

Denbighshire County Council
Capital Strategy Report 2024/25 to 2026/27

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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 2024/25, the Council is planning capital expenditure of £116.02m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

Capital Expenditure	2023/24 Approved £000	2023/24 Revised £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Council Fund	81,308	101,700	65,788	20,431	20,181
Estimated New Projects	11,036		29,803	29,121	28,175
HRA	19,537	16,748	20,431	11,616	6,518
Total	111,881	118,448	116,022	61,168	54,874

- 2.2 For details of the capital projects please refer to Appendices 1-2 in the Capital Plan report. These give details of the capital plan by service 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 2024/25 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 12 December 2023.

2.4 Governance

The Capital Scrutiny Group (CSG) provides an independent review of all business case proposals for capital investment regardless of value. If supportive of the project, the CSG will recommend schemes for approval to either the Corporate Executive Team (CET) if under £1m in value, or Cabinet if the scheme is over £1m in value.

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Annually CSG invites bids from the Heads of Service and meets to review the bids and recommend the proposed allocation of the funding to Cabinet and Council. The recommendations for 2024/25 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	2023/24 Approved £000	2023/24 Revised £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Council Fund					
Capital Receipts	4,989	68	0	0	0
Grants & Contributions	6,997	13,071	19,371	5,247	0
Revenue Contributions & Reserves	7,404	6,966	738	0	0
Supported Borrowing	8,948	18,319	2,859	250	0
Prudential Borrowing	52,970	63,276	42,820	14,934	20,181
	81,308	101,700	65,788	20,431	20,181
Estimated New Projects					
Grants & Contributions	456	0	19,089	15,834	14,605
Revenue Contributions & Reserves	0	0	0	0	0
Supported Borrowing	0	0	186	2,795	3,045
Prudential Borrowing	10,580	0	10,528	10,492	10,525
	11,036	0	29,803	29,121	28,175
COUNCIL FUND TOTAL	92,344	101,700	95,591	49,552	48,356
HRA					
Capital Receipts	895	0	975	0	0
Grants & Contributions	4,698	4,404	4,360	2,625	2,370
Revenue Contributions & Reserves	1,944	579	1,150	921	148
Prudential Borrowing	12,000	11,765	13,946	8,000	4,000
HRA TOTAL	19,537	16,748	20,431	11,616	6,518

- 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)

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may be used to replace debt finance. The Council's full MRP statement is included within the Treasury Management Strategy Statement (TMSS) 2024/25.

- 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 £51.1m during 2024/25. 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	2023/24 Approved £000	2023/24 Revised £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Council Fund	306,082	278,499	319,639	338,647	362,780
HRA	90,958	85,523	95,509	98,994	98,385
Total CFR	397,040	364,022	415,148	437,642	461,165

- 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 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. Approximately £3.0m receipts are anticipated in 2023/24 or 2024/25 for the sale of two agricultural estates, two former schools and some former Council offices. The Council has a programme of potential disposals which is reported to the Asset Management Group.

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

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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, at the time of writing the Council has £299.9m borrowing at an average interest rate of 4.39% and £17.4m treasury investments at an average rate of 5.18%.

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 short-term loans (currently available at around 5.6%) and long-term fixed rate loans where the future cost is known (currently 4.5 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	31/03/24 Approved £000	31/03/24 Revised £000	31/03/25 Estimate £000	31/03/26 Estimate £000	31/03/27 Estimate £000
CFR	397,040	364,022	415,148	437,642	461,165
Debt	292,084	317,084	350,425	384,329	418,670

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.

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

	2023/24 Approved £000	2023/24 Revised £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Authorised Limit	350,000	350,000	415,000	430,000	460,000
Operational Boundary	345,000	345,000	410,000	425,000	455,000

Further details on borrowing are included in the Treasury Management Strategy.

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- 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

	31/03/23 Actual £000	31/03/24 Estimate £000	31/03/25 Estimate £000	31/03/26 Estimate £000	31/03/27 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 Chief Finance Officer and staff, who must act in line with the treasury management strategy approved by Council. Quarterly reports on treasury management activity are presented to the Governance and Audit Committee. The Governance and Audit 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.

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

Ratio of Financing Costs to Net Revenue Stream	2023/24 Approved £000	2023/24 Revised £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Financing Costs	20,513	19,763	20,535	20,535	20,535
Net Revenue Stream	256,063	266,346	270,240	272,799	275,109
Council Fund Ratio	8.01%	7.42%	7.60%	7.53%	7.46%
Financing Costs	7,471	7,465	7,745	8,708	9,148
Net Revenue Stream	18,233	17,896	19,612	20,320	20,898
HRA Ratio	40.98%	41.71%	39.49%	42.85%	43.77%

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Note: The coastal defence schemes in Rhyl and Prestatyn were approved in December 2022. The Welsh Government is funding the Council £5.27m each year for 25 years to cover 85% of our prudential borrowing costs for these schemes. The above Council Fund financing costs and net revenue stream figures include this additional funding. If this funding is excluded, the Council Fund ratio is: 2023/24 approved – 6.08%, 2023/24 revised – 5.55%, 2024/25 – 5.76%, 2025/25 – 5.71% and 2026/27 – 5.66%.

- 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 Audit / 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. The Capital Scrutiny Group was established in April 2023 to complement and aid this work, the papers of which are available to all members.