South Staffordshire Council

Capital Strategy

2019/20 - 2021/22

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Contents

1. Introduction

1.1 Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year.

1.2 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 or leasing).

1.3 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'.

1.4 The intention of the code is that the Capital Strategy should provide an overview of how capital expenditure, capital financing and treasury management activity contributes to the provision of council services and also how associated risk is managed.

1.5 This Capital Strategy therefore builds upon the Council's Asset Strategy (which to avoid confusion has now been renamed the 'Commercial Asset Strategy') and Treasury Management Strategy in order 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**.
- Report explicitly on the **deliverability, affordability and risk** associated with Capital Strategy.

1.6 This Capital Strategy tells the story of how this council prioritises capital expenditure, sets capital budgets, decides on how much it can afford to spend (and borrow) and how it manages risk - through robust governance and performance monitoring.

1.7 It is intended to provide a framework for ongoing decisions and provide a useful strategic link to other interrelated Council strategies which are impacted by capital decision making - including the Council Plan, Efficiency and Income Plan (E&I Plan), Medium Term Financial Strategy, and Treasury Management Strategy. The term of this Strategy being set to 2021/22 to best fit these interrelated Strategies.

1.8 Capital Strategy 2019/20 – 2021/22

1.8.1 This Capital Strategy document is set out as follows:

Section 2: Baseline - In this section of the Capital Strategy, we set out the Council's baseline capital asset position.

Section 3: Strategic Direction - In this section of the Capital Strategy, we set out in summary terms the Council's long-term strategic context, in terms of its Council Plan and E&I Plan. It sets out how these translate to priorities when making capital decisions. It also sets out the Council's objectives in terms of debt levels and asset management.

Section 4: Capital Expenditure - This section sets out the Council's priorities and principles when making capital decisions. It also sets out the control framework, the current capital programme and how this impacts upon the Council's revenue budget.

Section 5: Debt and Borrowing and Treasury Management - This section sets out the impact of the Capital Strategy on the Council's debt and borrowing position.

Section 6: Deliverability, Affordability and Risk - The Prudential Code states that it is the responsibility of the Council's Chief Finance Officer (Corporate Director Resource) to explicitly report on the affordability, delivery and the risks associated with this strategy. This section reports on these matters.

2. The Council's baseline capital asset position

2.1 In this section of the Capital Strategy we set out the Council's baseline capital asset position in terms of

- The value of its Capital assets as at 31 March 2018 per the Council's accounts.
- The Council's commercial assets and other assets which generate a return and the income they generated per annum.
- An assessment of condition of the Council's assets.
- The Council's borrowing position.

2.2 Analysis of capital assets (per the Council's accounts)

2.2.1 The following table summarises the Council's asset position in terms of the 'book value' in the Council's 2017/18 accounts.

Table 1: Analysis of council assets (as per the Council's accounts)

Description	Commercial	HQ	IT	Street Scene	Other	Total
	£000	£000	£000	£000	£000	£000
Land and buildings	16,948	5,876			2,187	25,011
Vehicles/equipment		358	208	327	350	1,243
Infrastructure					107	107
Community assets					1,276	1,276
Under construction					21	21
Civic regalia					89	89
Software			58		0	58
	16,948	**6,234**	**266**	**327**	**4,030**	**27,805**

NB. It should be noted that some assets (including land) will have a zero book value in the Council's accounts.

2.2.2 The above table shows that per the Council's 2017/18 accounts as at 31 March 2018:

- Land and buildings make up £25.011 million out of £27.805 million of the Council's asset base. £16.948 million of which relates to commercial assets.
- The Council's headquarters is valued at £5.876 million.
- The Council's IT is valued at £0.266 million inclusive of software.
- Street Scene equipment is valued at £0.327 million.
- Community assets are valued at £1.276 million. This consists of £0.934 million being the value of Cemeteries, £0.075 million for the Baggeridge Country Park and £0.267 million for other playing fields and parks within the Council boundaries.
- 'Other' assets include £2.187 million of land and buildings. This includes £1.818 million for Hinksford Caravan Park.

2.3 Commercial assets (which generate a return)

2.3.1 £16.948 million is the balance sheet valuation per the accounts of commercial assets which generate a return. It should be noted that accounting rules dictate that this balance sheet valuation is on the basis of existing use value or depreciated replacement cost. This is not the same as market value. In addition, the Council's Headquarters, valued at £5.876 million per the accounts also generates income.

2.3.2 The following table sets out both the accounts and the market value of the Council's commercial assets and other assets which generate a return and the income they generated per annum (based on 2019/20 budgets):

Table 2: Council assets which generate a return

Building Name	"No of Units"	Description	Year Purchased	Accounts Value	Market Valuation		Gross Annual Income Budgeted
				£	£		£
Hilton	16	Industrial Estate	1980	892,000	900,000	**2**	91,500
Heathmill	3	Industrial Estate	1974	304,600	340,000	**2**	30,500
South Staffordshire Business Park	15	Industrial Estate	1990	1,072,500	1,250,000	**2**	111,700
Littleton	36	Industrial Estate	1985	3,127,900	3,500,000	**2**	295,500
Landywood	16	Industrial Estate	1992	1,142,800	1,160,000	**2**	115,000
Four Ashes - Unit 4E	1	Industrial Estate	2016	3,117,500	2,665,897	**4**	240,000
Wombourne Business Park	47	Industrial Estate	1987	2,795,000	n/a	**3**	322,800
Element Court	9	Office Space	2017	2,305,160	2,607,110	**4**	230,100
Jubilee House	5	Office Space	2012	244,900	300,000	**2**	32,000
Unit F1-F4 Stafford Park	4	Industrial Estate	2017	1,039,800	956,108	**4**	79,200
Four Ashes - Latherflood	13	Industrial Estate	1991	905,500	1,195,000	**2**	95,000
Morlock House	3	Office Space	2018	n/a	690,878	**4**	41,400
Station Road **1**	n/a	Land	2018	n/a	148,271	**4**	n/a
Hilton Cross	n/a	Land	2018	n/a	2,661,651	**4**	n/a
Total commerical assets				**16,947,660**	**18,374,915**		**1,684,700**
Community Hub							
Community Hub		Headquarters		5,875,600			307,300
Total Community Hub				**5,875,600**			**307,300**
Other							
Baggeridge Country Park Community Building				156,000			142,600
Hinksford Caravan Park		Caravan Park		1,818,000			220,700
Lane Green Depot		Street Scene HQ		204,700			
Other				9,200			
Total Other				**2,187,900**			**363,300**
Total land and buildings				**25,011,160**			**2,355,300**

1. Land purchased at auction to enable expansion of Four Ashes Industrial Estate.
2. As per July 2018 independent valuation.
3. Redacted as commercially sensitive.
4. Recent purchase - market value given as purchase price.

In addition to the above, the Council's cemeteries also generate income of £86,000 per year.

2.4 Vehicles

2.4.1 The Council holds 16 vehicles on the balance sheet with a net book value as at 31 March 2018 of £0.327 million. There are two vehicles supporting Baggeridge Country Park and 14 vehicles supporting the Street Scene service (including two sweepers and four mowers).

2.5 Surplus land

2.5.1 The Council owns a number of parcels of land within the district. This is made up of 50+ areas of Public Open Space (POS) (including parks, amenity space and green corridors), 17 council car parks and 20 areas of surplus land (land not designated for a purpose and recently assessed as providing little community benefit). The book value of these assets in the Council's accounts is £0.267 million. Some of these assets have restrictions on their use (under Section 106 agreements). It is estimated that the total market value of these sites could be between £150,000 and £400,000 (depending on whether their development potential is realised).

2.6 Leisure facilities

2.6.1 The Council currently operate four Leisure Centre sites across the district under a Joint Use model, whereby the Council manages each leisure facility and the buildings are owned by the County Council or School Academies on a 125-year lease.

2.6.2 The existing Joint User agreements run to 2032 at Wombourne, Cheslyn Hay and Codsall Leisure Centres and until 2042 at Penkridge Leisure Centre.

2.6.3 Across the four Leisure Centre sites, we employ 175 staff through a mixture or full and part-time contracts.

2.6.4 The four sites generated income of £2,113,383 in 2017/18 (a 49% increase on income levels from 2006/2007) through membership fees, swimming lessons and sports facility rentals/hire. The net operating cost of this service in 2018/19 being £104,360 (after finance costs but before internal recharges).

2.7 Current performance/condition

Council headquarters

2.7.1 The current condition of the Council's headquarters is generally assessed as being sound. There are, however, significant capital investment requirements within forthcoming years. A conditions appraisal was undertaken in 2018. This appraisal identified that £3.2 million was required in years 1-6 then a further 1.63 in years 6-20 to maintain the asset. In addition, following work on the Codsall Community Hub project, an additional circa £0.5 million would be required to upgrade the heating and ventilation systems. Detailed condition appraisal work will continue as planned as part of the Community Hub project.

2.7.2 The costs of maintaining the asset have been considered as part of the business case for the Community Hub project. As a consequence, £9.9 million of expenditure has been included in the Capital Programme for the Community Hub project, which includes an element of refurbishing the current building and building a new extension.

Vehicles

2.7.3 During 2018, existing and future vehicle requirements were reviewed. It was estimated that £1.2 million could be required over the next 10 years. The outcome of this review was included in an additional funding bid during the Resource, Planning and Priorities (RPP) process. The additional capital requirements were included in the capital programme subject to business case approval.

2.7.4 The years covered by the Medium Term Financial Strategy (which was approved by Council on 26 February 2019) are set out within **Appendix 2** and summarised as follows.

Table 3: Estimated cost of vehicle requirements

	31/3/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Total to end of MTFS period
	£000	£000	£000	£000	£000	£000	£000	£000
Country Park	23	0	0	0	0	0	0	0
Street Scene	300	50	41	270	107	74	105	647
Total vehicles	**323**	**50**	**41**	**270**	**107**	**74**	**105**	**647**

2.7.5 Previously, the Council has used its favourable position regarding contract/finance leases to purchase waste vehicles and negotiate a 'vehicle discount' on the annual cost of the waste contract. This has led to significant savings across the contract period (to 2022) and may be considered in future waste contracts.

Commercial assets

2.7.6 The condition of the Council's commercial assets has been assessed as part of the Council's asset management planning and Commercial Asset Strategy.

2.7.7 The condition of our commercial assets was generally found to be sound (ranking as either 'fair' or 'good') with the exception of Wombourne Enterprise Park which was found to be in poor condition in parts. Plans are in place to resolve this.

2.7.8 The backlog maintenance position is not significant and no urgent repair work was identified. No significant capital investment requirements were therefore identified provided the planned maintenance programme is maintained.

2.7.9 The outcome of this condition assessment is included in **Appendix 10**.

2.7.10 Leisure Centres

The condition of the Leisure Centres (which are not owned by the Council) has been assessed. In their current state our facilities are considered adequate for school use but are now beginning to fall short on public expectations. As set out in the Council's MTFS, it has been identified that "There is significant competition for the service from external providers including budget gyms and other neighbouring authorities. A business case is currently being refined to reflect the level of investment required to modernise the Council's facilities including changing room refurbishments and car parking."

2.7.11 The capital programme (included in **Appendix 7**) therefore includes £2.4 million (as an estimate) for Leisure Centre refurbishment. This is subject to business case approval and conditions being met by the Schools (including long-term contractual agreements).

2.7.12 The capital programme (included in **Appendix 7**) also includes over the medium term:

- £312,600 for the cardiovascular renewal programme.
- £90,400 for the Leisure Centre indoor cycling renewal scheme.
- £143,000 for the replacement of resistance equipment.

2.8 Land condition

2.8.1 Land designated as open space has been assessed within the Public Open Space Strategy 2014-2028, with the majority rated 'good'.

2.8.2 Council owned car parks vary in condition, with some poor with potholes or little to no surfacing treatment, others with clearly marked parking bays and barriers.

2.8.3 The Council's surplus land varies in condition. Easily accessible areas are generally well maintained. More remote areas are more difficult to maintain and can become overgrown and have higher levels of litter.

2.9 Analysis of borrowing

2.9.1 As at 31 March 2018, the Council had no external borrowing.

2.10 Summary

2.10.1 As at 31 March 2018, the Council has £27.8 million of capital assets per the Council's accounts.

2.10.2 Commercial Assets (which generate a return) are valued at £16.947 million per the accounts, have a market value of £18.474 million (excluding Wombourne Enterprise Park) and generate annual income of £1.684 million.

2.10.3 In total the Council's land and buildings (including commercial assets and the Council's headquarters) generate £2.355 million per annum.

2.10.4 The condition of the Council's commercial assets is generally sound with the exception of Wombourne Enterprise Park. There are, however, a number of issues concerning the condition of the current asset base, including:

- The current HQ requires significant investment. A project is therefore underway to deliver a Community Hub which will both better meet the needs of residents and staff and generate a financial return.
- The Council-operated leisure facilities are currently adequate for school use but are now beginning to fall short of public expectations. These assets are not owned by the Council but generate significant income streams.
- The Council has some surplus land assets which vary in condition.

2.10.5 The Council has no external borrowing currently.

3. Strategic Direction: The Council Plan and Efficiency and Income Plan (E&I Plan)

3.1 In this section of the Capital Strategy we set out in summary terms the Council's long term strategic context - in terms of its Council Plan and E&I Plan. It sets out how these translate to priorities when making capital decisions. It also sets out the Council's objectives in terms of debt levels and asset management.

3.2 Council Plan

3.2.1 The Council Plan for 2016–2020 sets the following priorities:

- **A Skilled and Prosperous District.**
- **A Safe and Sustainable District.**
- **A Connected District.**

3.2.2 The Council Plan 2016-20 also identifies 'Customer focus', 'Value for money' and 'Working in partnership' as the core values that underpin these priorities.

3.3 E&I Plan and Route Map

3.3.1 The E&I Plan was refreshed in 2017 and set two overall objectives to be completed by 2020.

- Ensure financial stability for the Council, delivering a balanced budget for a three year period in our Medium Term Financial Strategy (MTFS), growing to five years by 2020.
- Develop a workforce that looks to do things differently in order to meet both the financial challenges we face and to further strengthen our communities.

3.3.2 To support these objectives an annual E&I Route Map is produced setting out a number of actions to be completed over the course of the financial year. The E&I Route Map (2019/20) will continue to focus on three areas:

- **Financial Stability:** Maximising income and efficiency opportunities.
- **Managing Growth:** Protecting and strengthening our communities and continue to support local businesses.
- **Doing things differently:** Transforming service delivery through innovation; agile working and system review and embedding cultural change across the organisation.

3.4 Partnership working

3.4.1 The Council has a strong track record of working in partnership with users to benefit the residents of South Staffordshire. The Council will continue to identify joint working opportunities if they contribute to overall council priorities. Such partnerships may relate to individual capital schemes, or be more strategic and long term in nature.

3.5 Priority areas

3.5.1 The Capital Strategy aims to deliver against the vision as set out in the Council Plan and E&I Plan.

3.5.2 All capital decisions are therefore considered in light of this vision. Specifically the Council's priorities in terms of its capital spend can be summarised as follows:

- **The prosperity of the district:** Investment that will stimulate economic growth.
- **Income and efficiency:** Investment which promotes the financial stability of the Council.
- **Core Council services**: Investment that will empower our staff to deliver and improve the efficient and effective delivery of services to our community.
- **Community assets:** Investment that will benefit our communities.

3.6 Overall debt levels

3.6.1 The Council has not historically been required to externally borrow to fund its capital expenditure.

3.6.2 The Council recognises that capital expenditure (including commercial acquisition opportunities) to meet its objectives, generate income and stimulate the local economy should be considered and that this will require the Council to borrow.

3.6.3 The Council aims to balance its risks and rewards when making decisions regarding the development of its capital programmes such that its levels of borrowing remain affordable, prudent and sustainable - both over the medium and the long term.

3.6.4 The Council aims to have a prudent but balanced approach to debt levels over the medium to long term. Policies and procedures are in place to ensure that capital decisions are sound and overall debt levels remain proportionate and affordable.

3.6.5 The Council's Treasury Management Strategy annually sets borrowing limits that are affordable, prudent and sustainable. The Treasury Management Strategy (subject to approval) sets current limits of £33 million of external borrowing over the medium term based on the Councils approved capital programme.

3.7 Asset management

3.7.1 Effective asset management is important to the Council. The condition of the Council's asset base will be monitored and maintained. Asset disposals will be considered in light of Council priorities, finances and risk.

3.8 Summary

3.8.1 The Capital Strategy aims to deliver against the Council's vision as set out in the Council Plan and the E&I Plan.

3.8.2 All capital decisions are considered in light of this vision and the Council sets its priorities for capital spend accordingly.

3.8.3 The Council recognises that capital expenditure (including commercial acquisition opportunities) that meet its objectives, generate income and stimulate the local economy should be considered and that this will require the Council to borrow.

3.8.4 The Council aims to balance its risks and rewards when making decisions regarding the development of its capital programmes such that its levels of borrowing remain affordable, prudent and sustainable - both over the medium and the long term.

3.8.5 The condition of the Council's asset base will be monitored and maintained. Asset disposals will be considered in light of Council priorities, finances and risk.

4. Capital expenditure

4.1 This section sets out the Council's priorities and principles when making capital decisions. It also sets out the control framework, the current capital programme and how this impacts upon the Council's revenue budget.

4.2 Capital expenditure

4.2.1 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 includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

4.2.2 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 or leasing).

4.3 Priority areas

4.3.1 As set out above, the Council's priorities in terms of its capital spend can be summarised as follows:

- **The prosperity of the district:** Investment that will stimulate economic growth.
- **Income and efficiency:** Investment which promotes the financial stability of the Council.
- **Core Council services:** Investment that will empower our staff to deliver and improve the efficient and effective delivery of services to our community.
- **Community assets:** Investment that will benefit our communities.

4.4 Principles

4.4.1 In order to deliver against these priorities, capital decisions should apply the following principles:

- A clear business case is in place which is affordable and links to Council priorities (the template being set out in **Appendix 1**).
- Revenue consequences of capital decisions are identified and accounted for and must be affordable (the Medium Term Financial Strategy being summarised in **Appendix 2**).
- Sound asset management planning is applied in maintenance of appropriate asset condition.
- Steps are taken to maximise and leverage external funding where possible.
- Decisions regarding assets which generate a return consider relative risk and reward and are managed in line with the Council's Commercial Assets Strategy including the associated due diligence and governance (see **Appendix 5**).
- Capital decisions are proportionate and risks are robustly managed. This may include spreading the risk by working in partnership with partners.
- Disposal decisions will be considered. Factors that will be considered will include:
  - Current condition, cost of maintenance and sustainability considerations.
  - The contribution the asset makes to Council priorities.
  - The capital receipt achievable and the opportunity cost of continued investment in the asset (as opposed in investing funds elsewhere).
  - Broader risk management considerations - including any benefits associated with increasing/decreasing the Council's asset base in any particular area/sector.

4.5 Capital bids and business cases

4.5.1 Service Teams bid to include projects in the Council's capital programme as part of the Council's Resources, Planning and Prioritisation process in preparation for the annual setting of the Council's revenue and capital budgets and Medium-Term Financial Strategy.

4.5.2 The Corporate Leadership Team appraises all bids and makes recommendations to the Cabinet. The final capital programme is then presented to Cabinet in January and to Council in February each year.

4.5.3 Additional capital requirements and opportunities identified through the year are considered on their merits in line with the above governance controls. Any in year changes to the capital budget will be made in accordance with the constitution, including appropriate approval by Cabinet and/or Council.

4.6 Policies and classification controls

4.6.1 The Council sets aside prudent provision for the repayment of debt where borrowing or credit arrangements have been used to finance capital expenditure. This is known as the Minimum Revenue Provision (MRP). Business cases for capital investment therefore include not only the interest costs of any associated borrowing but also the repayment of any debt. In order to ensure that borrowing levels are affordable over the long term a prudent assessment of asset life is made within the MRP thereby ensuring that any borrowing is fully provided for and repaid over the life of the asset.

4.6.2 The definition of what expenditure is classified as capital (as opposed to revenue) expenditure is subject to robust control via the Finance Team.

4.6.3 Further detail on policies are set out in **Appendix 4**.

4.7 Commercial Asset Strategy and due diligence

4.7.1 On 29 March 2016, the Council adopted an Asset Strategy targeted towards acquisitions that benefit, improve and/or develop the area and also generate new ongoing income streams. This has been updated as included in **Appendix 3**. In order to avoid confusion please note that this has been renamed the Commercial Asset Strategy.

4.7.2 This strategy put in place a framework of control around decisions around any associated capital acquisition of assets which generate a return.

4.7.3 These controls include a Member's Asset Strategy Scrutiny Panel which reviews all opportunities. Controls also include robust approach to due diligence and financial appraisal, further details of which are set out in **Appendix 5**.

4.8 Governance

4.8.1 The Capital Programme is monitored by Finance, the Corporate Leadership Team and by Cabinet.

4.8.2 The Asset Scrutiny Panel provides a check and challenge for proposals relating to acquisitions or disposal of land and property and commercial development opportunities on new or existing council owned sites.

4.9 Reporting

4.9.1 In order to monitor the effective delivery of this Capital Strategy, an additional 'Capital Strategy – Annual Outturn' report will be subsequently produced and reviewed by the Corporate Leadership Team and by Cabinet.

4.9.2 The Capital Strategy - Annual Outturn Report will be produced every year and will assess how the Capital Strategy has been implemented over the previous financial year - and how capital expenditure and capital financing has contributed to the provision of council services. It will also summarise how associated risk has been managed in practice, identifying key issues to be considered over both the medium and the long term.

4.9.3 A template for this report is set out in **Appendix 6**.

4.10 The 2019/20 to 2023/24 Capital Programme:

4.10.1 The current projected capital programme and financing is shown below. It includes current estimates for capital bids for 2019/20 and beyond. The use of reserves is in line with the Medium Term Financial Strategy.

4.11 Capital expenditure

4.11.1 The capital expenditure forecasts to 2021/22 (approved by Council on 26 February 2019) and included in detail in **Appendix 7** can be summarised as follows:

Table 4: Capital expenditure

Capital expenditure	2018/19	2019/20	2020/21	2021/22
£000	Revised	Estimate	Estimate	Estimate
Corporate	9,447	10,889	4,634	25
Business Transformation	190	244	99	25
Welfare Services	1,404	764	764	764
Community Services	82	1,975	895	603
Planning and Business Enterprise	52	95	0	0
Total	**11,175**	**13,967**	**6,392**	**1,417**

4.11.2 The Council approved capital programme includes:

- The Codsall Community Hub (£9.9 million).
- Commercial Asset Strategy acquisitions (£14.9 million).
- Disabled facilities - funded through grant (£5.1 million).
- Leisure Centre - refurbishment estimate subject to business case (£2.4 million).

4.11.3 This results in an underlying borrowing need of £33.152 million which (after internally available funding) translates to an estimated £29.116 million in external borrowing by 2021/22. Further details of capital financing and borrowing are set out in section 5.

4.12 Revenue impact of capital

4.12.1 The revenue impact of capital decisions is subject to ongoing review as part of the budget setting and monitoring cycle (which includes formal reporting to Cabinet through the Integrated Performance Management Report).

4.12.2 It is important that the Council continues to model and monitor the revenue implications of its capital decisions. This will also form part of the annual reporting outlined in section 4.9.

Table 5: Income from assets which generate a return as a % of external funding

Income from Assets	2018/2019	2019/2020	20/2021	2021/2022
	£000	£000	£000	£000
Commercial property	1,570	1,685	1,715	1,741
HQ	300	307	308	308
Other	433	363	370	377
Total income from assets	**2,303**	**2,355**	**2,479**	**2,512**
Income from assets which generate a return as a % of external funding	**21%**	**21%**	**23%**	**23%**

Note: The above income streams excludes any future commercial asset strategy acquisitions and current developments (e.g. Four Ashes)

4.12.3 The above table shows that the Council generates a significant and increasing income stream from its assets of between 21% and 23% of external funding.

Table 6: Financing costs as a % of external funding

	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000
Financing costs	66	870	1,213	1,432
Net external funding	10,855	11,456	10,616	11,029
Proportion of financing costs to external funding	**0.61%**	**7.59%**	**11.43%**	**12.98%**

Note: The above financing costs include all minimum revenue provision and interest cost estimates based on the current capital programme

4.12.4 The above table shows that as the Council's borrowing increases, financing costs increase to 11% – 13% of external funding.

4.13 Modelling the impact of additional capital spend

4.13.1 The approved Capital Programme (as modelled above) is subject to change and amendment in line with the priorities set out above and an assessment of risk and reward.

4.13.2 In broad terms, for each additional £10 million of capital expenditure the Council's financing costs (interest and MRP) will (without alternative sources of funding) increase by circa £0.4 million - £0.5 million per year (depending on in interest rates and asset lives). These costs will be considered fully in light of any financial returns and returns against Council priorities.

4.13.3 Additional capital expenditure will be considered and approved in line with the Council's Constitution.

4.13.4 The Commercial Asset Strategy capital budget of circa £14.9 million for 2018 - 2020 is fully committed based on acquisitions and the approved pipeline. Additional capital funding is likely to be required to develop further opportunities with regard to the recent purchases of Station Road (Four Ashes) and Hilton Cross.

4.13.5 Options are currently being explored with regards to these sites. The risk and rewards of these options will be fully assessed. The revenue impact of these and any other options/opportunities will be considered, as will the implications for Council borrowing limits and affordability.

4.14 Summary

4.14.1 The Council has set its priorities for capital spend and principles which will be applied when making capital decisions.

4.14.2 The Council has robust controls in place to manage capital spend which include capital bids and business cases, clear policies and classification controls, a Commercial Asset Strategy, due diligence, governance and reporting arrangements.

4.14.3 The Council generates a significant and increasing income stream from its assets of between 21% and 23% of external funding.

4.14.4 The Council's financing costs increase to 11% – 13% of external funding.

4.14.5 The approved Capital Programme (as modelled above) is subject to change and amendment in line with the priorities set out above and an assessment of risk and reward.

5 Debt and Borrowing and Treasury Management

5.1 This section sets out the impact of the Capital Strategy on the Council's debt and borrowing position.

5.2 Treasury management

5.2.1 CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

5.2.2 One of the main functions of treasury management (the other being cash-flow management) is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations.

5.2.3 The Capital Strategy and Treasury Management strategy are therefore closely linked as the capital programme determines the borrowing need of the Council.

5.2.4 The Council is required to annually approve a Treasury Management Strategy that, in light of the Council's approved budget, establishes investment and borrowing policies for the Council for the current and future financial years.

5.2.5 In compliance with the requirements of the Prudential and Treasury Code, the following section looks at the Council's capital financing and treasury management activity.

5.3 The Capital Financing Requirement

5.3.1 The table below shows the Council's Capital Financing Requirement (CFR). The CFR represents total historic outstanding capital expenditure which has not yet been financed from either revenue or capital resources.

Table 7: Capital Financing Requirement

Capital expenditure	2018/19	2019/20	2020/21	2021/22
£000	**Revised**	**Estimate**	**Estimate**	**Estimate**
Capital Financing Requirement (CFR)	**16,189**	**28,430**	**33,332**	**33,152**
Movement in CFR	9,274	12,241	4,902	-180

5.3.2 The above table shows that the capital financing requirement (which drives the Council's underlying need to borrow) increases to £33.152 in 2021/22.

5.4 Assessment of external borrowing

5.4.1 The table below analyses the Council's need to borrow externally (being the difference between the Council's CFR and its internally available funds).

Table 8: External borrowing need

	2017/18	2018/19	2019/20	2020/21	2021/22
£000	**Actual**	**Revised**	**Estimate**	**Estimate**	**Estimate**
The Capital Financing Requirement	6,915	16,189	28,430	33,332	33,152
Other long-term liabilities	-77	-41	-8	0	0
Underlying Borrowing Requirement	**6,838**	**16,148**	**28,422**	**33,332**	**33,152**
Total core funds available to invest	-10,578	-11,433	-9,708	-6,934	-4,036
External borrowing need at 31 March	**N/A**	**4,715**	**18,714**	**26,398**	**29,116**

5.4.2 The above table shows that the Council is forecast (based on its current capital programme) to borrow circa £29.116 million by 2021/22.

5.4.3 Based on the above the Council's Treasury Management Strategy has set (subject to approval) an Authorised Borrowing limit of £33 million.

5.5 Governance

5.5.1 The Audit and Risk Committee is responsible for scrutiny and governance of Treasury Management within the Council. It reviews the Treasury Management policy and procedures and all Treasury Management reports. The Capital Programme is monitored by Cabinet, who also review all Treasury Management reports.

5.5.2 Throughout the year, the Audit and Risk Committee receives Treasury Management updates and an Annual Treasury Management Outturn Report also reported to Cabinet and Audit and Risk Committee. The Treasury Management function is subject to regular internal and external audit reviews. Further detail can be found in the Treasury Management Strategy 2019/20 - 2021/22.

5.6 Methods of funding capital expenditure

5.6.1 There are a range of methods of funding capital expenditure as follows:

a) Government grants and non-government contributions

Where there is a requirement to make an application to an external agency for external funding and, when appropriate, to commit Council resources as matched funding to any bid for external resources, a business case must be presented to the Cabinet (and full Council if insufficient capital budget exists) for approval.

b) Prudential borrowing

The Council will investigate opportunities to resource capital projects using prudential borrowing where plans are sustainable, affordable and prudent. Full appraisal will take place to ensure that, where appropriate, sufficient revenue returns are generated to cover the cost of borrowing.

c) Capital receipts

Where the sale of an asset leads to the requirement to repay grant, the capital receipt will be utilised for this purpose. Once this liability has been established and provided for, capital receipts will be available to support the capital programme as a corporate resource. Commercial asset capital receipts here will be used to support the sustainability of the Council's Commercial Asset Strategy.

d) Revenue contributions

Revenue budgets or reserves could be used to support the financing of a capital project.

e) Use of leasing

Some of the assets used by the Council are financed by a lease arrangement, for example vehicles. There may be instances where leasing could offer value for money and it will remain a consideration when options are being appraised.

f) Section 106 Agreements (of the Town and Country Planning Act 1990)

In considering an application for planning permission, the Council may seek to secure benefits to an area or restrict uses or activities related to a proposed development through the negotiation of a 'planning obligation' with the developer.

5.7 Flexible use of capital receipts

5.7.1 As part of the Local Government Finance Settlement in March 2016, the Secretary of State for Housing, Communities and Local Government provided Local Authorities with the opportunity to use capital receipts to fund the revenue costs of transformation. This flexibility was then extended to 2021/22. The Council's Flexible Use of Capital Receipts Strategy is included in **Appendix 8**.

5.8 Monitoring borrowing limits

5.8.1 The Council monitors its borrowing to ensure it complies with the limits set out by the Treasuring Management Strategy.

6. Deliverability, affordability and risk

6.1 The affordability, delivery and the risks associated with the Strategy

6.1.1 The Prudential Code states that it is the responsibility of the Council's Chief Finance Officer (Corporate Director Resource) to explicitly report on the affordability, delivery and the risks associated with this Strategy. This section reports on these matters.

6.2 Affordability (and proportionality)

6.2.1 As set out in Section 4, affordability is a key criterion when considering whether a project should be approved for inclusion within the Capital Programme. Before any decisions are made, new schemes are considered by the Resource, Planning and Prioritisation processes of the Council and/or underpinned by a business case or capital bid for the approval of the scheme.

6.2.2 All projects must also have a clearly identified capital funding source with a definite commitment of financial support if external funding, such as an external grant, is to be used. On-going revenue costs associated with a capital asset must be accounted for with revenue budgets.

6.2.3 Where borrowing is to be used, interest costs linked to the borrowing together with the repayment of the borrowing (the MRP charge) are accounted for within revenue budgets. MRP is matched to a prudent asset life and any income streams estimated to fund this asset must be sustainable.

6.2.4 In terms of assets which generate a return, due diligence arrangements are in place to stress test key assumptions and demonstrate affordability.

6.2.5 Annual borrowing costs (i.e. interest costs) and MRP (the amount set aside to repay debt) are monitored in the context of the Council's overall budget and the income generated from Council assets. These measures are set out in section 4 and remain affordable.

6.2.6 In accordance with guidance from the Ministry of Housing, Communities and Local Government (MHCLG) the Council's processes highlighted above ensure that the Council's level of debt and aggregate risk remains proportionate.

6.3 Delivery

6.3.1 The delivery of the individual schemes within the Capital programme is directly linked to the process of approving the capital scheme as set out in Section 4.

6.3.2 The capital budget is monitored on a monthly basis at officer level (including the Corporate Leadership Team) and quarterly at Cabinet.

6.3.3 The Capital Strategy - Annual Outturn report (referenced in 4.9.2) will assess how the Capital Strategy has been implemented over the previous financial year - and how capital expenditure and capital financing has contributed to the provision of council services.

6.4 Risk management

6.4.1 The Council is exposed to a range of risks with regard to the continued affordability and delivery of it's the Capital Programme including:

- Financial risks related to the investment of the Council's assets, cash flow and market volatility.
- Macroeconomic risks related to the growth or decline of the local economy, interest rates, inflation and the wider national and global economy.
- Reputational risks related to the Council's dealings and interests, and the impact of adverse outcomes on the Council's reputation and public perception.
- Governance risks related to ensuring that prudence and careful consideration are prominent in the Council's decision-making.

6.4.2 It is important to recognise that there are always risks associated with a large capital programme and associated borrowing, but these can be mitigated and indeed are mitigated.

6.4.3 Governance is addressed through transparent reporting and the oversight provided by Cabinet and the Asset Scrutiny Panel. Due diligence is undertaken on acquisitions and external advice is sought where necessary.

6.4.4 There are clear links from the Capital Strategy to the Treasury Management Strategy, prudential indicators, authorised borrowing limits and the revenue budget. These are also subject to review and oversight by Members Audit and Risk Committee, Cabinet and Council.

6.4.5 New borrowing will increase the Council's annual level of fixed interest and repayment costs which is subject to ongoing review within budgetary reporting and quarterly Treasury Management updates reports.

6.4.6 The Council makes 'prudent' provision for debt repayment which broadly reduces indebtedness in line with each asset's life and so charges the economic consumption of capital assets as they are used.

6.4.7 Investment properties carry a different type and level of risk relating to variations in income streams (tenant non-renewal etc.) and from asset values (impact economic conditions and retail trends etc.). The Council has established a clear strategy, criteria and a governance process around such investment purchases to minimise the risk and to balance risk and reward.

6.4.8 When making decisions - particularly around assets which generate a return, due diligence processes include second opinion on asset values, site visits, surveys and market intelligence. They also include risk analysis and sensitivity analysis in order to model how affordability is impacted by stress testing key underlying assumptions. Consideration is also made to the profile of the Council's asset base - and how effectively risk is spread across different asset types and sectors. Further detail on the management of this specific risk is set out in **Appendix 9**.

6.5 Knowledge and skills

6.5.1 The Finance Team has responsibility for preparing and on-going management of the capital and treasury management strategies and capital programme. The team is staffed by professionally qualified accountants with extensive Local Government finance experience. Team members attend all relevant training courses, workshops and events to ensure that their knowledge and skills are up to date and the Council is in a position to address all new technical developments. The overall responsibility for capital and treasury activities lies with the Council's Section 151 officer who, in accordance with statue, is professionally qualified and is suitably experienced to hold the post.

6.5.2 The Council provides training to Members on an annual basis, which is delivered by Council Officers and external advisors. Members are updated on developments and any issues of significance throughout the year with information presented to the Audit and Risk Committee (responsible for Treasury Management), Cabinet (responsible for the Capital Programme) and at Cabinet Member briefings.

6.5.3 The Council uses Link Asset Services, Treasury Solutions as its external Treasury Management advisors. The Council recognises that it is essential to engage with external providers of Treasury Management services in order to acquire access to specialist skills and resources.

6.5.4 When looking at commercial activity transactions, officers from relevant professional disciplines from across the Council are involved in conducting due diligence exercises. Alongside the internal teams the Council also uses where appropriate external advisors to complete the due diligence process.

6.6 Internal audit

6.6.1 Independent assurance as to the effectiveness of controls in this area is also provided as part of the Council's risk based Internal Audit Plan.

6.7 Summary

6.7.1 The Council's Chief Finance Officer (Corporate Director Resource) has reported explicitly on the deliverability, affordability and risk associated with Capital Strategy as set out above.

Appendices

Appendix 1

Resource planning and prioritisation - additional funding bid form

This form is designed to ensure consolidation and consideration of significant new and emerging pressures and savings opportunities that CLT and members will need to be aware of when compiling and approving budgets for 2019/20 and future years. As such, it is an integral part of the Resource Planning and Prioritisation process.

Any new or potential service developments or external factors impacting upon costs or revenue should be included.

Please note: Pressures on existing budget lines and matters previously budgeted for do not need to be flagged here. Instead these pressures should be flagged as part of the monthly/quarterly financial monitoring process.

Service Team					
Description of pressure/savings opportunity					
Please tick the bid described requires Revenue or Capital funding.	Revenue		Capital		
Indicate below which priority outcomes will be beneficially impacted by the investment approved.					
The prosperity of the district: Investment that will stimulate economic growth.					
Income and efficiency: Investment which promotes the financial stability of the Council.					
Core council services: Investment that will empower our staff to deliver and improve the efficient and effective delivery of services to our community.					
Community assets: Investment that will benefit our communities.					
Indicate the value of the expected additional budgetary requirement (or saving offered) for 2019/20 and beyond.	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**

Completed by ....

Appendix 2 - Medium Term Financial Plan

	2018/19		2019/20	2020/21	2021/22	2022/23	2023/24
	Original	Revised	Estimate	Projected	Projected	Projected	Projected
	£000	£000	£000	£000	£000	£000	£000
Cabinet Expenditure							
Business Transformation	1,444	1,461	1,659	1,658	1,651	1,669	1,690
Community Services	3,648	3,805	4,048	4,233	4,419	4,157	4,235
Democratic and Regulatory	750	733	865	863	873	880	896
Corporate	4,116	3,120	3,284	3,149	3,284	3,459	3,692
Planning and Business Enterprise	(462)	(671)	(799)	(865)	(795)	(904)	(989)
Welfare Services	520	146	363	403	440	468	567
	10,016	**8,594**	**9,420**	**9,441**	**9,872**	**9,729**	**10,091**
Other Service Expenditure							
VAT refund	0	(1,341)	0	0	0	0	0
Enterprise Zone spend	3,354	3,096	3,423	3,495	3,495	3,567	3,750
Total other service expenditure	**3,354**	**1,755**	**3,423**	**3,495**	**3,495**	**3,567**	**3,750**
Total Service Expenditure	**13,370**	**10,349**	**12,843**	**12,936**	**13,367**	**13,296**	**13,841**
Capital Financing and Treasury							
Investment Income	34	(85)	(72)	(35)	(28)	(17)	0
Borrowing Costs	2	0	150	294	287	281	274
Minimum Revenue Provision	194	146	165	159	148	229	236
Depreciation included in Cabinet estimates	(653)	(619)	(667)	(667)	(667)	(667)	(667)
	(423)	(558)	(424)	(249)	(260)	(174)	(157)
Net Expenditure	**12,947**	**9,791**	**12,419**	**12,687**	**13,107**	**13,122**	**13,684**
Funding:							
New homes bonus	(735)	(735)	(515)	(341)	(401)	(375)	(375)
Net Retained Business rates	(3,515)	(2,855)	(3,125)	(2,228)	(2,416)	(2,617)	(2,828)
Enterprise Zone	(3,354)	(3,096)	(3,423)	(3,495)	(3,495)	(3,567)	(3,750)
	(7,604)	**(6,686)**	**(7,063)**	**(6,064)**	**(6,312)**	**(6,559)**	**(6,953)**
Demand on collection fund/ Council Tax Requirement	**(4,169)**	**(4,169)**	**(4,393)**	**(4,552)**	**(4,717)**	**(4,887)**	**(5,064)**
Total external funding	**(11,773)**	**(10,855)**	**(11,456)**	**(10,616)**	**(11,029)**	**(11,446)**	**(12,016)**
Forecast Annual Surplus / (Deficit)	**(1,174)**	**1,064**	**(963)**	**(2,071)**	**(2,078)**	**(1,676)**	**(1,668)**
Total funding	**(12,947)**	**(9,791)**	**(12,419)**	**(12,687)**	**(13,107)**	**(13,122)**	**(13,684)**
General revenue reserves							
Opening Balance 1 April	6,382	6,873	7,937	6,918	4,686	2,339	290
Forecast Annual Surplus / (Deficit)	(1,174)	1,065	(963)	(2,071)	(2,078)	(1,676)	(1,668)
Less Transfers to Earmarked Reserves		0	(56)	(160)	(270)	(373)	(373)
Closing Balance General Revenue Reserves 31 March	**5,208**	**7,937**	**6,918**	**4,686**	**2,339**	**290**	**(1,752)**
Tax Base	**37,785**	**37,785**	**38,090**	**38,323**	**38,556**	**38,789**	**39,022**
Council Tax at Band D	**110.34**	**110.34**	**115.34**	**118.79**	**122.34**	**126.00**	**129.77**
Increase at Band D (%)				**2.99%**	**2.99%**	**2.99%**	**2.99%**

Appendix 3 - Commercial Asset Strategy

Appendix 3 - Commercial Asset Strategy

1.0 Introduction

The Council has for a number of years had an Asset Strategy, targeted towards investment in acquisitions that generate new ongoing income streams in support of achieving the Council's ambition of being self-sufficient. It is timely now to refresh the strategy in light of the CIPFA Prudential Code for Capital Finance in Local Authorities and the requirement for authorities to prepare a "Capital Strategy" and this Commercial Asset Strategy is directly linked and feeds into the Capital Strategy.

2.0 Strategic context

The Council Plan 2016/20 sets out our strategic direction with the key aim of ensuring 'A Skilled and Prosperous District'. The Council's E&I Route Map delivery aims to maximise income and efficiency opportunities focusing on developing our existing land, commercial properties and acquisitions that generate new additional income that will contribute to the local economy.

The Council recognises that asset management and investment is critical to the delivery of efficient and effective services. The effective use of Council owned property and assets can contribute to the local economy and act as a catalyst for investment and strengthen the prosperity of the district.

This Commercial Asset Strategy focuses on investment acquisitions and development and underpins the framework for how the Council will manage the use of its assets into the future. The Strategy sets out the organisational arrangements for implementing and developing the Strategy.

2.1 Aims and objectives of the strategy

The aim of this strategy is to realise the benefits of the effective management of investments, which include:

- Creating a balanced portfolio of assets that minimises management costs and resources.
- Increases returns and create new additional revenue income streams.
- Adopting an approach of balancing risk and reward.
- Supporting the delivery of the E&I Plan objective to ensure financial stability for the council, delivering a balanced budget for a three year period in our Medium Term Financial Strategy, growing to five years by 2020.
- Supporting the local economy.

3.0 Governance

3.1 The strategic approach to acquisitions/investments

Stage 1 - High level assessment by Officers Group led by Assistant Director Enterprise and Growth.

Stage 2 - Officer group recommendation to proceed to offer to Corporate Director Commercial and Resource.

Stage 3 - Recommendation for decision to proceed to offer for Leader and Chief Executive.

Stage 4 - Negotiation and full due diligence completed by Officers Group.

Stage 5 - Final recommendation to Leader and Chief Executive to purchase.

Stage 6 - Asset Scrutiny Panel to check and challenge.

Stage 7 - Individual decision of Leader of the Council.

This strategy will form the basis on which any investment decisions are made and the above sets out the decision making process.

An Operational Officers Group will carry out an initial high level assessment and desk top valuations of any investment opportunity. Key criteria for the assessment will include:

- The investment will help deliver against the Council Plan objectives;
- The target market is investments in the £1 millon to £5 millon range to maximise on the opportunity and not compete with the high end investors such as Pension Funds and Life Assurance funds; however, this will not preclude evaluations being completed of investments outside of this range.
- Acquisition type: Good quality commercial property in traditional sectors, i.e. retail office and industrial, to ensure a mixed portfolio is achieved.
- Priority to investments within the boundary of the district or within the surrounding areas of economic benefit.
- The assessment will cover an initial financial appraisal, any legal constraints and use of any market intelligence available.
- The Corporate Directors for Commercial and Resources will receive proposals and act as a catalyst for making recommendations to proceed to offer to the Leader and Chief Executive.

Following a positive decision, an offer will be made to the property owners/agents subject to checks being carried out e.g. disclosure of freehold title, the property being clear of any onerous restrictions, full structural, mechanical and electrical surveys.

Monitoring and reporting of progress

A Members Asset Scrutiny Panel provides an ongoing check and challenge for investment and development opportunities and receives progress reports.

3.2 Strategic alignment with other council policies

As with any strategy, there is a need to be mindful of other work-streams and Council priorities. At South Staffordshire Council these include:

- Treasury Management Strategy - will ensure compliance with approved borrowing levels.
- Capital Strategy - will set the long term context in which capital expenditure and investment decisions are made in a sustainable way.
- Procurement Plan - this plan will be utilised for any procurement arrangements and ensuring best value is achieved.

4.0 The purpose of the Strategy

4.1 Definition of an acquisition

This strategy will apply to all acquisitions of land and property and for the purpose of this strategy an acquisition is defined as acquiring a legal interest in land and property by the taking of a freehold, leasehold or license in land and property for investment purposes.

The Council is committed to understanding how the performance of its assets contributes to satisfaction levels of its customers. It will use this information to ensure that its assets remain fit for purpose and continue to deliver accessible services that meet the needs of the community. This is against a background of changing service requirements and rising levels of public expectation.

4.2 Value for money

The Council will ensure that any acquisitions deliver value for money in terms of service benefit, operating costs and financial return from its assets. The Council will continually challenge whether its assets are required, are fit for purpose, and contribute to the delivery of the Council's priorities.

4.3 Innovation

The creative use of Council assets can act as an effective driver for change. The Council has an excellent track record of delivering through a partnership approach and continues to seek new opportunities for collaboration with other public authorities, third sector and private sector.

By attracting private sector financing and sharing some of the risks, these innovative ways of working may allow the Council to progress ambitious, large scale plans that were previously considered unaffordable or too long-term.

4.4 Data management

In all cases where an acquisition occurs, arrangement will be made to ensure that details are recorded in the Council's Asset Management and financial records. Where appropriate a review of the Council's Business Rate liabilities and insurance requirements will be instigated.

4.5 Compliance with statutory requirements

The Council will ensure that all acquisitions are safe and they fully comply with all statutory obligations, e.g. health and safety (including asbestos and water safety).

4.6 Compliance with contractual obligations

The Council will endeavour to ensure that it complies with its leasehold obligations, including building repairs. It will be pragmatic in its approach and seek to ensure value for money in all of the work undertaken.

4.7 The environment/sustainability

The Council is keen to minimise the adverse impact that its activities may have on the environment. It is committed to reducing energy consumption and carbon emissions from acquisitions and any developments adopting sustainable forms of construction.

4.8 Approach to disposal

Linked to the acquisitions is the potential for disposal of assets, the key drivers of this approach include:

- Obtaining capital receipts, which can be reinvested in new acquisitions.
- Clearly defining surplus and under-used property and asset rationalisation.
- Identification of potential development and disposal opportunities that may deliver wider redevelopment benefits or windfall capital receipts or revenue. This may include working in partnership with a developer partner.
- Pro-active disposal of small landholdings that may be a maintenance liability, provided that the proposed uses are in line with the Council's Local Plan 'The Core Strategy'.

5. Conclusion

This strategy has been refreshed to reflect latest guidance and our previous performance on delivering against the Council's Asset Strategy, the strategy will focus on acquisitions, development of existing assets and reviewing the long term future of legacy assets underpinning the framework for how the Council will manage the use of its assets into the future. It should be considered as a live document and as such will be reviewed at such a time when a substantive change to the current approach to the management of property assets is needed.

The Accounting Policies which inform the Financial Statements of the Council are in accordance with statutory provisions and the Code of Practice on Local Authority Accounting in the United Kingdom issued by the Chartered Institute of Public Finance and Accountancy (Cipfa) which adopts relevant International Financial Reporting Standards (IFRS).

The key accounting policies applicable to South Staffordshire, and any specific policies adopted where local discretion can be applied are subject to approval by Audit Committee.

The full accounting policies are contained within the notes to the Core Financial Statements to the Final Accounts. Those polices related to the recording and financing of capital expenditure are reproduced from the 2017/18 Accounts below.

Capital grants and contributions

Where no grant conditions exist or conditions have been met, capital grants and contributions are credited to Taxation and Non Specific Grant Income in the Comprehensive Income and Expenditure Statement. The balance of the grant or contribution that has not been used to finance expenditure is transferred to the Capital Grants Unapplied Account via the Movement in Reserves Statement. The amount of the grant or contribution that has been used to finance expenditure is transferred to the Capital Adjustment Account via the Movement in Reserves Statement. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account when they have been applied to fund capital expenditure.

Where grant conditions exist and have not initially been met, the grant is recognised in the Capital Grants Receipts in Advance Account. When grant conditions have been met, the grant is then recognised in the Comprehensive Income and Expenditure Statement and transferred via the Movement in Reserves Statement to the Capital Adjustment Account. If the grant conditions are not and/or are unlikely to be met then the grant will be repaid.

Grants and contributions attributable to Revenue Expenditure Funded from Capital under Statute (REFCUS)

Where conditions have been met these grants and contributions are credited to the relevant service line in the Comprehensive Income and Expenditure Statement. The balance of the grant or contribution that has not been used to finance expenditure is transferred to the REFCUS Grants Unapplied Account via the Movement in Reserves Statement. Amounts in the REFCUS Grants Unapplied Account are transferred to the Capital Adjustment Account when they have been applied to fund expenditure.

Heritage assets

Heritage assets are defined as assets which have historical, artistic, scientific, technological, geographical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. They are initially recognised at cost if this is available. If cost is not available, values are only included in the balance sheet where the cost of obtaining a valuation is not disproportionate to the benefit derived. For the Council's heritage assets insurance valuations are used. The Council has adopted a £10,000 de minimis threshold. Where no market exists or the asset is deemed to be unique, and it is not practicable to obtain a valuation, the asset is not recognised in the balance sheet but disclosed in the notes to the accounts.

Heritage assets are depreciated over their useful life if this can be established. If an asset is considered to have an indefinite life, no depreciation is charged. Disposals, revaluation gains and losses and impairments of heritage assets are dealt with in accordance with the Council's policies relating to Property, Plant and Equipment (PPE). The cost of maintenance and repair of heritage assets is written off in the year incurred.

Impairment

Assets are reviewed for impairment at the end of each reporting period. Examples of impairment include: a significant reduction in a specific asset's value and evidence of physical damage (e.g. fire damage).

The amount of impairment is charged to the Revaluation Reserve to the extent that the impairment does not exceed the amount in the Revaluation Reserve for the same asset. Thereafter the impairment is charged to the Surplus/Deficit on the Provision of Services.

This charge is reversed out through the Movement in Reserves Statement to the Capital Adjustment Account.

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. It is controlled by the Council as a result of past events and future economic or service benefits flow to the Council from the intangible asset. The most common type of intangible asset is computer software licences.

Intangible assets are carried at cost less accumulated depreciation and any impairment. The intangible asset is amortised over its estimated useful life to the relevant service line in the Comprehensive Income and Expenditure Statement. This amortisation is reversed in the Movement in Reserves Statement and a transfer made to the Capital Adjustment Account.

An intangible asset is derecognised on disposal. Gains or losses arising from the disposal are recognised in the surplus/deficit on the Provision of Services.

Non-Current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than its continued use, it is reclassified as an asset held for sale.

Assets held for sale are:

- Available for immediate sale in its present condition.
- Those where the sale is highly probable.
- Actively marketed.
- Expected to be sold within one year of the date of classification.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and the fair value less costs to sell. Where this results in a loss in value, this loss is posted to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement. Once an asset is classed as held for sale it is no longer depreciated.

If assets no longer meet the classification as assets held for sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale (adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classed as held for sale) and their recoverable amount at the date of the decision not to sell.

Property, Plant and Equipment (PPE)

Property, Plant and Equipment assets have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis (e.g. land and buildings).

Expenditure on the acquisition, creation and enhancement of PPE has been capitalised on an accruals basis provided that it yields benefit to the Council and the services it provides for more than one financial year. Expenditure on maintenance is charged to revenue as it is incurred.

PPE are initially shown on the balance sheet at cost, comprising the purchase price, all expenditure that is directly attributable to bringing the asset into working condition for its intended use and the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located.

The assets are then revalued using methods of valuation on the basis recommended by CIPFA and in accordance with the guidance notes issued by the Royal Institution of Chartered Surveyors (RICS).

- Land and buildings and other operational assets are valued at current value. Where sufficient market evidence is not available current value is estimated at depreciated replacement cost, using the modern equivalent asset method.
- Short life assets, such as vehicles, are held at depreciated historical cost as a proxy for current value on the grounds of materiality.
- Community assets and infrastructure are valued at historical cost net of depreciation.
- Assets under construction are held at historical cost until brought into use.
- Investment properties and surplus assets – current value, determined by the measurement of the highest and best use of the asset.

Revaluations of property are planned at five yearly intervals unless there has been a material change in the value (ascertained by an annual impairment review). Valuations are undertaken with a valuation date of 31 March.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. In exceptional circumstances, where the increase is reversing a previous impairment loss charged to the surplus/deficit on the Provision of Services on the same asset or where the increase is reversing a previous revaluation decrease charged to the surplus/deficit on the Provision of Services on the same asset the increase in valuation is credited to the Comprehensive Income and Expenditure Statement.

Where decreases in value are identified and there is a balance of revaluation gains in the Revaluation Reserve relating to the asset, the value of the asset is written down against that balance (up to the amount of the accumulated gains). Where there is no or insufficient balance in the Revaluation Reserve, the value of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement. Where revaluation gains or losses are credited or charged to the Comprehensive Income and Expenditure Statement, they are reversed in the Movement of Reserves Statement to the Capital Adjustment Account. The Revaluation Reserve contains gains recognised since 1 April 2007 only, the date of its formal implementation. Revaluation gains arising before that date are included in the Capital Adjustment Account.

De-recognition of property, plant and equipment

An item of property, plant or equipment is derecognised by disposal or when no future economic benefit or service potential is expected from its use. The carrying amount of the asset in the balance sheet is written off to Other Operating Expenditure within the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Sale proceeds from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal. Any revaluation gains on the Revaluation Reserve, for assets disposed of or decommissioned, are transferred to the Capital Adjustment Account.

Income from asset disposals in excess of £10,000 is classed as capital receipts. The balance of capital receipts is credited to the Capital Receipts Reserve and used to fund new capital expenditure or repay debt. The written off value of disposals is reversed through the Movement in Reserves Statement to the Capital Adjustment Account.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Revenue Expenditure Funded from Capital under Statute (REFCUS) is expenditure of a capital nature that does not result in the creation of a long-term asset on the balance sheet. These are generally grants and expenditure on property not owned by the Council. Expenditure is charged to the surplus/deficit on the Provision of Services as the expenditure is incurred. This is reversed out through the Movement in Reserves Statement and a transfer made to the Capital Adjustment Account.

Appendix 5 - Due diligence tools (Commercial Asset Strategy)

Criteria	Measure			Result	Evidence/additional considerations or matters to be resolved prior to completion of sale
Financial Characteristics					
Price	Comparison with independent Red Book valuation			TBC	
Purchase costs	Within industry norm			TBC	
Financial Return (RAG rated)	Range				
(return over the short to medium term – impact on MTFS)	If > or = 5% Or If > 2.5% but < 5% and strongly supports Council Plan priorities	If > 2.5% but < 5% And supports Council Plan priorities	If < 2.5%	0.00%	To determine whether strongly supports council plan priorities
Net Present Value of investment	If negative (inflows –ve)		If positive (outflows +ve)		
Internal Rate of Return (return over the long term life of the asset)	If > cost of capital by more than 3%	If > cost of capital by 3% or less	If > cost of capital		
Pay Back	< or = 15 years	>15 but < or = 20 years	>20 years		
Stress test/tipping point	If > 50% value of covenant	If 50% or less than covenant but > 30%	If > 30% of covenant		
Impact on MTFS (£)	Annual contribution to funding gap			0	
Financial Standing summary/ appraisal of company accounts	If > 60% or between 50% and 60% with 12 month or greater covenant	If > 50% but < 60% and less than 12 months covenant	If < 50%	TBC	To determine via next step Covenant subject to legal confirmation
Credit Score	Annual contribution to funding gap			TBC	Experian credit report @ dd/mm/yy
Treasury Management					
Complies with capital approval	Complies			Yes	Accommodated within existing approval – Balance of fund available before current investment £XXm
Impact on corporate cash flow					
Within operational boundary	Complies			Complies Y/N	Within current approved prudential indicator
Within authorised limit	Complies				
Liquidity concerns	No liquidity concerns			Liquidity concerns Y/N	Short term cash flow met from existing call account facility or other
Exit Strategy	Identified and evaluated exit strategy that doesn't jeopardise MTFS			Acceptable Y/N	TBC FOLLOWING NEXT STEP
Lease accounting classification	Operating lease not finance lease			Operating lease	Subject to confirmation following preparation of lease
Opted to Tax	VAT on acquisition recoverable and no adverse impact on partial exemption position			VAT on acquisition recoverable, option to tax will be exercised	
Property Characteristics					
Location of property	In district or clearly supports local economy			Yes	
Property category	Supports balanced, but diverse portfolio (Commercial, office, industrial, leisure, retail)			Yes	
Situation	Prime/secondary/tertiary Established office/industrial location				
Tenure	Freehold or long leaseholds			Freehold	
Occupation	Single occupier with good covenant	Multi-let	Vacant	Multi-let	Legal confirmation sought
Condition (including life)	Good condition or price to properly reflect work required		Significant concerns raised impacting on life, value or potential return from the property	Details of condition survey, asbestos reports etc.to be included	
Environmental factors	Flood risk, conservation area etc.			TBC	
Planning	Use conforms to planning consents			TBC	Legal confirmation sought
Energy Performance Certificate	To assist with future-proofing the EPC must have an existing rate of at least D or details must be provided of cost of works required			TBC	Details of Energy Performance Assessment
Title Check				TBC	
Legal Issues	Any identified issues (including permitted use) and tenant check (company and Directors)			TBC	
Property Characteristics					
Rent	At or above market rent (value to take account of pre 2008 over rented properties)			TBC	Independent valuer
Income flow	Generally 5 years + to lease renewal/tenant break option			TBC	Subject to legal confirmation following preparation of lease/sale contracts
Rent review	Upward only, preferably at market standard frequency			TBC	
Repairs	Full repairing and insuring lease (property policies through Council insurers)			TBC	
Other Council priorities					
Council Priorities					
Site of strategic value	Has significant strategic value			Not relevant	Details

Appendix 6 - Capital Strategy - Annual Report template

1. Update On Asset Base

Include updated analysis of the Council's capital asset base.

2. Expenditure in year v planned (link to priorities)

Include here a summary of capital expenditure in year. Explain key variances of actuals v budget. Summarise how capital spend links to the Council's priorities. Identify any key issues.

3. Commercial assets

Include here an analysis of the Council's commercial assets, valuations and income streams.

4. Commercial acquisitions decisions in year

Include here an overview of acquisition decisions.

Asset	Sector	Cost	Return	Decision	Comments

5. Performance of commercial assets

Asset	Income	Direct cost	Sink fund	Planned net incomes*	Net income	Void rate

*Per business case (adjusted for centrally held costs – MRP/Interest)

6. Condition assessment

Asset	Condition	Issues and action

7. Funding of Capital Expenditure

Include here an analysis of borrowing levels, MRP and borrowing costs

	Actual	Planned	Variance	Comments
Borrowing				
MRP				
Interest				

8. Risk management

Include summary critical risk management actions undertaken during the year.

9. Conclusions

Include here any recommendations regarding future capital programme and sink fund contributions.

Include here recommendations regarding potential disposal decisions.

Appendix 7 - Capital programme

Summary of Capital Investment Plans	Revised Budget 2018/19	Budget 2019/20	Budget 2020/21	Budget 2021/22	Budget 2022/23	Budget 2023/24	Total
	£	**£**	**£**	**£**	**£**	**£**	**£**
Corporate Services							
Asset Strategy - Four Ashes development	1,800,000	1,836,000					3,636,000
Asset Strategy - Wombourne development	2,800,000	4,400,000					7,200,000
Codsall Community Hub	700,000	4,608,000	4,609,000				9,917,000
Income generation initiatives	52,100						52,100
I-Trent upgrade		20,000					20,000
Capital loans	25,000	25,000	25,000	25,000	25,000	25,000	150,000
	9,447,400	**10,889,000**	**4,634,000**	**25,000**	**25,000**	**25,000**	**25,045,400**
Business Transformation							
Replacement of workstations	70,800	100,000	25,000	25,000	45,000	45,000	310,800
Windows data centre license	4,100						4,100
Storage area network server	81,000						81,000
Pulse Secure licences	18,000						18,000
Wireless access points	16,000						16,000
ICT requirements (subject to business case)	0	144,000	74,000			161,000	379,000
	189,900	**244,000**	**99,000**	**25,000**	**45,000**	**206,000**	**808,900**
Welfare Services							
Renovation and Disabled Facilities Grant	1,403,594	764,000	764,000	764,000	764,000	764,000	5,223,594
	1,403,594	**764,000**	**764,000**	**764,000**	**764,000**	**764,000**	**5,223,594**
Community Services							
Street Scene grounds maintenance vehicles	50,000	40,600					90,600
Street Scene vehicles/plant (subject to business case)			269,900	106,500	74,400	104,900	555,700
10 Year Leisure Centre cardiovascular renewal programme	10,600	73,600	74,000	68,000	97,000		323,200
Leisue Centre Indoor Cycling renewal scheme		20,000	18,800	28,600	12,400		79,800
Leisure Centre resistance equipment replacement scheme		98,500	41,800				140,300
Leisure Centre air conditioning (subject to business case)		32,500					32,500
Leisure Centre refurbishment (subject to business case)		1,080,000	490,000	400,000			1,970,000
Wombourne Leisure Centre - 3G Pitch	21,400	430,000					451,400
S106 Baggeridge Country Park play equipment							0
Baggeridge Country Park - play equipment (subject to business case)		200,000					200,000
	82,000	**1,975,200**	**894,500**	**603,100**	**183,800**	**104,900**	**3,843,500**
Planning							
Other housing - Regional Housing Board	52,100	94,900					147,000
	52,100	94,900	0	0	0	0	147,000
Grand total	**11,174,994**	**13,967,100**	**6,391,500**	**1,417,100**	**1,017,800**	**1,099,900**	**35,068,394**
Financing							
Capital receipts	153,649	615,600	300,600	177,200	253,800	180,000	1,680,849
Capital Grants - Disabled Facilities Grant Better Care Fund	1,227,545	764,000	764,000	764,000	764,000	764,000	5,047,545
Capital Grants - Regional Housing Board	52,100	94,900					147,000
Section 106 funding	21,400	70,000					91,400
Revenue contributions (EMR for Wombourne EP)	300,000						300,000
Leased expenditure	50,000	118,600	227,900	75,900		155,900	628,300
Borrowing	9,370,300	12,304,000	5,099,000	400,000			27,173,300
	11,174,994	**13,967,100**	**6,391,500**	**1,417,100**	**1,017,800**	**1,099,900**	**35,068,394**

Appendix 8 - Flexible use of Capital Receipts Strategy

As part of the Local Government Finance Settlement (LGFS) in March 2016, the Secretary of State for Housing, Communities and Local Government provided Local Authorities with the opportunity to use capital receipts to fund the revenue costs of transformation. This flexibility was then extended to 2021/22 as part of the 2018/19 LGFS.

The flexible use of capital receipts is designed to offset the revenue cost of transformational projects which are expected to deliver future ongoing revenue savings for either the Council or other public sector delivery partners.

In order to take advantage of the change of use to capital receipts, the Council must act in accordance with the statutory guidance issued by the Secretary of State. This guidance requires the Council to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy.

Qualifying expenditure

Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.

Projects

There are currently no projects in place that plan to make use of the capital receipts flexibility.

Should this change, details of the expected savings/service transformation will be provided to full Council alongside the impact on the Council's Prudential Indicators.

Appendix 9 - Risk Assessment (assets which generate a return)

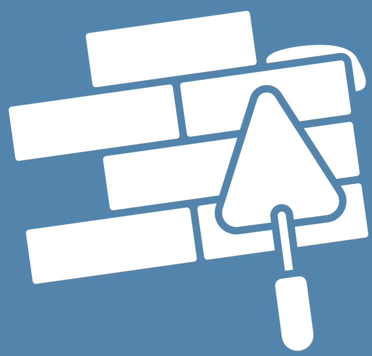
Risk	Mitigation	Residual risk
The costs of maintaining the asset are understated.	Agency, legal costs, management costs, debt servicing (and repayment) and insurance costs are included in the financial assessment as are any other known commitments. The condition of the property is considered and a sink fund contribution is factored into the costings depending on this condition. The Council has experience and expertise in this area.	Unknown costs may materialise that exceed those budgeted including sink fund.
The income streams associated with the asset are overstated. **Void periods are understated.**	Individual decisions are informed by a detailed financial assessment which includes a review of income projections based on current contractual terms. The length of contracts is also considered. A judgement is also made as to a reasonable void period which is flexed depending on the number and type of rental agreements in place. The strength of the market demand for the property is also considered, as is the credit rating status of sitting tenants. The Council has experience and expertise in this area. The assessment of decisions includes consideration of the Council's exit strategy.	There are no guarantees that tenants will remain solvent and/or fulfil their agreements. The market may change (potentially as a result of wider economic issues such as recession, 'Brexit', political uncertainty, world economic factors) which may impact on market rental values. The life of the asset and the period of the financial model typically extends beyond any current contracts that are in place and there is no guarantee that premises will remain let over the period of the financial model/loan.
The (resale) value of the asset is overstated and/or reduces. **The life of the asset is overstated.**	An independent valuation of the property is commissioned as part of the decision making process. The Council also receives advice and market intelligence from its property advisors. The financial assessment includes both interest and repayment of debt.	Resale valuations cannot be guaranteed to increase/remain static. While the cost of loan repayment is modelled within the financial assessment, any desire to sell the asset within the payback period could result in a capital shortfall should the relevant property market valuation decline.
The benefits, improvements and development of the area are overstated.	A relevant economic area has been identified based on what employment (and commuting) data tells us about what drives the prosperity of our communities. Individual acquisition decisions consider the benefit, improvement and development of the area as well as income generation for the authority.	The actual economic impact of acquisitions may be less than anticipated.

Appendix 10 - Commercial Asset condition assessment

REF	Asset	Address	Site Area	Net internal area	Use	Condition	Valuation	Asset Plan	Backlog maintenance
1	**Four Ashes Enterprise Centre**	Latherford Close Wolverhampton WV10 7BY	5,875 m2	1,505 m2	Industrial Units	Units generally in good condition throughout.	£1,195,000 (existing units only)	Expansion project to increase the area of units by 3,325 m2	
2	**Littleton Huntington Business Park**	Littleton Drive Huntington WS12 4TR	6,780 m2	1,532 m2	Industrial Units	Units generally in good condition throughout but some internal repairs required.	£1,160,000	Maintenance of units	
3	**South Staffordshire Business Park**	Hawkins Drive Cheslyn Hay WS11 3XU	5,000 m2	1,634 m2	Industrial Units	Structure of units in good condition but internal and external finishes in need of repair	£1,250,000	Maintenance of units	
4	**Wombourne Enterprise Park**	Bridgnorth Road Wombourne WV5 0AL	14,000 m2	5,610 m2	Industrial Units	Roof to main building in poor condition and needs replacing. Internal finishes and welfare facilities in poor condition. Other buildings in satisfactory condition.		Demolish main building and provide retail units and additional industrial units	Roof replacement, electrical upgrade, replacement of welfare facilities
5	**Heathmill Enterprise Centre**	Heathmill Road South Staffordshire WV5 8AP	1,790 m2	476 m2	Industrial Units	Structure of units in good condition but internal finishes in need of repair	£340,000	Maintenance of units	
6	**Hilton Main Industrial Estate**	Bognop Road Essington South Staffordshire WV11 2BE	3,360 m2	1,161 m2	Industrial Units	Externally the units are in a satisfactory condition. Internally the units are in a fair condition with some repairs required.	£900,000	Maintenance of units	
7	**Landywood Enterprise Park**	Holly Lane South Staffordshire WS6 6BD	14,192 m2	2,524 m2	Industrial Units	Externally the units are in a satisfactory condition. Internally the units are in a fair condition with some repairs required.	£3,500,000	Maintenance of units	

Appendix 10 - Commercial Asset condition assessment

REF	Asset	Address	Site Area	Net internal area	Use	Condition	Valuation	Asset Plan	Backlog maintenance
8	**Jubilee House**	Wolverhampton Road Codsall WV8 1PX	1,012 m2	218 m2	Commercial offices	Fair condition	£300,000	Maintenance of building	
9	**Unit 4E Station Road & Brianolf Site**	Station Road Four Ashes	15,975 m2	5,400 m2	Industrial unit	Fair condition	£2,665,897	Proposed extension of 1,275 m2	
10	**Hinksford Mobile Home Park**		54,633 m2	N/A	Permanent mobile homes	Fair condition	£4,750,000	Maintenance of park	
11	**Units 1-4 Stafford Park 15**	Telford		1,940 m2	Industrial units	Fair condition	£956,108	Maintenance of units	
12	**Element Court**	Hilton Cross Business Park	5,350 m2	1,820 m2	Commercial offices	Good condition	£2,607,110	Maintenance of offices	
13	**Hilton Cross Business Park (2 plots of land)**	Hilton Cross Business Park	48,562 m2	N/A	Industrial units	N/A	£2,661,651	Proposed industrial development	
14	**Baggeridge Country Park**	117 Attingham Dr, Dudley DY3 4HB			Leisure/Cafe			Maintenance of country park	
15	**Station Yard, Wombourne**				Tea Shop/Leisure			Maintenance of buildings	
16	**Council Offices**	Codsall, South Staffordshire WV8 1PX	23,605 m2	7,227 m2 (with proposed v4 new build)	Commercial Offices, GP Surgery, Library, Retail, Cafe	Existing building requires £3.5 million - £5 million investment over next 10 years	£5,875,600	Proposed refurbishment and new build	A number of elements that will be addressed during refurbishment



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