



Dacorum Borough Council

Capital Strategy

2024/25

1 Introduction

1.1 Requirements of a Capital Strategy

The Prudential Code requires all local authorities to produce a Capital Strategy. The purpose of the Capital Strategy is to tell a story that gives a clear and concise view of how the Council determines its priorities for capital investment, decides how much borrowing is affordable and its risk appetite and the governance arrangements in place to manage those risks.

The Capital Strategy is required to set out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to the risk, reward and impact on the achievement of outcomes.

The Council Strategy should demonstrate that capital expenditure and investment decisions are in line with service objectives and properly take into account stewardship, value for money, prudence, sustainability and affordability.

The Capital Strategy should cover:

- Capital Expenditure
- Debt, Borrowing and Treasury Management
- Commercial Activity
- Other long-term Liabilities and Non-Treasury Investments and Debtors.
- Knowledge and Skills.

2 Capital Expenditure

2.1 The Council's approach to asset management

The Council aims to use its assets to deliver the priorities set out in its Corporate Plan. The performance of the Council's assets supports the delivery of the Council's Medium Term Financial Strategy.

The Council has a significant and varied portfolio of assets, some of which provide an income stream, which is crucial to the funding/delivery of the overall Council objectives.

The Council aims to reduce its long-term asset maintenance costs through proactive maintenance scheduling and better cost recovery. This reduces the risk that under-investment will lead to a spike in maintenance costs or a loss of income should the assets no longer be deemed fit for purpose. Annual maintenance and refurbishment budgets are set as part of the Council's budget setting process.

The Council aims to act as a catalyst for growth by maximising the use of its own assets and stimulating growth. This approach can improve the Council's revenue streams as a result of increased business rate retention and council tax base growth. The Council

weighs up the risk and benefits carefully where new projects potentially risk the loss of current income. Getting the balance right between future economic growth and the protection and enhancement of revenue income is a key issue for asset management planning.

To ensure continuing efficient operation of the Council's assets, decisions on disposals of assets deemed surplus to requirements are taken by the Council, in line with the Council's Financial Regulations.

The Council's social Housing stock is considered separately under the Housing 30 year Business Plan and the revised 2024 Housing asset strategy. These strategies outline the programme of works to maintain, improve and modernise the current housing stock including the approach to improved energy efficiency in the medium to long term. (Link to housing asset strategy included)

The Council is currently conducting a comprehensive [Strategic Asset Review \(SAR\)](#), which was approved by Cabinet in June 2023. This will support the Council's aims to deliver housing growth and regeneration throughout Dacorum, and to make best use of Council assets to generate long term income streams that support service delivery for the benefit of Dacorum's communities.

The key objectives of the Strategic Asset Review are:

- To support the provision of the right type of housing in the right places throughout Dacorum to help local people access good quality homes. That will require a delivery pipeline which includes social housing, affordable rent, market rent, rent to buy, shared ownership and private sale homes. These may be delivered through a range of delivery vehicles harnessing the optimum mix of public and private investment in delivery.
- To progress the regeneration of Hemel Town Centre and other urban/neighbourhood areas throughout Dacorum, to contribute to wider Place Strategy objectives and drive economic growth and health and social wellbeing.
- To support long term income streams for the Council through regeneration and development programmes, which will support the Council's ongoing financial sustainability and allow continued delivery of the corporate vision and objectives.

The results of the various work streams within the Strategic Asset Review will help inform future Capital Programme priorities, asset management and disposal strategies, alongside other development, Place and asset management work taking place across the Council.

2.2 The Council's policies on Capitalisation

The Council capitalises expenditure on property, plant, equipment and software, when it brings economic benefit or service potential to the Council for longer than 1 year and spend is greater than £10,000 per scheme. The Council does not capitalise borrowing costs incurred whilst assets are under construction. Further details of the Council's capitalisation policy can be found in the Council's Statement of Accounts, notes to the Core Financial Statements section: <https://www.dacorum.gov.uk/home/council-democracy/finance/annual-statement-of-accounts>.

2.3 Flexible Use of Capital Receipts

The Council has a Flexible Use of Capital Receipts Strategy. Qualifying expenditure for the flexible use of capital receipts is 'expenditure on any project 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 demands for services in future years for any of the public sector delivery partners.

2.4 Capital Programme approval process

As part of the annual Medium Term Financial Strategy review and budget setting process, Senior Officers are invited to submit new Capital bids using a business case template. The business case template outlines the project details including;

- how the project will meet corporate priorities
- Revenue and Capital Requirements
- Proposed funding sources

The Council's corporate priorities for 2020-2025 are:

- A clean, safe and enjoyable environment
- Building strong vibrant communities
- Ensuring economic growth and prosperity
- Providing good quality affordable homes, in particular to those most in need
- Climate and ecological emergency
- Ensuring efficient, effective and modern service delivery.

Bids are scrutinised by the Strategic Leadership Team to ensure they are affordable and support Corporate Priorities. The draft Capital Programme then goes through internal officer and member scrutiny prior to Overview and Scrutiny and Cabinet for further challenge and review. The Capital Programme then goes to full Council in February for approval.

2.5 The Capital Programme

The 2023/24-2027/28 Capital Programme is summarised below. The total Capital Programme for the next 4 years from 1 April 2024 is £218.155m. For 2024/25, the Capital Programme is £70.814m of which £60.192m is to be spent on the Housing Revenue Account (HRA) and £10.621m on General Fund Capital Schemes. Further details of the Capital Programme can be found in Appendix I of the Budget Report.

The proposed capital programme is due to deliver:

- Investment in the Council's commercial property, supporting delivery of income associated with those assets.
 - Commercial activities including light industrial units'
 - Investment in the borough's Leisure facilities.
 - Upgrades to the Council's Fleet vehicles.
 - Investment in the Council's housing stock.
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- New homes for the Borough

Capital expenditure	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
General Fund*	8.392	10.621	21.543	23.241	6.697
HRA	58.982	60.192	41.183	29.257	25.421
Total	67.374	70.814	62.725	52.497	32.118
Financed by:					
Capital grants & S106	12.615	8.185	0.741	4.041	1.341
Capital receipts & reserves	32.695	34.351	26.271	14.515	13.617
Internal Borrowing- General Fund	0.000	0.000	12.443	19.200	0.473
External Borrowing- General Fund	0.000	0.000	0.000	0.000	4.883
Internal Borrowing- HRA	22.064	13.740	5.000	0.000	0.000
External Borrowing-HRA	0.000	14.538	18.271	14.742	11.804
Net financing need for the year	67.374	70.814	62.725	52.497	32.118

2.6 Long term view of capital expenditure plans

The Council publishes its capital programme covering a 5- year period, in line with its Medium Term Financial Strategy (MTFS) and the HRA Business Plan covers 30 years.

The focus for the Council's General Fund over the medium term is on-going vehicle replacement programme, the provision of a new DEN's One stop shop and foodbank, place shaping acquisitions and light industrial unit acquisitions. Leisure investment plans will be discussed with members in early 2024.

In the medium to longer term, the Council is committed to providing new homes in the Borough and has a HRA programme of new build housing totalling £57.2m over the next 5 year period commencing 1 April 2024.

The Council's capital expenditure programme supports the priorities identified in its Corporate Plan and delivery of the Council's services. As a government organisation governed by a political administration, the Council is subject to changes in government policy and also changes in the political direction, including that arising from local elections held every four years. This has potential implications for the content and direction of the capital programme.

The Council is mindful of risks to the delivery and financial performance of the capital programme over the MTFS period. These include, but are not limited to:

- Inflationary changes
- Local and National political considerations
- Legislative changes

- Access to expertise

The Council projects the potential financial impact of these risks over the life of capital projects where it is possible to do so. Capital schemes are supported by relevant project boards and their financial performance is monitored on a quarterly basis.

2.7 Cost of Borrowing for Capital Expenditure

Under statute, the Council is required to make a charge to revenue in respect of prior year's expenditure on the General Fund which is funded from borrowing (internal or external) in order to repay the principal, this is known as the Minimum Revenue Provision (MRP). External borrowing also incurs interest costs. Based on the current capital programme, the forecast charge to the General Fund for both MRP and interest on borrowing is:

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
General Fund	0.804	0.801	0.801	0.801

There is no requirement for the HRA to make a minimum revenue provision but the HRA is required to pay interest on the borrowing undertaken to fund the £354m Self Financing deal. In 2024/25 this is budgeted to be £11.7m.

2.8 Monitoring of Capital Expenditure

To mitigate the risk of overspends on Capital schemes or the Council undertaking borrowing when not required and incurring interest costs, the Council monitors Capital Expenditure against the approved budget during the financial year. The Budget Monitoring Report goes to the Senior Leadership Team, then Overview and Scrutiny Committee and Cabinet on a quarterly basis. The report provides the latest forecast position and provides an explanation of reasons for slippage and underspends or pressures on each individual scheme. Cabinet is required to approve any requests for additional budget and to approve slippage of projects into future financial years.

To ensure the Council is achieving value for money when awarding tenders for Capital works, Officers must adhere to the Council's Commissioning and Procurement Standing Orders. This details the Council's procurement thresholds and can be found on the [Council's website](#).

Post- project implementation reviews are also carried out, where appropriate, to ensure lessons learnt are taken into consideration for future relevant projects.

3 Debt, Borrowing and Treasury Management

3.1 Overview of Governance Process for Treasury Management

As per the Treasury Management Strategy, Full Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, a mid-year review and an annual report after its close. Responsibility is delegated to the Section 151 Officer for the implementation and regular monitoring of its treasury management policies and practices, and for the execution and administration of treasury management decisions. Cabinet is responsible for ensuring effective scrutiny of the treasury management strategy, policies and monitoring before recommendation to Full Council.

3.2 Projection of External Debt and Internal Borrowing over the Long Term

The Council has total gross debt of £337.634m at the end of 2022/23 and forecasts £380.351m at the end of 2027/28.

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
External Debt						
Debt at 1 April	349.680	337.446	334.808	345.685	359.179	367.940
Expected change in Debt	(12.233)	(2.638)	10.877	13.494	8.761	11.223
Other long-term liabilities	0.188	0.188	1.188	1.188	1.188	1.188
Actual gross debt at 31 March	337.634	334.996	346.873	360.367	369.128	380.351
The Capital Financing Requirement	349.349	368.761	394.363	425.302	453.026	464.111
(Under)/over borrowing	(11.715)	(33.765)	(47.489)	(64.935)	(83.898)	(83.760)

3.3 Limits on overall borrowing

The Treasury Management Strategy sets out the following borrowing limits:

Operational boundary	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Debt	337.446	345.685	359.179	367.940	379.163
Other long term liabilities	0.188	1.188	1.188	1.188	1.188
Total	337.634	346.873	360.367	369.128	380.351

3.4 Treasury Management Key Risks and Risk appetite

The Council's Treasury Management Strategy 2024/25 sets out in detail the authority's risk appetite around its treasury management activities. The Council adopts a prudent approach to the management of risk, with its investment priorities being first, security, liquidity second and then return as detailed in the Treasury Management Strategy. This includes reducing the Council's exposure to large fixed rate sums falling due for refinancing at the same time by setting upper and lower limits for the maturity structure of borrowing.

3.5 Treasury Management Knowledge and Skills available to the Council

The Council uses Link Group as its external treasury management advisors. The Council recognises there is value in employing external providers of treasury management services

in order to acquire access to specialist skills and resources. The Council ensures knowledge and skills are commensurate with the authority's risk appetite. Council officers regularly attend treasury management training provided by Link Group.

4 Commercial Activity

4.1 Definition of Commercial Activity

Commercial activity includes the investment in assets including loans and property primarily for financial return which are not part of treasury management activity. Commercial activity can also include service investments held clearly and explicitly for operational service purposes such as loans to other organisations for regeneration purposes. Commercial activity within the Council currently includes the holding of investment properties in the commercial assets portfolio to generate rental income. The Council's approach to commercial activity is being further developed in its evolving Commercial Strategy.

The Council's Commercial Strategy is a wide ranging strategy which aims to deliver a change in culture and approach to a more agile and commercially aware operating model, that will leverage maximum value from the Council's assets and resources, to support a financially sustainable organisation that meets the needs and expectations of residents. It is closely linked to the Place and Transformation strategies, and aims to support the Council in the increasingly challenging financial environment within which local government operates. This approach focuses on three areas of focus: i) Maximising income and commercial benefits ii) Developing new opportunities iii) Getting the basics right.

There is a clear link between the Council's Commercial Strategy and this Capital Strategy. The first Commercial project to receive capital investment approval is the development of light industrial units to meet identified local market demand.

4.2 Investment Properties

At the 31st March 2023, the Statement of Accounts showed the Council held £65.265m of Investment Properties. This was 4.3% of the Council's Long-Term Assets. Investment Properties include shops, industrial units, storage units, offices, filling stations and nurseries. Investment Properties in 2023/24 are forecast to generate gross income of £5.89m. The net income from Investment Properties is £5.14m, which helps contribute to a lower net expenditure before Council Tax. For 2023/24 the net expenditure before Council Tax is £14.574m.

The Commercial Assets and Property Development team manage the Council's Investment Properties. Quarterly reports are sent to members using the Council's performance system (InPhase) on the performance of the Council's investment properties. Key indicators include:

- percentage arrears on Commercial Property rents,
- percentage of Occupation in Commercial Properties,
- Investment Property income year to date budget position

The Council's Commercial Assets and Property Development team includes RICS qualified professionals to ensure the Council meet legislative requirements whilst also using that professional knowledge and expertise to maximise the potential income of the portfolio.

4.3 Approach to risk in commercial activities

The Council holds investment assets which deliver an annual rental stream. These investment assets help the authority deliver a balanced budget over the MTFs period as well as supporting the economic objectives the Council has for the Dacorum area.

As with its approach to treasury management, the Council adopts a prudent approach to the management of risk within its commercial activities. The Council engages professional advice on these activities as required, either from its own staff or via external advisors. Decisions on commercial activities are made in line with the Council's constitution.

The Council monitors the performance of its commercial activities via its financial monitoring process and the use of performance indicators. This process includes both Officer and Member scrutiny.

There is a clear governance process as outlined below for any new commercial initiatives proposed.

- i. **Informal Cabinet**, to be convened for all cabinet members on an informal, and as required.
- ii. **Finance & Resources Scrutiny**, to consider new proposals and their business cases as required.
- iii. **Cabinet**, to approve new proposals, with appropriate delegations to the Chief Executive and / or Strategic Directors for delivery as required.
- iv. **Full Council**, to approve resources and / or investment required if appropriate.

5 Other long-term Liabilities and Non-Treasury Debtors

Any other long-liabilities that the Council undertakes are subject to member scrutiny and approval.

6 Knowledge and Skills

The Council employs a wide range of qualified professionals with expert knowledge and skills including legal professionals, RICS property experts and qualified accountants. Annual appraisals are carried out to identify training needs. The Council ensures Councillors have the required skills through the Member training programme. Where skills are not available in house, or in relation to material projects, the Council will draw on additional professional advisers as necessary, these currently include Link Asset Service for Treasury Management Services, Brazier Freeth for Commercial Property advice and various architects.
