Capital Strategy
2022/23 - 2026/27

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1. Purpose of the Capital Strategy

1.1 The Capital Strategy sets out the key strategic direction for the Councils capital programme. It sets the principles for prioritising our capital investments including the governance, scrutiny, and assurance process that the Council undertakes. It also provides an overview of the asset management process and approach to risk management.

1.2 Capital expenditure is expenditure that results in the acquisition or construction of a fixed asset (land, building, vehicle, equipment) or enhancement of an existing fixed asset

1.3 The requirement for councils to prepare a Capital Strategy is set out in CIPFA's Prudential Code for Capital Finance in Local Authorities (the code). The code has been updated in 2021 and this report has been produced in accordance with the latest guidance.

1.4 The Capital Strategy forms an integral part of the Councils Medium Term Financial Plan. It is fundamental to the Treasury Management Strategy in relation to investment requirements and to the achievement of the Council's key priorities of Prosperous and Vibrant Communities.

1.5 The detailed Capital Strategy within this document spans the years 2022/23 to 2026/27. The Capital Strategy and decisions taken however give consideration to the longer-term strategic impact on the local authority. The Council needs to have a broad idea of the scope and appropriate mix of the asset base it envisages it will need to deliver its services for future generations. The Strategy can be applied as a working document towards this ambition.

1.6 The Capital Strategy informs and is informed by the:

- Medium Term Financial Strategy
- Commercial Asset Strategy
- Annual Treasury Management Strategy and Prudential Indicators
- Annual approved Capital Programme

Links to the current versions of these documents are contained within the Appendices to this report.

1.7 The interconnectivity between the Council Plan and the above documents within the Capital Strategy in turn enable the Council 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 an integral 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 the Capital Strategy

1.8 The Capital Strategy should be viewed as a working document for ongoing decisions including the prioritisation of capital expenditure decisions, the setting of capital budgets, spend and borrowing decisions and how risk is managed.

1.9 The term of this Capital Strategy is 2022/23 to 2026/27 although as detailed in 1.5 above, all the elements included should be seen as integral to an overarching twenty-five-year strategic Capital vision.

2. Council's Asset Base

2.1 Table 1 identifies the Council's Long- term Assets as per the Statement of Accounts for the year ending 31st March 2020/21.

Table 1: Analysis of Council Assets

Description	Commercial	HQ	IT	Street Scene	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Land and Buildings	24,763	5,804			911	**31,478**
Vehicles and Equipment		493	173	72	397	**1,135**
Infrastructure					107	**107**
Community Assets					1,260	**1,260**
Under Construction	4,084	4,483				**8,567**
Civic Regalia					89	**89**
Software			30			**30**
Totals	**28,847**	**10,780**	**203**	**72**	**2,764**	**42,666**

The latest Asset valuations are detailed within the Statement of Accounts. These can be accessed via the link contained within Appendix 2.

2.2 The above table shows that as at 31st March 2021;

- Land and Buildings make up £31.478m of the Council's total asset base of £42.666m. Of this, £24.763m relates to commercial assets that generate a financial return. These assets are valued at existing use value.
- The Council's headquarters were valued at £5.804m but in addition, £4.483m of refurbishment work to the Community HUB was valued according to costs incurred at that date.
- The Council's IT was valued at £0.203m inclusive of software.
- Community Assets were valued at £1.260m. This consists of £0.934m being the value of Cemeteries, £0.064m for Baggeridge Country Park and £0.262m for other playing fields and parks within the Council boundaries.
- Other assets include £0.911m of land and buildings encompassing assets owned by the Council that fall outside of the definition of either Commercial or HQ (Community Hub). These include valuation of Jubilee House and Lane Green Depot.

2.3 Commercial Assets

2.3.1 On the balance sheet, £24.763m relates to existing assets which both generate a commercial return to the Council as well as promoting the Council objectives of Prosperous Communities and Vibrant Communities through the enhanced economic regeneration.

2.3.2 In total, over £14m was approved for the redevelopment at the Four Ashes and Wombourne sites to improve the ability of these sites to enhance local employment generating opportunities, meet ambitious carbon reduction targets and generate commercial rental income. As at 31st March 2021, £5.2m has been spent and included within the balance sheet total in 2.3.1 above.

2.3.3 The completed redevelopment of the Community HUB has fulfilled a major component of the previous Capital Strategy.

2.3.4 The project has secured a long-term presence for the Council in the heart of the district in modern and accessible facilities to the benefit of the whole community. The investment directly meets the Council objectives detailed in 2.3.1 specifically including strengthening relationships with partners across the public, private and third sectors.

2.3.5 There is also a tangible economic benefit. The commercial business case for the investment was predicated on increased opportunities to obtain rental incomes for office space. In achieving this, the capital investment will be repaid at no cost to the MTFS.

2.4 Vehicles

2.4.1 The Council holds 7 vehicles (all contained within the street scene team) on the balance sheet with a net book value of £0.072m. One vehicle supports operations at Baggeridge Country Park and six support the Street Scene service, including 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 more than fifty areas of Public Open Space including parks, amenity space and green corridors, 17 Council Car Parks and 20 areas of surplus land (land not designated for a purpose and assessed as providing little community benefit).

2.5.2 The book value of these assets is £0.262m. Some of these assets have restrictions on their use (for example under s106 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 operates four Leisure Centre sites across the district under a Joint Use Model. The buildings are owned by the County Council or School Academies on a 125-year lease. The Council takes responsibility for managing each facility. Management of the facilities links directly to the Council aim of achieving vibrant and prosperous communities.

2.6.2 In 2021/22, approval was given for significant investment in the Leisure Facilities across the Council. The Capital programme reflects this and will ensure the sites remain competitive and able to continue to raise sufficient income to cover costs and contribute to Council priorities in the medium term.

3 Current Capital Programme

3.1 As Capital projects are approved (or even Earmarked as 'subject to formal approval', they are incorporated into the Capital Programme.

3.2 The Capital programme for the Council details, on a scheme by scheme basis, the budgeted spend for each approved Capital project, and the Capital funding source.

3.3 The current Capital programme for the Council is detailed in included as part of the Medium Term Financial Strategy, a link to which is included as Appendix 4 to this document.

4. Financing the Capital Strategy

4.1 There are a number of distinct sources of funding which can be utilised to finance capital expenditure which are described in this section. Some are ring-fenced and may only be used to finance a particular capital project. Consideration of funding must be made when projects are at the planning stage and always before final approval. Where capital schemes are in multiple phases, perhaps requiring an initial development phase to ensure funding for the final phases, this will be considered as part of the planning stage and clearly reported.

4.2 Capital expenditure can be financed by.

- Capital Receipts
- Earmarked Reserves for Specific Capital Purposes
- Leasing
- Prudential Borrowing
- External Funding
- Section 106 Agreements
- Revenue Financing

4.3 Each of the sources of Capital Financing above is described in detail below.

4.4 Capital Receipts

4.4.1 The sale of assets with a value of more than £10,000 generates income known as capital receipts. Legislation requires these to be spent on either new capital investment or the repayment of existing debt.

4.4.2 Recently updated Statutory guidance offers authorities some flexibility in relation to the application of Capital receipts. Where expenditure is considered to be an investment that offers future savings to the Council, it may be funded via capital receipts (even if not of itself meeting the definition of capital expenditure).

4.4.3 To date South Staffordshire Council has not utilised this flexibility but the option is considered annually as part of setting the forth coming capital programme and MTFS.

4.5 Capital Reserve

4.5.1 Reserves are set aside from revenue resources and earmarked for particular purposes. This can include either a general Capital Reserve, earmarked to finance properly authorised capital schemes or specific capital reserves for specifically identified programmes.

4.6 Leasing

4.6.1 One way of acquiring new assets is to lease. This is commonly used to procure lower value assets that may be below the £10,000 de minimis level for treating as capital expenditure, for example small vehicles or photocopiers. The cost of leasing should always be compared with other means of financing.

4.6.2 The introduction of IFRS16 will discontinue a technical distinction between finance and operating leases. This may increase the Council's Capital Financing Requirement by increasing the property, plant and equipment assets which are held through a lease arrangement and generating benefits to the Council. The principal element of the lease payments would be recognised as a corresponding liability. There should be no impact on the costs to the Council or cash flows with only presentational and compliance changes apparent.

4.7 Prudential Borrowing

4.7.1 The Council is able to borrow money on the money market or from the Public Works Loans Board (PWLB) for the funding of Capital Schemes and it is this method of funding which the Council has utilised for its current Capital programme.

4.7.2 Where such borrowing is undertaken, the Council will have to fund the repayment and interest costs, the former via a calculation known as the Minimum Revenue Provision. Interest costs will be determined by the timing and length of the borrowing undertaken and prevailing PWLB (or if chosen, alternative funding sources) at the time.

4.7.3 The Council is only able to borrow for prudential borrowing under guidance contained in the Cipfa Prudential Code whereby in summary, the Council is required to ensure that all borrowing is both prudent and affordable. All schemes funded from prudential borrowing are approved by Full Council.

4.7.4 The Treasury Management Strategy approves a limit for affordable borrowing and capital schemes need to be considered in the light of this approved limit.

4.7.5 The Prudential Code requires Council's to state that it will not undertake capital investments that are primarily for financial return and finance them with borrowing. For this reason, it is important that all capital schemes are appraised with a view to their impact on the Council priorities of vibrant and prosperous communities alongside any financial returns that may be forecast.

4.8 External Funding

4.8.1 Capital Grant from Government or Government Agency

4.8.2 Central government and government agencies provide capital grant funding that can be either ring-fenced or non-ring fenced. Disabled Facilities Grants are the primary example of ring-fenced grant funding that the Council receives.

4.8.3 Section 106 Agreements

4.8.4 Developer consents may attract Section 106 funding which is then required to be spend on a particular asset of site as conditions arising out of the overall development.

4.9 Revenue Contributions

4.9.1 Services that are leading on a capital project may make savings within their revenue budgets during a particular year and in some circumstances use that saving to part or even fully fund a capital project.

5. Asset Management Strategy

5.1 The Council objectives cannot be achieved by simply acquiring assets to the capital base. Such assets need to be effectively managed and maintained to ensure they continue to realise their potential. Their value should also be regularly assessed to ensure they remain viable.

5.2 The active asset management planning process is set out in a separate document covering the Asset Management Strategy of the Council. This includes an ongoing review of the asset requirements of the Council and to identify any surplus assets which may be sold to generate capital receipts and in turn, finance future capital expenditure (or the generation of revenue savings in accord with the flexibilities detailed in 4.4.1).

5.3 In addition, Asset Management would include a detailed, regularly assessed and funded programme of maintenance to ensure the condition of the asset base is maintained.

5.4 A link to the Asset Management Strategy which compliments the Capital Strategy is included as Appendix 1 to this report.

6. Links to the Treasury Strategy and Minimum Revenue Provision

6.1 The Capital Strategy of the Council shall inform and be informed by the Treasury Strategy.

6.2 Of particular relevance to the Capital Strategy is the Treasury Strategy, as approved by the Audit and Risk Committee a link to which is included in Appendix 3 to this document. This strategy sets out the Minimum Revenue Provision policy for the Council which details the amount of revenue provision the Council sets aside each year to ensure any borrowing undertaken to fund the Capital programme can be repaid.

6.3 The Minimum Revenue provision in effect ensures that Councils have the ability to repay borrowing as and when payments become due. Local Authorities are required to set a policy in respect of their own MRP calculation. Options are available provided a prudent provision is made.

6.4 For South Staffordshire the current policy is.

- MRP will be based on the estimated life of the assets, in accordance with the regulations.

6.5 It should be noted that the MRP provisions are distinct from the contractual requirements to repay lenders on terms agreed. However, setting aside the MRP ensures funds are available to repay loans as and when they are due.

6.6 As in practice, the main element of the Capital programme is investing in long-term assets (for example, the Community Hub, Four Ashes Enterprise Park, Wombourne Enterprise Park) this enables the provision for repayment of borrowing (as it pertains to each asset) to be effectively spread over each asset's life.

6.7 The Minimum Revenue Provision as incorporated in the MTFS approved by Full Council annually. Further details and a link to the approved MTFS is included as Appendix 4 to this document.

7. Appraisal of new Capital Schemes

7.1 Best practice guidance in appraising and evaluating proposed Capital Schemes is issued by HM Treasury in a document referred to as the Green Book:

Link to Treasury Green Book

7.2 The basic questions that all business cases for approval should answer are.

- **The Strategic Case (is the proposal needed)**
  Will it further the priorities as detailed in the Council Plan
  (including Corporate and social responsibilities).
  Is there a clear case for change?

- **The Economic Case (Is it value for money)**
  Have a range of options been considered
  Does the preferred option achieve the best balance of cost, benefit and risk?

- **The Commercial Case (Is it viable)**
  Is there a supplier who can meet our need?
  Can we secure a value for money deal?

- **The Financial Case (Is it affordable)**
  Are the costs affordable and realistic?
  Is there funding available and is it supported?
  Is there a clear payback?

- **The Management Case (Is it achievable)**
  Are we capable of delivering the project?
  Do we have robust systems and processes in place?

7.3 South Staffordshire adheres to the Green Book principles in ensuring that.

7.3.1 A clear business case which is affordable and links to the Council priorities.

7.3.2 Revenue consequences of capital decisions (in the form of interest payable, impact on the MRP, revenue costs, savings and income streams arising) to be fully identified, incorporated in the MTFS and affordable.

7.3.3 Appropriate management of the asset condition is considered and incorporated into the Commercial Asset Strategy.

7.3.4 To reduce reliance on prudential borrowing, appropriate steps are taken to maximise and leverage external funding where practical and possible.

7.3.5 Decisions regarding assets which generate a return consider relative risk and reward and are managed in line with the Council's Commercial Asset Strategy including the associated due diligence and governance.

7.3.6 Capital decisions are proportionate and risks are robustly managed. This can include spreading the risk by working in partnership.

7.4 The due diligence test detailed in 6.1 above ensures that schemes are financially viable, whilst also considering their wider impact on Council priorities. Table 6 below summarises the key financial considerations and definitions.

Table 6, Financial appraisal

Measure and Definition	Presume Acceptable	Mid-range. Non-financial factors become significant	Presume Unacceptable
Net Present Value (£) Cash flows, both positive and negative relevant to the scheme are discounted to present value to take into account a given cost of capital.	A net present value greater than zero indicates a worthwhile project in financial terms		A net present value less than zero indicates a project that will be a burden on the MTFS
Internal Rate of Return (%) This is effectively the cost of capital as a %ge that would generate a NPV of zero. Similar in concept to NPV but gives a sense of headroom.	If the calculated IRR is greater than the cost of capital +3% there is significant headroom	A calculated IRR between 0 and the cost of capital is technically viable but riskier. Other factors significant in decision.	If calculated IRR is less than the cost of capital, project will be a burden on the MTFS
Pay Back The time in which expected cash flows can be expected to repay the capital investment	Less than fifteen years is considered reasonable and relatively risk free	Fifteen to twenty years is considered viable, but subject to some risk and uncertainty. Other factors significant.	More than twenty years is considered risky and subject to uncertainty, even if IRR and NPV positive

7.5 The cost of capital for capital investment appraisal purposes shall be determined by Audit and Risk Committee annually as part of approving the Treasury Management Strategy but may be revisited during the interim during periods of volatile interest rates.

7.6 **Disposal of Assets**

7.7 A similar robust approach shall be undertaken in assessing disposal decisions. Factors to consider include:

- Current condition of the asset, cost of maintenance and sustainability considerations
- The contribution the asset makes to Council priorities
- The Capital receipt achievable and comparative costs/ incomes foregone of continued investment in the asset as opposed to investing the receipt in alternative opportunities.
- Broader risk management considerations to include any benefits associated with increasing or decreasing the Council's Asset base in any particular area/ sector.

8. Affordability, Delivery, Governance and Risk

8.1 Affordability

8.2 The Prudential Code states that it is the responsibility of the Council's S151 Officer to explicitly report on the affordability, delivery and the risks associated with this Strategy. This section reports on these matters.

8.3 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.

8.4 All Capital projects must have a clearly identified source of capital funding with a definitive commitment of financial support if external funding, such as external grant is to be used.

8.5 On-going revenue costs and/or savings associated with a capital asset must be accounted for within revenue budgets and the MTFS. Income streams estimated should be sustainable.

8.6 Where prudential borrowing is to be used, interest costs linked to the borrowing, together with a provision to repay the borrowing over the asset's life (the Minimum Revenue Provision) are also accounted for within revenue budgets and the MTFS.

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

8.8 In accordance with guidance from the Ministry for Health, Levelling Up and Communities (MHLUC) the Council's processes highlighted above ensure that the Council's level of debt and aggregate risk remains proportionate.

8.9 Delivery and Governance

8.10 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 6.

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

8.12 The Capital Strategy – Annual Outturn report 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.

8.13 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.

8.14 Risk Management

8.15 The Council is exposed to a range of risks with regard to the continued affordability and delivery of the Capital programme including.

- Financial risks related to the investment of the Council's assets, cash flow and market volatility.
- Macro-economic risks related to the growth or decline of the local economy, interest rates and systemic risks associated with the wider national and global economy. These could manifest in cost increases and potential contractor failure.
- Reputational risks related to the Council's dealings and interests, and the impact of adverse outcomes on the Council's reputation and public perception. This could include delays in completion of high profile projects.
- Governance risks related to ensuring that prudence and careful consideration are prominent in the Council's decision making.

8.16 Risk is inherent within any large capital programme and its associated financing, but an integral part of the Capital Strategy is having plans in place to mitigate these risks.

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

8.18 Any increase in borrowing will increase the Council's level of interest payments and minimum repayment provision requirements. These are subject to ongoing review within budgetary reporting and quarterly Treasury Management updates.

8.19 The MRP ensures that 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.

8.20 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 of economic trends, 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.

8.21 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.

8.22 Knowledge and Skills

8.23 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 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.

8.24 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.

8.25 The Council professional advisor, 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.

8.26 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.

8.27 Internal Audit

8.28 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.

8.29 Summary

8.30 The Council's Section 151 Officer has reported explicitly on the deliverability, affordability and risk associated with Capital Strategy as set out above.

Appendix 1 – Commercial Asset Strategy

Commercial Asset Strategy

The Commercial Asset Strategy sets out how the Council seeks to maintain and develop its Asset portfolio. It also details how assets are appraised for future development, enhancement or, if necessary, disposal.

The Commercial Asset Strategy can be accessed via the link below

To be updated

Accounting Policies

The Council is required to prepare its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and the Service Reporting Code of Practice 2021/22, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which are recognised by statute as representing proper accounting practices. The code has adopted International Financial Reporting Standards (IFRS).

Where judgements are required to be made in relation to estimation uncertainty, the practices and policies to be adopted are shared with External Auditors and formally approved by decision at the Audit and Risk Committee.

The adopted Accounting Policies as pertaining to all aspects of Capital Accounting are contained within the audited Statement of Accounts.

The latest Statement of Accounts can be accessed via the link below.

Link to Statement of Accounts

Appendix 3 – Treasury Management Strategy

Treasury Management Strategy

Treasury Management involves the management of the Council's 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.

The Treasury Management Strategy requires approval by Full Council each year.

The current Treasury Management Strategy can be accessed using the link below.

Link to Treasury Management Strategy

Appendix 4 – Medium Term Financial Strategy and Capital Programme 2022/23 to 2026/27

Medium Term Financial Strategy and Capital Programme 2022/23 to 2026/27

The Medium Term Financial Strategy (MTFS) details the budgeted revenue and capital spend for the forthcoming financial year and estimates of anticipated revenue and capital commitments for the subsequent four years to cover the medium term.

The MTFS is formally approved at Full Council in the February of each year which includes setting the Council Tax for the forthcoming financial year.

An Appendix to the report will itemise the Capital Programme on a scheme by scheme basis for the medium term.

The latest MTFS can be accessed via the link below.

Link to Medium Term Financial Strategy