

Denbighshire County Council
Capital Strategy Report 2023/24 to 2025/26

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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 2023/24, the Council is planning capital expenditure of £119.68m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

Capital Expenditure	2022/23 Approved £000	2022/23 Revised £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Council Fund	48,677	55,052	78,976	27,388	13,420
Estimated New Projects	15,220	843	21,168	40,549	34,814
HRA	22,823	25,514	19,537	13,980	8,573
Total	86,720	81,409	119,681	81,917	56,807

- 2.2 For details of the capital projects please refer to Appendices 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 include projects which are in the pipeline but have not been approved by Council, such as the Band B 21st Century Schools project and the 2023/24 bids.

- 2.3 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself not 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 13 December 2022.

2.4 Governance:

The Budget Board - Capital 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

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above £1m, or if for other reasons it is more appropriate for Cabinet or the full Council to approve.

Annually Budget Board 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 2023/24 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	2022/23 Approved £000	2022/23 Revised £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Council Fund					
Capital Receipts	1,379	0	5,019	0	0
Grants & Contributions	7,018	21,284	8,923	78	0
Revenue Contributions & Reserves	6,565	3,904	1,923	0	0
Supported Borrowing	12,381	14,141	0	0	0
Prudential Borrowing	21,334	15,723	63,111	27,310	13,420
	48,677	55,052	78,976	27,388	13,420
Estimated New Projects					
Grants & Contributions	3,412	0	5,556	22,634	15,638
Revenue Contributions & Reserves	0	0	2,056	0	0
Supported Borrowing	0	0	3,024	3,024	3,024
Prudential Borrowing	11,808	843	10,532	14,891	16,152
	15,220	843	21,168	40,549	34,814
Total	63,897	55,895	100,144	67,937	48,234
HRA					
Capital Receipts	1,270	70	895	0	0
Grants & Contributions	4,356	8,608	4,698	2,373	3,573
Revenue Contributions & Reserves	1,966	1,836	1,944	1,107	0
Prudential Borrowing	15,231	15,000	12,000	10,500	5,000
Total	22,823	25,514	19,537	13,980	8,573

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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 the 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) 2023/24.

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 £75m during 2023/24. 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	2022/23 Approved £000	2022/23 Revised £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Council Fund	254,051	238,940	306,082	338,837	357,274
HRA	88,083	82,622	90,958	97,495	98,140
Total CFR	342,134	321,562	397,040	436,332	455,414

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 used to repay debt. The Council has received £517.5k of capital receipts to date in 2022/23 and has a programme of potential disposals which is reported to the Asset Management Group.

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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 £273.7m borrowing at an average interest rate of 4.08% and £45.5m treasury investments at an average rate of 3.44%.
- 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 4.0%) and long-term fixed rate loans where the future cost is known but higher (currently 4.0 to 5.0%).

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	31/03/23 Approved £000	31/03/23 Revised £000	31/03/24 Estimate £000	31/03/25 Estimate £000	31/03/26 Estimate £000
CFR	342,134	321,562	397,040	436,332	455,414
Debt	282,142	271,476	292,084	312,604	333,687

- 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.

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

	2022/23 Approved £000	2022/23 Revised £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Authorised Limit	320,000	320,000	350,000	370,000	400,000
Operational Boundary	315,000	315,000	345,000	365,000	395,000

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

	31/03/22 Actual £000	31/03/23 Estimate £000	31/03/24 Estimate £000	31/03/25 Estimate £000	31/03/26 Estimate £000
Investments	20,000	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.

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

Ratio of Financing Costs to Net Revenue Stream	2022/23 Approved £000	2022/23 Revised £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Financing Costs	16,695	15,955	20,525	21,025	21,225
Net Revenue Stream	233,693	233,696	255,909	264,497	271,703
Council Fund Ratio	7.14%	6.83%	8.02%	7.95%	7.81%
Financing Costs	6,631	6,327	7,471	8,347	8,986
Net Revenue Stream	17,235	17,223	18,233	19,335	19,708
HRA Ratio	38.47%	36.74%	40.98%	43.17%	45.60%

Note: The coastal defence schemes in Rhyl and Prestatyn were approved in December and the Welsh Government will be increasing our RSG settlement by £5.27m each year from 2023-24 to cover our Prudential Borrowing costs.

- 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.

6 Medium Term Capital Strategy

- 6.1 Work is continuing to develop a medium term strategy for capital. This will help identify projects that we are planning to develop and invest in over a 5 to 10 year period, but have not yet gone through the approval process. This will impact on the level of borrowing that the Council will require to undertake over the coming years. To complement and aid this work a new capital approval process has been developed which was reviewed by the Governance and Audit Committee in November and approved by Cabinet in December. This includes

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setting up a new Capital Scrutiny Group, the papers of which will be available to all Members.