

SOUTH STAFFORDSHIRE COUNCIL

COUNCIL – 12 DECEMBER 2023

ANNUAL REPORT ON CAPITAL STRATEGY

REPORT OF THE DIRECTOR OF FINANCE AND S151 OFFICER

LEAD CABINET MEMBER – COUNCILLOR ROGER LEES, LEADER OF THE COUNCIL

PART A – SUMMARY REPORT

1. SUMMARY OF PROPOSALS

- 1.1 The purpose of this report is to undertake an annual assessment of the Council's performance against its Capital Strategy for the 2022/23 financial year.

2. RECOMMENDATIONS

- 2.1 Members approve the 2022/23 Annual Report on performance against the Capital Strategy.

3. SUMMARY IMPACT ASSESSMENT

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	Yes	The budget (capital and revenue) is the financial expression of the Council's priorities and therefore underpins all the fundamental themes included within the Council Plan.
	Has an Equality Impact Assessment (EqIA) been completed?	
	No	Decisions about the Capital Strategy do not impact on equality issues.
SCRUTINY POWERS APPLICABLE	No – Report to Council	
KEY DECISION	No	
TARGET COMPLETION/ DELIVERY DATE	N/A	
FINANCIAL IMPACT	Yes	All financial implications are captured within the main body of the report.
LEGAL ISSUES	Yes	Section 151 of the Local Government Act 1972 places a general duty on local authorities to make arrangements for 'the proper administration of their financial affairs'.

		<p>The Director of Resources (Section 151 Officer) has responsibility for the administration of the financial affairs of the Council.</p> <p>The CIPFA Prudential Code for Capital Finance in Local Authorities (the code) was updated in 2018 and requires all local authorities to prepare a 'Capital Strategy'.</p>
OTHER IMPACTS, RISKS & OPPORTUNITIES	Yes	<p>The strategic risk register includes:</p> <ul style="list-style-type: none"> Budget pressures, increased income volatility and uncertainty as to the future of local government finance – The budget, the MTFS and the financial stability of the Council is severely impacted by reductions and/or changes in the way in which local government is financed.
IMPACT ON SPECIFIC WARDS	No	

PART B – ADDITIONAL INFORMATION

4. INFORMATION

Background And Context

- 4.1 On 28 June 2022 Council approved the Capital Strategy 2022/23 – 2026/27.
- 4.2 The Capital Strategy provides an overview of how capital expenditure; capital financing and treasury management activity contribute to the provision of council services and how associated risk is managed.
- 4.3 The Capital Strategy compliments and assists in the achievement of the Council Plan. In addition, it builds upon the Council's Commercial Asset Strategy and Treasury Management Strategy to:
- set the **long-term context** in which capital expenditure and investment decisions are made in a sustainable way.
 - set the basis upon which **risk and reward** and **priority outcomes** are considered as part of capital decisions.
 - set the context within which capital decision making is consistent with the concepts of **value for money, public stewardship and prudence**; and
 - report explicitly on the **deliverability, affordability and risk** associated with Capital Strategy.
- 4.4 As an integral part of measuring the Council's progress in achieving the measures outlined in the Council Strategy, an annual report is taken to Full Council.

4.5 This report details:

- i) The Council Assets as held at 31 March 2023.
- ii) 2022/23 Capital Spend against Council Priorities
- iii) Commercial Asset Strategy – 2022/23 acquisitions
- iv) Commercial Assets (which generate a return)
- v) Performance of commercial assets – Legacy Assets
- vi) Asset Management Planning – Condition Assessment
- vii) Sink Fund

5. Council Assets at 31 March 2023

5.1 The following table sets out the Council's asset base as at the end of the 2022/23 financial year in terms of its 'book' (i.e., Statement of Accounts) valuation.

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

Description	Industrial Premises	Codsall Community HUB	IT	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

5.2 The above table shows that per the Council's 2022/23 accounts as at 31/3/23:

- Land and buildings make up £42m out of £46m of the Council's asset base.
- Commercial Assets (Industrial Premises) which generate a return and enhance economic development are valued at £29m;
- The Council's headquarters (including equipment) is valued at £10m;
- The Council's (IT) infrastructure and software is valued at £0.2m;
- Street Scene assets (Green Lane Depot) are valued at £0.6m;
- Community assets (which include cemeteries and parks such as Baggeridge Country Park) are valued at £1.4m
- 'Other' assets include £2.7m for Hinksford Caravan Park.

6. 2022/23 Capital Spend against Council Priorities

6.1 The following table summarises capital expenditure in 2022/23 and how this spend contributed towards Council priorities within the Council Plan:

Table 2: Capital Spend Analysis 2022/23

22/23 CAPITAL PROGRAMME	Budget £'000	Spend £'000	Prosperity	Income and Efficiency	Core Council Services	Comm'ty Assets
Corporate						
Commercial Asset Strategy	12,281	2,539	✓	✓		
Itrent Upgrade	20	0			✓	
Total Corporate	12,301	2,539				
Digital Technology and Service Transformation	92	32		✓		
Welfare Services	1,860	1,051				✓
Community Services	7,455	2,327			✓	✓
Other	127	51			✓	
<u>Total</u>	<u>21,835</u>	<u>6,000</u>				

6.2 The above table shows that all £6 million of capital spend in 2022/23 contributed to at least one Council priority and that all four Council priorities were addressed through aspects of the 2022/23 capital programme.

6.3 The primary reasons for the slippage between the budget and spend were: -

1. Commercial Asset Strategy – delay following liquidation of main contractor for project at Wombourne.
2. Welfare – Disabled Disability Grant – progression for approval and completion of grant claims.
3. Community Services – delay in commencement of planned improvements to Codsall Leisure Centre.

6.4 Where slippage has occurred, the budget is reconfigured to subsequent years to ensure the desired capital development will still take place.

7. **Commercial Asset Strategy – 2022/23 acquisitions**

7.1 The Council has adopted a Commercial Asset Strategy targeted towards acquisitions that stimulate the local economic activity and generate a commercial return. In 2022/23 there were no acquisitions, but a decision to purchase PCP factory was made which should complete Spring 2024.

7.2 All acquisition decisions (in 2022/23) are included at Appendix 2.

8. **Commercial Assets (which generate a return)**

8.1 As set out in Table 1 above, the Council has assets directly linked to the Commercial Asset Strategy of £28.9 (value per the accounts).

8.2 It should be noted that accounting guidelines mean that 'book value' per the accounts is not necessarily the same as 'market value'. Market value is the relevant metric when considering commercial decisions.

8.3 It should also be noted that the Council has other assets (for example the Hub and Baggeridge Country Park), not directly linked to its Commercial Asset Strategy, which nevertheless generate income and are therefore important to be viewed alongside the 'commercial assets'.

8.4 Table 3 below analyses this broader definition of Council's commercial assets (which generate a return), setting out the gross income generated from these assets in 2022/23 together with the 2023/24 budget.

Table 3: Commercial Assets – valuation and income analysis

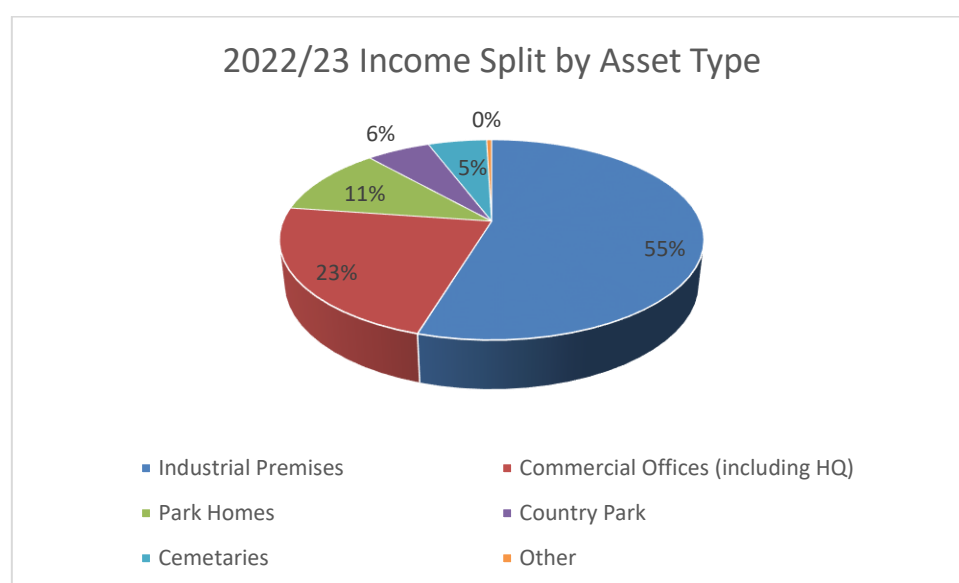
Investment Name	Accounts Value as at 31/3/2023	Budget 2022/23	Actual Income 2022/23	Budget 2023/24
	£'000	£'000	£'000	£'000
Industrial premises	28,994	-1,909	-1,746	-1,570
Commercial Offices	280	-34	-34	-34
Hub	9,523	-519	-413	-611
Park Homes	2,724	-266	-261	-277
Other	923	-7	-5	-7
TOTAL LAND AND BUILDINGS	42,444	-2,734	-2,459	-2,499
Total Other	3,498	-281	-324	-399
TOTAL COMMERCIAL (INCOME GENERATING ASSETS)	45,942	-3,015	-2,783	-2,898

8.5 The Council's commercial assets are analysed in further detail in Appendix 1. In summary:

- The value of all Council, land and buildings (as per the Statement of Accounts) totals £45.942m
- These assets generated £3.0m of income (gross) in 2022/23 (against a budget of £3m) and are budgeted to generate £2.9m of income (gross) in 2023/24.
- Income less than budget largely due to the fire at Unit 4E.

8.6 Chart 1 shows the proportion by which each class of asset contributes to the overall rental income received by the Council.

Chart 1: 2022/23 - Percentage Income by Type of Asset



8.7 The Council aims to mitigate income risk by generating returns from a diversified portfolio of assets.

9. **Asset Management Planning - Condition Assessment**

9.1 A desk top review of our industrial estates has been undertaken to estimate the required spend over the next 10 years to maintain their condition. A further detailed report is planned in 2024.

9.2 Table 4 below summarises the outcome of this assessment in terms of anticipated investment requirements to maintain these assets in their current state.

Table 4: Condition Assessment and future Priority Spend Analysis

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	Total Spend
Industrial Estate	Priority 1	Priority 1	Priority 2	Priority 2	Priority 2	Priority 3	Priority 3	Priority 3	Priority 3	Priority 3	
	Estimated Investment Required based on 23/24 prices										
	£	£	£	£	£	£	£	£	£	£	£
Landywood	1,020,443	31,000	10,000	10,000	10,000						1,081,443
Wombourne - Phase 1		233,552	17,000	17,000	17,000	17,000	13,000	5,000	5,000	5,000	329,552
Unit 4E - Four Ashes		30,000									30,000
Stafford Park		41,000	-	-	-	-	-	-	-	-	41,000
South Staffs	-	-	6,000			157,445			6,000		169,445
Littleton			23,000	17,000	17,000	183,049	12,000		6,000		258,049
Hilton	-	5,000	17,000	12,000	12,000	17,000	16,000	121,397	5,000	-	205,397
Four Ashes Enterprise Park	-	-	-	-	-	-	-	-	-	137,530	137,530
TOTAL	1,020,443	340,552	73,000	56,000	56,000	374,494	41,000	126,397	22,000	142,530	2,252,416

9.3 The definition of the priority level of these works is as follows:

Priority 1 - Essential work required within two years that will prevent serious deterioration of the fabric or services and/or address a medium risk to the health and safety of occupants and/or remedy a less serious breach of legislation. (Year 1 to 2)

Priority 2 – Desirable work required within three to five years that will prevent deterioration of the fabric or services and/or address a low risk to the health and safety of occupants and/or remedy a minor breach of legislation. (Year 3 to 5)

Priority 3 – Long term work required outside the five-year planning period that will prevent deterioration of the fabric or services. (Years 6 to 10)

9.4 Table 4 above shows that, based on a condition assessment of the Council's legacy commercial assets, an estimated £2,252,416 spend is required to maintain the income generated assets in their current condition. This assessment is focused on a 10-year period (rather than the life of the asset).

10. **Sink Fund & Other Funding**

10.1 As per current policy, 5% of achieved commercial income has been transferred to a 'Sink Fund' (held as an Earmarked Reserve) to cover future significant maintenance spend on properties within our portfolio. The value of the sink fund was £244,000 on 31 March 2023.

10.2 Based on the current portfolio of buildings, 5% income contribution will result in a fund balance of £1,478,119 in 10 years (if no spend is made against this fund).

10.3 In addition to the sink fund: -

- The capital receipts generated from the sale of Heathmill (£425,000) have been allocated towards the cost of the Asset Management Plan.
- Grant Funding has been allocated for works at Landywood, that will reduce our carbon footprint, to the value of £300,000.

10.4 The total funding available for 10 year Asset Management plan is currently £2,203,119 (not including the Sink Fund reserve).

11. Conclusions

11.1 This report demonstrates that Capital Expenditure and Investment decisions continue to be made in a sustainable way, underpinning Council objectives and with relevant risk and reward considered, for all investment/ disinvestment decisions.

12.0 BACKGROUND PAPERS

Appendix 1 – Analysis of Commercial Asset (which generate a return)

Appendix 2 – Acquisition Decision Tracker

Report prepared by: Deb Fern, Senior Accountant

Appendix 1

Investment Name	Notes	*EUV / FV as at 31.3.23	22/23 Budgeted Income	22/23 Actual Income
		£'000	£'000	£'000
INDUSTRIAL PREMISES				
Hilton Industrial Estate		1,662	-104	-105
			-33	-27
South Staffs		1,911	-119	-119
Landywood		5,311	-325	-319
Littleton		1,750	-124	-132
Four Ashes	a	4,668	-370	-379
Unit 4E Four Ashes		5,464	-333	-182
Stafford park 15	b	1,132	-81	-74
Wombourne		4,665	-199	-215
Element Court		2,431	-221	-193
		28,994	- 1,909	- 1,746
COMMERCIAL OFFICES				
Jubilee House		280	-34	-34
		280	-34	-34
The Hub		9,523	-519	-413
		9,523	- 519	- 413
PARK HOMES				
Hinksford		2,724	- 266	- 261
OTHER				
The Lydiate Room Community Building		154	-7	-5
Lane Green Depot		242	n/a	n/a
Hilton Green Outdoor Enviro		31	n/a	n/a
Caretakers Houses		497	n/a	n/a
		923	- 7	- 5
TOTAL LAND & BUILDINGS		42,444	- 2,734	- 2,459
Solar Panels		81	-7	-7
Virtual Energy Store		132	-5	-1
Forget-me-Knot Club		25	0	0
Sytch Lane Cemetary		458	-69	-91
Strawberry Lane Cemetary		475	-46	-61
Baggeridge Country Park		57	-155	-165
OTHER INCOME GENERATING ASSETS		1,229	- 281	- 324
OTHER NON-INCOME GENERATING ASSETS		2,269	N/A	N/A
TOTAL INCOME GENERATING ASSETS		45,942	- 3,015	- 2,783

a – Unit currently under-going major repairs due to fire – completion Spring 2024

b – Phase 2 – under construction – completion due Spring 2024

Appendix 2: Commercial Asset Strategy – Acquisition Decision Tracker

Opportunities Arising 2022/23

Investment Name	Asking Price	Approved(A)/ Rejected(R)	Reason
PCP Factory acquisition	£2.4m	A	Generated a ROI, created new jobs and investment.
Cosford Industrial Estate acquisition	Confidential	R	Not viable due to asbestos
Old Tree Nursery	£0	TBC	Further investigation and business case required.
Codsall shopping arcade	£800k start	Not progressed	Auction timeframe too short
Heath Mill Road Wombourne Industrial Estate	Confidential	Not progressed	Didn't progress past initial high level appraisal.