

# Financial Planning – Capital Strategy and The Treasury Management Policy

26/01/2026

## **POLICY AND RESOURCES COMMITTEE – 26 JANUARY 2026**

### **PART I - NOT DELEGATED**

#### **FINANCIAL PLANNING – CAPITAL STRATEGY AND THE TREASURY MANAGEMENT POLICY**

(DoF)

#### **1. Summary**

- 1.1 The purpose of this report is to enable the Policy and Resources Committee to recommend to the Council its capital strategy and treasury management policy over the medium term (2025/26 to 2028/29). This report is the second of four that is covered under the recommendations report on this agenda.

#### **2. Recommendation**

- 2.1 That the report is noted.

#### **3. Details**

- 3.1 The capital strategy (the Strategy) is designed to give a clear and concise view of how the council determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite. It is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

- 3.2 The framework the government uses to control how much councils can afford to spend on capital investment is known as the Prudential Framework. The objectives of the Prudential Code, which sets out how this framework is to be applied, are to ensure that local authorities' capital investment plans are:

- affordable, prudent, and sustainable,
- that treasury management decisions are taken in accordance with good professional practice, and
- that local strategic planning, asset management planning and proper option appraisal are supported.

- 3.3 This capital strategy sets out how the Council will achieve the objectives set out above.

#### **Capital Investment Programme – Expenditure**

- 3.4 Capital Investment is the term used to cover all expenditure by the council that can be classified as capital under legislation and proper accounting practice. This includes expenditure on:

- property, plant and equipment,
- heritage assets,
- investment properties, and
- loans to subsidiaries and joint ventures

- 3.5 Property, plant and equipment includes assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes. They are expected to be used during more than one financial year. Expenditure on the acquisition, creation or enhancement of these assets is capitalised on an accruals basis, provided that the Council is likely to benefit from the future economic benefits or service potential and the cost of the item can be

measured reliably. Expenditure on repairs and maintenance is charged to the revenue account when it is incurred.

- 3.6 Heritage Assets are held with the objective of preservation, increasing knowledge, understanding and the appreciation of the Council's history and local area.
- 3.7 Investment properties are those that are used solely to earn rentals and/or for increases in value. The definition is not met if the property is used in any way for the delivery of services or production of goods or is held for sale.
- 3.8 Detailed accounting policies in relation to assets and capital expenditure may be found in the annual statement of accounts.
- 3.9 **Appendix 1** shows the 2025/26 revised capital budget and draft capital budgets for the period 2026/27 to 2028/29. The appendix contains the title, description and officers' comments relating to the progress of the 2025/26 schemes. A summary of the proposed capital programme is set out in the following table:

Capital Investment Programme	Forecast Year End 2025/26 £000	Proposed Budget 2026/27 £000	Proposed Budget 2027/28 £000	Proposed Budget 2028/29 £000
General Public Services and Community Engagement	5,321	2,405	2,487	2,487
Climate Change and Leisure	2,457	1,267	1,267	1,267
Policy and Resources	1,166	718	621	621
Major Projects	17,174	0	0	0
<b>Total Capital Investment</b>	<b>26,118</b>	<b>4,390</b>	<b>4,375</b>	<b>4,375</b>

- 3.10 The 2025/26 programme has decreased from the latest approved budget by **(£0.140m)**. This includes re-phasing of a scheme into 2026/27, a Capital Contribution from Croxley Green Parish Council and grants received for Disabled Facilities and food caddies and budgets. The schemes that contribute to this variation to budget are as follows:

		£000
1.	Replacement Bins – Grant received for food caddies	13
2.	Waste & Recycling Vehicles – Full budget for new trade waste food waste vehicle not required due to procurement of a second hand vehicle	(122)
3.	Disabled Facilities Grant – Increased grant received	147
4.	Improve Play Area Future Schemes – Capital contribution received from Croxley Green Parish Council towards Barton Way Play Area refurbishment	30
5.	Professional Fees Internal – Budget no longer required	(158)
6.	Garage Improvements – Rephased into 2026/27 as programme of works identified will not be completed until Spring 2026	(50)
<b>Total</b>		<b>140</b>

- 3.11 The £17.174M for major projects mostly relates to the Local Authority Housing Fund projects to accept grant funding from the Government to support the delivery of additional homes through Three Rivers Homes Ltd.
- 3.12 Variances to the medium term capital programme which have been identified up to the end of November and are shown in detail at **Appendix 2**.
- 3.13 Following the re-phasing, the capital programme for 2025/26 now totals **£26.118m**. The services capital programme included in MTFP shows schemes totalling **£4.390m** in 2026/27; **£4.375m** in 2027/28 and **£4.375m** in 2028/29.
- 3.14 The larger capital schemes over the next three financial years include:
- Disabled Facility Grants - £2.476m
  - Waste and Recycling Vehicles - £2.400m
  - Replacement Grounds Maintenance Vehicles – £1.620m
  - Garage Improvements - £0.500m

### **Capital Investment Programme – Funding**

- 3.15 The Capital Investment Programme can be funded from a variety of sources. Explanations of the funding sources are set out in the following paragraphs.
- 3.16 Government Grants & Other Contributions: These are grants for specific purposes which may be available from the Government, e.g. Disabled Facility Grants. The Council can also attract partnership funding from other local authorities and agencies e.g. Local Enterprise Partnership (LEP). The Council has also benefited in the past from other funding such as lottery grants.
- 3.17 Section 106 Contributions: These are contributions from developers to the public services and amenities required for the development. These have been in part replaced by the Community Infrastructure Levy. Current Section 106 monies are guaranteed.
- 3.18 Capital Receipts Reserve: Capital receipts are derived when selling assets such as land. The main receipt relates to the arrangements made when the Council sold its housing stock to Thrive Homes Ltd in 2008; the Transfer Agreement included a Right to Buy (RTB) Sharing Agreement whereby the Council is entitled to a share of the post-transfer receipts from RTB sales and a 'VAT Shelter Agreement' whereby the Council benefits from the recovery of VAT on continuing works carried out by Thrive. The current MTFP forecasts that this reserve will be fully utilised to support the capital programme.
- 3.19 Revenue Contributions: Revenue balances from the General Fund may be used to support capital expenditure.
- 3.20 Borrowing: The Council is allowed to borrow to support its capital expenditure as long as this is prudent, sustainable, and affordable. The Council has borrowed to support the new leisure centre provision in South Oxhey. Where the Council decides to borrow to fund capital expenditure the annual cost of borrowing is included within the revenue budget.
- 3.21 The capital programme includes an assessment of likely available resources to finance capital expenditure and includes assumptions regarding capital receipts, which have

been estimated at £1.000m per year.

- 3.22 **Appendix 3** shows the sources of capital funding proposed over the period 2025/26 to 2028/29, including the funding generated in each year and balances carried forward at the end of each year. The funding for the proposed capital programme is set out in the table on the following page:

Funding	Forecast Year End 2025/26 £000	Proposed Budget 2026/27 £000	Proposed Budget 2027/28 £000	Proposed Budget 2028/29 £000
Grants	5,136	825	825	825
Reserves	117	0	0	0
Capital Receipts	1,000	1,000	1,000	1,000
Section 106 and CIL	3,473	0	0	0
Borrowing	16,393	2,564	2,550	2,550
<b>Total Funding Applied</b>	<b>26,118</b>	<b>4,390</b>	<b>4,375</b>	<b>4,375</b>

- 3.23 Borrowing in 2025/26 arises predominantly as a result of the major projects and will be repaid in line with repayments made by Watford Community Housing and Three Rivers Homes Ltd. As MRP is charged in line with these principle repayments there is no impact on the revenue account.

**Appendix 4** shows details of all Section 106 contributions currently received and available to use.

### Future Investment

- 3.24 Future Investment Schemes will be assessed on the basis of a full business case which will include full resourcing for the project and an assessment of affordability. Priority areas for future capital investment are:
- Schemes that generate a financial surplus for the Council; and in particular those that increase the supply of housing locally (for example through the joint ventures with Watford Community Housing and Thrive).
  - Schemes that generate revenue budget savings for the Council.
  - Schemes that allow the Council to benefit from future economic regeneration potential within the local area; especially those that attract additional investment into the local area from regional or national agencies.
  - Schemes that provide additional or improved services to the Council's residents, in line with the Council's Strategic Plan.
- 3.25 The Council will continue to seek opportunities to work in partnership with others to promote economic development and the provision of housing within Three Rivers wider economic area. Current partners include Countrywide Properties for the South Oxhey scheme, along with Watford Community Homes and Thrive Homes as the two major local registered social providers.
- 3.26 The Council has established Three Rivers Commercial Services to allow it to work more closely with providers and exploit future commercial opportunities. The Council currently has two joint ventures with Watford Community Housing, Three Rivers Development LLP and Three Rivers Homes Ltd.

#### **4. Treasury Management**

- 4.1 The Council is required to operate a balanced budget over the medium term which, after allowing for contributions to and from reserves, broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing the requisite liquidity before considering investment return.
- 4.2 The Treasury Management Strategy Statement (**Appendix 5**) details the policies, practices, objectives and approaches to risk management of its treasury management activities, which is to be monitored by the Audit Committee. The Council's investment strategy's primary objectives are safeguarding the repayment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective. The strategy allows the Director of Finance, in consultation with the Lead Member, the delegated authority to approve any variation to the Treasury Management Strategy during the year with the objective of maximising the Council's returns without significantly increasing risk. This could include use of other investment instruments such as Government bonds or Gilts.

#### **5. Prudential Indicators**

- 5.1 All Local Authorities are required to set prudential indicators for the forthcoming year and following years before the beginning of the forthcoming year. The indicators must be set by full Council.
- 5.2 The prudential indicators fall into two main categories of 'Prudence' and 'Affordability'. The indicators for Prudence are further separated between those relating to the Council's capital expenditure plans and those relating to levels of external debt.

##### **Prudence – Capital Expenditure**

- 5.3 The Capital Financing Requirement (CFR) is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR. An increase in the CFR does not necessarily mean that the council will borrow externally to fund the increase. The Council manages its cash balances as a whole and may choose to use internal cash (generated by holding reserves and through timing differences between income and expenditure).

- 5.4 The table below sets out the Council's estimates of capital expenditure over the medium term financial planning period and the estimated impact on the Council's CFR.

	2025/26	2026/27	2027/28	2028/29
	Forecast	Estimate	Estimate	Estimate
	£000	£000	£000	£000
<b>Total Proposed Capital Expenditure</b>	<b>26,118</b>	<b>4,390</b>	<b>4,375</b>	<b>4,375</b>
Capital Financing:				
Grants	(5,136)	(825)	(825)	(825)
Reserves	(117)	0	0	0
Capital Receipts	(1,000)	(1,000)	(1,000)	(1,000)
Section 106 and CIL	(3,473)	0	0	0
<b>Total Funding</b>	<b>(9,725)</b>	<b>(1,825)</b>	<b>(1,825)</b>	<b>(1,825)</b>
Gap	16,393	2,564	2,550	2,550
MRP	(662)	(612)	(945)	(1,052)
Opening CFR Including Wimbledon	71,554	87,285	89,237	90,842
<b>Closing CFR</b>	<b>87,285</b>	<b>89,237</b>	<b>90,842</b>	<b>92,340</b>

Note the opening CFR is subject to restatement following the conclusion of the outstanding external audits.

#### Prudence – External Debt

- 5.5 There are two limits on external debt: the 'Operational Boundary' and the 'Authorised Limit'. Both are consistent with existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices.
- 5.6 These prudential indicators ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2026/27 and next two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.
- 5.7 The Operational Boundary is the limit beyond which external borrowing is not normally expected to exceed. In most cases this would link directly to the authority's plans for capital expenditure, its estimates for CFR and its estimate of cashflow requirements for the year for all purposes. The Council may need to borrow, this limit represents a contingency should the need arise. The additional headroom allows the Council to externalise borrowing currently covered by utilising cash reserves – should interest rates reduce.

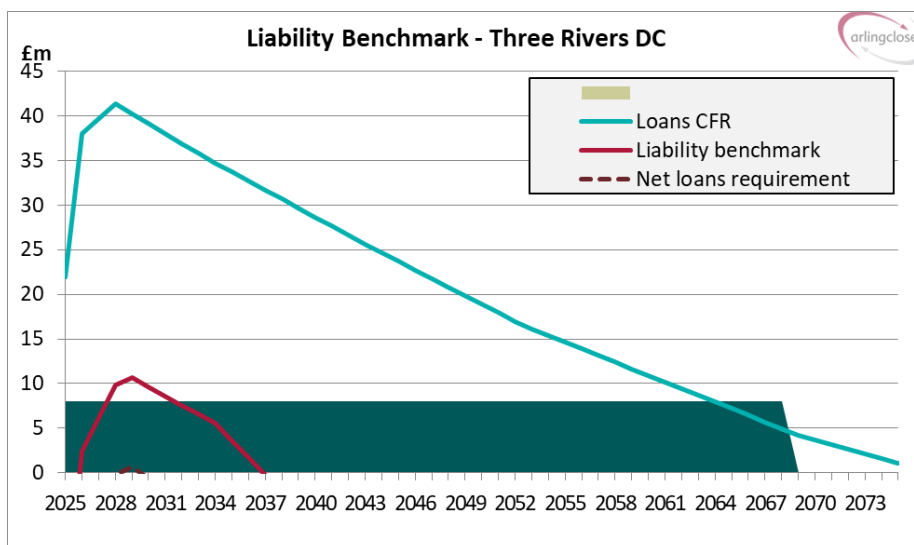
Operational Boundary	2025/26 £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Borrowing	20.000	20.000	20.000	20.000
Finance Leases	50.000	50.000	50.000	50.000

5.8 The Authorised Limit for External Borrowing controls the overall level of borrowing and represents the limit beyond which external long and short term borrowing is prohibited, and this limit needs to be set or revised by the Council. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (2) of the Local Government Act 2003.

Authorised Limit	2025/26 £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Borrowing	25.000	25.000	25.000	25.000
Finance Leases	50.000	50.000	50.000	50.000

### Treasury Management Indicator – The Liability Benchmark

5.9 The Treasury Management Code of Practice requires local authorities to calculate their Liability Benchmark. The benchmark includes a projection of external debt required over the long term to fund the organisation’s approved budgets and plans compared to the Forecast of total borrowing outstanding. The benchmark should be used to evaluate the amount, timing and maturities needed for new borrowing in relation to the organisation’s planned borrowing needs in order to avoid borrowing too much, too little, too long or too short.



### Affordability

- 5.10 The fundamental objective in the consideration of the affordability of the authority’s capital plans is to ensure that the level of investment in capital assets proposed means that the total capital investment of the authority remains within sustainable limits.
- 5.11 In considering the affordability of its capital plans, the authority is required to consider its forecast financial position, including all of the resources currently available to it and estimated for the future, together with the totality of its capital, borrowing and investment plans, income and expenditure forecasts and risks.
- 5.12 The following indicators provide an indication of the impact of the capital investment



plans on the Council's overall finances.

### Financing costs to net revenue stream

- 5.13 This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream. The net revenue stream is the Council's core funding of Council Tax, Business rates, and ringfenced central government grants. Investment income includes interest from Treasury Management activities and interest from loans to joint ventures and subsidiaries.

	2024/25 Actual £000	2025/26 Forecast £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
Net Cost of Capital	(1,206)	(865)	(615)	(232)	(125)
Net Revenue Stream	(14,061)	(14,495)	(14,531)	(15,786)	(16,283)
<b>Ratio %</b>	<b>8.6%</b>	<b>6.0%</b>	<b>4.2%</b>	<b>1.5%</b>	<b>0.8%</b>

### Net income from commercial investment to net revenue stream

- 5.14 This indicator is intended to show the financial exposure of the authority to the loss of income.
- 5.15 Net income from commercial investments comprises net income from financial investments (other than treasury management investments), together with net income from other assets held primarily for financial return, such as commercial property.

	2024/25 Actual £000	2025/26 Forecast £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
Commercial Investment Income	(877)	(1,017)	(1,083)	(1,002)	(1,002)
Net Revenue Stream	(14,061)	(14,495)	(14,531)	(15,786)	(16,283)
<b>Ratio %</b>	<b>6.2%</b>	<b>7.0%</b>	<b>7.5%</b>	<b>6.3%</b>	<b>6.2%</b>

## 6. The Minimum Revenue Provision (MRP) Strategy and Policy Statement

- 6.1 The Minimum Revenue Provision (MRP) is designed to pay off an element of the capital spend which has not already been financed from existing revenue or capital resources. The Council is required to make prudent provision, by way of a charge to the revenue account, which means that the repayment of debt is enabled over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.
- 6.2 The Council is also able to increase the rate it reduces its CFR by undertaking additional voluntary payments (voluntary revenue provision - VRP) in addition to any MRP; this is not currently the Council's policy.
- 6.3 Government Regulations require the Council to approve a MRP Statement in advance of each year. The Council's MRP policy statement is at **Appendix 6**.
- 6.4 Three Rivers District Council's process is to produce for approval by the Director of

Finance, in consultation with the Portfolio Holder, a business case for each scheme intended to be unfunded from other resources. This will clearly show the level of MRP which is proposed to ensure that the repayment of any debt can be made in a period commensurate with the period over which the expenditure provides benefits or makes returns.

- 6.5 Where the Council decides to borrow to fund capital expenditure the annual cost of borrowing is included within the revenue budget.

## **7. Skills and Knowledge and Professional Advice**

7.1 The Council has a shared service with Watford Borough Council for the provision of the finance function allowing access to a greater range of professional skills than would otherwise be available if each council had a separate team. The council uses external advisers on all major projects.

7.2 The Council contracts with Arlingclose Limited for the provision of Treasury advice. Arlingclose Limited provide non-regulated advice on the management of the council's cash flows, investments and borrowings and a markets information service. The Council's VAT advisers are PSTax.

## **8. Risk**

8.1 Financial risks are closely monitored as a separately identifiable part of the corporate risk management framework. The Council's risk appetite is evolving as it becomes involved in a wider range of major property lead investments both within its economic area linked to regeneration and more widely for income generation purposes.

8.2 The Council takes advice from its professional advisers to both identify and mitigate the key risks it faces and ensures that all decisions are made with an understanding of the risks involved.

8.3 Whilst recognising the importance of generating income to support services, the Council will ensure that its external income is actively managed to safeguard the future financial sustainability of the council. In this respect it will continue to seek to balance income from its commercial investment activities against its overall level of risk and the amount of reserves available to mitigate this risk.

8.4 In assessing the risk of its commercial investments, the Council will consider the level of risk inherent in the income stream, the security held, its ability to realise assets or other security should the need arise and the level of income received from commercial investments compared to the total income of the council.

## **9. Options/Reasons for Recommendation**

9.1 The recommendations in the agenda enable the Committee to make recommendations to the Council on 24 February 2026 concerning the Council's budget.

## **10. Policy/Budget Reference and Implications**

10.1 The recommendations in this report contribute to the process whereby the Council will approve and adopt its strategic, service and financial plans under Article 4 of the Council's Constitution.

**11. Equal Opportunities, Legal, Staffing, Environmental, Community Safety, Customer Services Centre and Communications, Health & Safety & Website Implications**

11.1 None specific.

**12. Financial Implications**

12.1 As contained in the body of the report.

**13. Risk Management Implications**

13.1 There are no risks to the Council in agreeing the recommendation below.

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Report Checked by: Michelle Howell – Interim Head of Finance

**Background Papers**

Reports and Minutes of.

- The Policy and Resources Committee
- Council

**Appendices**

1. Capital Investment Programme 2025/26 to 2028/29 - Expenditure
2. Capital Investment Programme 2025/26 to 2028/29 - Variances
3. Capital Investment Programme 2025/26 to 2028/29 - Funding
4. Section 106 Balances 2025/26
5. Treasury Management Strategy Statement
6. Minimum Revenue Provision (MRP) Strategy and Policy Statement

***The recommendations contained in this report DO NOT constitute a KEY DECISION but contribute to the process whereby the Council will approve and adopt its Strategic, Service and Financial Plans under Article 4 of the Council's Constitution***

