

**Denbighshire County Council**  
**Capital Strategy Report 2022/23 to 2024/25**

**Contents**

- 1. Introduction**
- 2. Capital Expenditure and Financing**
- 3. Treasury Management**
- 4. Revenue Budget Implications**
- 5. Knowledge and Skills**

# Capital Strategy Report 2022/23 to 2024/25

## 1 Introduction

- 1.1 This capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

## 2 Capital Expenditure and Financing

- 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.

In 2022/23, the Council is planning capital expenditure of £86.720m as summarised below:

**Table 1: Prudential Indicator: Estimates of Capital Expenditure**

Capital Expenditure	2021/22 Approved £000	2021/22 Revised £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Council Fund	54,475	41,164	48,677	6,257	6,386
Estimated New Projects	1,556	587	15,220	34,974	22,963
HRA	20,663	24,448	22,823	12,133	13,755
<b>Total</b>	<b>76,694</b>	<b>66,199</b>	<b>86,720</b>	<b>53,364</b>	<b>43,104</b>

- 2.2 For details of the capital projects please refer to Appendix 2-4 in the Capital Plan report. These give details of the capital plan by service, scheme estimates and major capital project updates. The estimated new projects includes projects which are in the pipeline but have not been approved by Council such as the Band B 21 c Schools project.

- 2.3 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately. Details of the Housing Capital Budgets can be found in the Housing Rent Setting and Housing Revenue and Capital Budgets Report to Cabinet on 18 January 2022.

### 2.4 Governance:

The Strategic Investment Group (SIG) provides an independent review of all business case proposals for capital investment regardless of value and has delegated authority to approve bids to the value of £1 million. It will also recommend schemes to either Cabinet or the full Council if the value of the Application is above £1m or if for other reasons, it is more appropriate for Cabinet or the full Council to approve.

## Capital Strategy Report 2022/23 to 2024/25

Annually SIG invite bids from the Heads of Service and meet to review the bids and recommend the proposed allocation of the funding to Cabinet and Council. The recommendations for 2022/23 are included in Appendix 5 of the Capital Plan Report.

A Summary of the Council's Capital Plan is included in the monthly Finance Report to Cabinet. It shows the approved Capital Plan against spend to date. Also an update on the major projects is included in the overall Capital Plan.

- 2.5 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, leasing). The planned financing of the above expenditure is as follows:

**Table 2: Capital Financing**

Capital Financing	2021/22 Approved £000	2021/22 Revised £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
<b>Council Fund</b>					
Capital Receipts	0	5,860	1,379	121	0
Grants & Contributions	20,269	21,212	7,018	3,022	3,022
Revenue Contributions & Reserves	6,610	2,952	6,565	0	0
Supported Borrowing	8,063	1,761	12,381	3,014	3,014
Prudential Borrowing	19,533	9,379	21,334	100	350
	<b>54,475</b>	<b>41,164</b>	<b>48,677</b>	<b>6,257</b>	<b>6,386</b>
<b>Estimated New Projects</b>					
Grants & Contributions	1,148	0	3,412	17,120	8,030
Prudential Borrowing	408	587	11,808	17,854	14,933
	<b>1,556</b>	<b>587</b>	<b>15,220</b>	<b>34,974</b>	<b>22,963</b>
<b>Total</b>	<b>56,031</b>	<b>41,751</b>	<b>63,897</b>	<b>41,231</b>	<b>29,349</b>
<b>HRA</b>					
Capital Receipts	2,020	2,300	1,270	920	0
Grants & Contributions	3,613	6,683	4,356	3,505	2,905
Revenue Contributions & Reserves	2,485	3,469	1,966	1,475	1,459
Prudential Borrowing	12,545	11,996	15,231	6,233	9,391
<b>Total</b>	<b>20,663</b>	<b>24,448</b>	<b>22,823</b>	<b>12,133</b>	<b>13,755</b>

## Capital Strategy Report 2022/23 to 2024/25

- 2.6 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. The Council's full MRP statement is included within the Treasury Management Strategy Statement (TMSS) 2022/23.
- 2.7 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £49m during 2022/23. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

**Table 3: Prudential Indicator: Estimates of Capital Financing Requirement**

Capital Financing Requirement	2021/22 Approved £000	2021/22 Revised £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Council Fund	240,511	216,900	254,051	265,520	275,136
HRA	84,394	76,251	88,083	90,525	95,950
<b>Total CFR</b>	<b>324,905</b>	<b>293,151</b>	<b>342,134</b>	<b>356,045</b>	<b>371,086</b>

- 2.8 **Asset management:** To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place. The Asset Management Group (AMG) meets quarterly and its purpose is to provide strategic direction for all matters relating to the effective use of Council owned land and building assets within the County, including (but not exclusively):

Land and Property disposal

Land and property acquisition

Strategic property planning (including consideration of Asset Management Plans)

Innovative land and property usage / utilisation.

- 2.9 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council has received £1.584m of capital receipts to date in 2021/22 and has a programme of potential disposals which is reported to the Asset Management Group.

## Capital Strategy Report 2022/23 to 2024/25

### 3 Treasury Management

- 3.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.
- 3.2 Due to decisions taken in the past, the Council currently has £241.3m borrowing at an average interest rate of 3.68% and £35.3m treasury investments at an average rate of 0.14%.
- 3.3 **Borrowing strategy:** The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.5%) and long-term fixed rate loans where the future cost is known but higher (currently 1.0 to 2.0%).

Projected levels of the Council's total outstanding debt are shown below, compared with the capital financing requirement (see above).

**Table 4: Prudential Indicator: Gross Debt and the Capital Financing Requirement**

Capital Financing Requirement	31/03/22 Approved £000	31/03/22 Revised £000	31/03/23 Estimate £000	31/03/24 Estimate £000	31/03/25 Estimate £000
CFR	324,905	293,151	342,134	356,045	371,086
Debt	279,705	239,705	282,142	304,639	327,048

- 3.4 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 4, the Council expects to comply with this in the medium term.
- 3.5 **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

## Capital Strategy Report 2022/23 to 2024/25

**Table 5: Prudential Indicators: Authorised Limit and Operational Boundary for External Debt**

	2021/22 Approved £000	2021/22 Revised £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Authorised Limit	300,000	280,000	320,000	340,000	360,000
Operational Boundary	295,000	275,000	315,000	335,000	355,000

Further details on borrowing are included in the treasury management strategy.

- 3.6 **Investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.
- 3.7 The Council's policy on treasury investments is to prioritise security and liquidity over yield that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss.

**Table 6: Treasury Management Investments**

	31/03/21 Actual £000	31/03/22 Estimate £000	31/03/23 Estimate £000	31/03/24 Estimate £000	31/03/25 Estimate £000
Investments	18,900	20,000	20,000	20,000	20,000

Further details on treasury investments are included in the treasury management strategy.

- 3.8 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance and staff, who must act in line with the treasury management strategy approved by Council. Semi-annual reports on treasury management activity are presented to the Corporate Governance Committee. The Corporate Governance Committee is responsible for scrutinising treasury management decisions.

## 4 Revenue Budget Implications

- 4.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

## Capital Strategy Report 2022/23 to 2024/25

**Table 7: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream**

Ratio of Financing Costs to Net Revenue Stream	2021/22 Approved £000	2021/22 Revised £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Financing Costs	15,246	15,515	16,695	17,280	17,865
Net Revenue Stream	216,818	216,818	233,693	242,248	249,016
<b>Council Fund Ratio</b>	<b>7.03%</b>	<b>7.16%</b>	<b>7.14%</b>	<b>7.13%</b>	<b>7.17%</b>
Financing Costs	6,498	6,219	6,631	7,532	8,444
Net Revenue Stream	16,743	16,365	17,235	17,946	19,114
<b>HRA Ratio</b>	<b>38.81%</b>	<b>38.00%</b>	<b>38.47%</b>	<b>41.97%</b>	<b>44.18%</b>

4.2 **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Head of Finance and Property / Section 151 Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable.

## 5 Knowledge and Skills

5.1 The Council's approach to ensuring that the requisite knowledge and skills are held and demonstrated when making capital, borrowing and investment decisions is three fold.

- Employment of professionally qualified and experienced staff with responsibility for making decisions.
- Continuous and extensive training for Council members to aid informed decision making and effective scrutiny.
- Employment of Treasury Management advisors, Arlingclose to provide specialist advice in requisite areas.