**	**0**	**0**	**0**	**126**
GRAND TOTAL	**14,906**	**5,007**	**1,461**	**1,181**	**1,171**	**23,726**

Future acquisitions and capital developments that are approved are added to the Capital Programme.

Appendix 3 – Financing the Capital Programme

Table 3 below details how the Capital Strategy in Appendix 2 is financed.

Table 3, Financing the Capital Programme

	Capital Financing					
	2023/24	2024/25	2025/26	2026/27	2027/28	**Total**
	£'000	£'000	£'000	£'000	£'000	**£'000**
Borrowing	7,860	3,836	290	10	0	**11,996**
Capital Grants	2,062	1,126	1,126	1,126	1,126	**6,566**
Capital Receipts	1,558	45	45	45	45	**1,738**
Leasing	166	0	0	0	0	**166**
Insurance	3,260	0	0	0	0	**3,260**
Total	**14,906**	**5,007**	**1,461**	**1,181**	**1,171**	**23,726**

If the purpose of the budgeted Capital Programme is to ensure affordability in relation to the Medium Term Financial Strategy, the financing is focussed on cash flow. In essence it can be seen as providing the assurance that cash commitments that arise from completing the Capital Programme can be met as they fall due, whether in payments to contractors, developers or any other stakeholders to whom monies are owed.

The upper constraint on financing is the borrowing limit which is set by Members further to recommendation by the Audit and Risk Committee and is contained within the Treasury Management Strategy.

Borrowing can be undertaken from a number of approved sources including the Public Works Loans Board.

Other common sources of borrowing include:

- Other local authorities
- Commercial Banks
- Internal borrowing (ie use of our own cash reserves)

The use of own cash reserves does come at a cost as whilst no interest rate is paid out on the borrowing, there is a loss of income in terms of interest foregone had the cash reserves been invested.

Capital Grants are monies received (usually but not necessarily from central government). In the table above the grants shown relate entirely to the Disabled Facilities Grant. This aspect of the Capital Programme therefore has a neutral impact on the MTFS and associated costs of financing.

The Prudential Code details the constraints imposed upon local authorities for applying Capital Receipts as financing for capital projects.

Entering into finance or operating leases are alternative methods of acquiring assets for use as opposed to outright purchase. Whilst none currently planned for in the Capital Programme this is an option for consideration if available. Accounting treatment would be as per the Accounting Standard IAS16.

The appropriate vehicle for financing should be an integral part of an approved business case.