

<b>REPORT TO:</b>	COUNCIL		
<b>DATE:</b>	26 February 2026		
<b>PORTFOLIO:</b>	<b>Councillor Vanessa Alexander - Resources and Council Operations</b>		
<b>REPORT AUTHOR:</b>	Martin Dyson, Executive Director (Resources) Carol Worthington, Principal Accountant Amanda Martin, Principal Accountant		
<b>TITLE OF REPORT:</b>	Prudential Indicators, Capital, Treasury Management and Investment Strategies 2026/27 – 2028/29 Including: Minimum Revenue Provision Policy Statement 2026/27 Treasury Management Policy Statement 2026/27 Treasury Management Practices 2026/27		
<b>EXEMPT REPORT (Local Government Act 1972, Schedule 12A)</b>	<b>No</b>	Not applicable	
<b>KEY DECISION:</b>	<b>No</b>	If yes, date of publication:	

## 1. PURPOSE OF REPORT

- 1.1 To set out the Council's policy and objectives with respect to treasury management, to explain how it will achieve its objectives and manage its activities; and to agree an investment strategy for 2026/27.

## 2. RECOMMENDATION(S)

Council requested to:

- a) adopt the prudential indicators and limits detailed in the report;
- b) approve the treasury management strategy, and associated indicators, as set out in Appendix 1 to the attached report;
- c) approve the investment strategy as set out in section 13 of Appendix 1 to the attached report;

- d) approve the Minimum Revenue Provision Policy for the year 2026/27 – as set out in section 5 of Appendix 1 to the attached report;
- e) approve the Treasury Management Policy Statement for 2026/27 – Appendix 2 of the attached report
- f) approve the Treasury Management Practices Statement 2026/27 – Appendix 3 of the attached report;
- g) approve the Capital Strategy 2026/27 – Appendix 4 of the attached report.

### **3. SUMMARY**

- 3.1 The Treasury Management Strategy, and associated appendices, are attached to this report.

### **4. DETAIL**

- 4.1 See the attached report and appendices on the Capital and Treasury Management Strategies.

### **5. REASONS FOR RECOMMENDATIONS**

- 5.1 Council requires an update on the authority's Capital and Treasury Management activities, and the strategy for the upcoming year.

### **6. ALTERNATIVE OPTIONS CONSIDERED AND THE REASONS FOR REJECTION**

- 6.1 Not applicable

### **7. BUDGET IMPLICATIONS**

- 7.1 As outlined in the report.

### **8. LINKS TO CORPORATE PRIORITIES**

- 8.1 The Prudential Indicators, Capital, Treasury Management and Investment Strategies links to all corporate priorities in determining the Council's strategies for investing and borrowing in order to allow the Council to meetings its priorities.

### **9. LEGAL IMPLICATIONS**

- 9.1 Under the Local Government Act 2003, the Council is required to have regard to CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.

### **10. RISKS**

- 10.1 There are inherent risks in capital finance and treasury management. When appropriate the risks are identified and assessed as part of the various

recommendations made on Prudential Capital Finance and in the Council's Treasury Management Strategy. Risks arising from Financial Instruments are also described and addressed in the Statement of Accounts' related note.

## **11. EQUALITY IMPACT ASSESSMENT**

- 11.1 There are no specific measures within the report that require an Equality Impact Assessment.

## **12. CONSULTATIONS**

- 12.1 The issues raised in this report have been discussed previously with our Treasury Management Advisers, MUFG Corporate Markets.

## **13. LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**

### **13.1 List of Background Papers:**

- Part 1 of the Local Government Act 2003 and related regulations
- The Prudential Code for Capital Finance in Local Authorities (CIPFA 2021)
- CIPFA Code of Practice on Treasury Management in Public Services (revised 2021)
- The Council's Policy Statement on Treasury Management (Full Council February 2025)
- Capital Programme 2026/27 – 2028/29 (On the Agenda for this meeting)
- Revenue Budget 2026/27 (On the Agenda for this meeting)
- Minimum Term Financial Strategy 2026/27 – 2028/29 (On the Agenda for this meeting).

## **11. FREEDOM OF INFORMATION**

- 11.1 The report does not contain any exempt information under the Local Government Act 1972; Schedule 12a and all information can be disclosed under the Freedom of Information Act 2000.



**TREASURY MANAGEMENT &**

**INVESTMENT STRATEGY**

**2026/27**

**FOR AN AMBITIOUS AND SUSTAINABLE**

**HYNDBURN FUTURE**

# BACKGROUND

1.1 Treasury management is defined as:

*The management of the Council's investment and cash flows, its banking, money market and capital market transactions.*

*The effective control of the risks associated with these activities.*

*And the pursuit of optimum performance consistent with those risks.*

1.2 The Council is required to operate a balanced budget which means that cash raised during the year will meet cash expenditure. Part of treasury management is to ensure the cash flow is properly planned with cash available when needed. Surplus monies are invested in line with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.3 The second main function of treasury management is funding the Council's capital plans. The plans give a guide to the future borrowing need of the Council. The management of this longer-term cash flow may involve arranging long or short-term loans or using longer

term cash flow surpluses. Occasionally outstanding debt may be restructured to reduce Council risk or meet cost objectives.

1.4 The report has been prepared in line with the Treasury Management Code and Guidance (2021) written by The Chartered Institute of Public Finance & Accountancy (CIPFA). In the case of local authorities in England and Wales, the Code is significant under the provisions of the Local Government Act 2003. This requires local authorities 'to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify'. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 in paragraph 24 require local authorities to have regard to this guidance. Acceptance of this report fulfils those obligations.

1.5 CIPFA published revised codes on 20th December 2021 and the Council now adopts the liability benchmark treasury indicator to support the financing risk management of the capital financing requirement.

## PRUDENTIAL CODE &

## PRUDENTIAL INDICATORS

2.1 The Prudential Code is a professional code that sets out the framework for self-regulation of capital spending and financing. This allows councils to invest in capital projects without any limit as long as such investment is affordable, prudent and sustainable. The Code was produced by CIPFA.

2.2 The Code requires the Council to agree and monitor a minimum number of prudential indicators (including limits and statements). They relate to affordability, prudence, capital expenditure, external debt and treasury management. The indicators are purely for internal use and are not designed to be used as comparators between councils.

# CAPITAL EXPENDITURE &

# CAPITAL FINANCING REQUIREMENT

3.1 There is currently no specific restriction by the Government on Local Authorities' capital investment, subject to reserve powers. The Government has withdrawn the use of Capital Grants for capital expenditure purposes since 1st April 2011 as part of its measures to reduce public sector expenditure. Hyndburn Council's future financial plans assume no reliance on any direct capital grants from Government; expenditure will be funded by external funding, section 106

monies, capital receipts and contributions from revenue.

3.2 The projections in these tables are based on current continuing operations and no assumptions have been included for availability of new external finance for capital schemes or assessment for major organisational restructure.

	2024/25 Actual £000	2025/26 Forecast £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
CFR	£7,524	£7,223	£6,934	£6,657	£6,390

3.3 The programme for 2025/26 reflects slippage of additional grant funding available to be used for the Town Centre. The programme in 2027/28 and beyond is reducing due to the reduction in external funding and capital receipts which are available.

3.4 The Capital Financing Requirement (CFR) represents the Council's 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 need to borrow. Any capital expenditure, which has not immediately been paid for, will increase the CFR.

3.5 The movement in the CFR over the next three years is dependent on capital expenditure decisions. The CFR is currently reducing due to the payment of

Minimum Revenue Provision (MRP), a statutory annual revenue charge, which broadly reduces the borrowing need.

3.6 The limiting factors on the Councils ability to finance additional capital expenditure are:

- Whether the revenue resource is available to support in full the implications of both resource and running costs.
- Use of Government reserve powers.

3.7 The Council's expectations for the CFR in the next three years are shown in the table below. The table also shows the expected external debt for each year.

3.8 A key risk for these indicators is that the level of government support and other funding sources may change.

# CONT. CAPITAL EXPENDITURE &

# CAPITAL FINANCING REQUIREMENT

3.9 If or when borrowing is used to finance the Authority's additional spend, the full cost of the borrowing will be included within the revenue budget and forecasts.

3.10 Borrowing outstanding as at year-end 2024/25 and 2025/26 is based on, respectively, the Council's actual / revised estimated gross borrowing. The borrowing amount is also within the Operational Boundary (as defined below).

	2024/25 Actual £'000	2025/26 Forecast £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
<b>Capital Financing Requirement</b>					
CFR - General Fund	£7,524	£7,223	£6,934	£6,657	£6,390
<b>External Debt</b>					
Borrowing	£9,595	£9,595	£9,595	£9,595	£9,595
Other Long-Term Liabilities	£1,542	£4,088	£3,605	£2,648	£2,628
<b>Total Debt 31 March</b>	<b>£11,137</b>	<b>£13,683</b>	<b>£13,200</b>	<b>£12,243</b>	<b>£12,223</b>

# IFRS 16 – LEASING

- 4.1 On 1 April 2024, there was a change in accounting standards to implement a new standard, IFRS16. This change relates to assets leased by the Council on operating leases (leases where the risks and rewards of ownership do not substantially transfer to the lessee).
- 4.2 Previously, the cost of these leases was expensed to the Revenue Account in year as they were incurred, however, going forward, at the start of a lease agreement the Council will have to recognise an asset and liability equal to the amount of future cash flows relating to that lease, discounted at the implied interest rate for that lease or the Council's incremental rate of borrowing.
- 4.3 On transition at 1 April 2024, the Council recognised an increase in assets, liabilities and Capital Financing Requirement in relation to lease agreements in place at that date. It is expected that there will be no change in the amount charged to the Revenue Account each year in respect of these leases.

Following a review of lease agreements, the impact on the Council as a result of this change in standards is expected to be minimal.

# MINIMUM REVENUE PROVISION

- 5.1 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, Councils are required each year to set aside an amount within their accounts to meet the cost of borrowings. This is historically known as the minimum revenue provision (MRP) (for capital).
- 5.2 The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP.
- 5.3 **Option 1: Regulatory method**  
Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for "Adjustment A") on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported by Government through the 'SCE allocation' (supported capital expenditure).
- 5.4 **Option 2: Capital Financing Requirement method**  
This is a variation on Option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority's outstanding debt liability as depicted by their balance sheet.
- 5.5 **Option 3: Asset Life method**  
Under this option, it is intended that MRP should be spread over the estimated

# MINIMUM REVENUE PROVISION

useful life of either an asset created, or other purpose of the expenditure.

There are two methods of calculating charges under option 3:

- equal instalment method – equal annual instalments,
- annuity method – annual payments - gradually increase during the life of the asset.

## 5.6 Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

5.7 For historical capital expenditure that is self-financed from debt, the Council's Budget for 2025/26 has provided for

MRP to be calculated on the regulatory basis (option 1). This will continue for 2026/27 for all current capital expenditure financed by borrowing.

5.8 In 2026/27, for assets acquired by leases, MRP will be determined as being equal to the principal element of the rent or charge that goes to write down the balance sheet liability.

5.9 For any new capital expenditure from 2026/27 onwards that is self-financed from debt, MRP will be provided based on the Asset Life Method (option 3) using the equal instalment method over the useful life of the asset to which it relates. Estimated life periods will be determined on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.

# AFFORDABILITY PRUDENTIAL

## INDICATORS

6.1 Within the prudential code framework, the Council is required to assess the affordability of the capital investment plans. These provide an indication of the impact of capital investment plans on the Councils overall finances.

### Actual and Estimates of the Ratio of Financing Costs to Net Revenue Stream

6.2 This indicator identifies the ratio of financing costs as a percentage of the net revenue budget. The ratio is forecast to increase from 25/26 as the Council moves to a leasing model for its vehicles.

### Ratio of Financing Costs to Net Revenue Stream

	2024/25 Actual %	2025/26 Forecast %	2026/27 Estimate %	2027/28 Estimate %	2028/29 Estimate %
Ratio of Financing Costs to Net Revenue Stream	6.3%	27.5%	23.3%	18.9%	18.9%

# TREASURY MANAGEMENT STRATEGY

## 2026/27 – 2028/29

6.3 The importance of treasury management is due to the freedoms provided by the Prudential Code. Treasury Management covers the borrowing, investment activities and the effective management of associated risks; and the activities are strictly regulated by statutory requirements and a professional code of practice (CIPFA Code of Practice on Treasury Management in public services, as revised or supplemented by CIPFA from time to time).

6.4 This strategy covers the:

- current treasury position,
- expected movement in interest rates,
- Council's borrowing and debt strategy,
- Treasury Management indicators,
- Debt re-scheduling, and the
- Council's investment strategy.

## CURRENT TREASURY POSITION

	2024/25 Actual £'000	2025/26 Forecast £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
<b>External Debt</b>					
Market Loans	£9,595	£9,595	£9,595	£9,595	£9,595
Other Long-Term Liabilities	£1,542	£4,088	£3,605	£2,648	£2,628
<b>Total Debt 31 March</b>	<b>£11,137</b>	<b>£13,683</b>	<b>£13,200</b>	<b>£12,243</b>	<b>£12,223</b>
<b>Capital Financing Requirement</b>					
CFR - General Fund	£7,524	£7,223	£6,934	£6,657	£6,390
<b>Under/(Over) Borrowing</b>	<b>(£3,613)</b>	<b>(£6,460)</b>	<b>(£6,266)</b>	<b>(£5,586)</b>	<b>(£5,833)</b>

7.1 The current position of the treasury function, and its expected change in the future, introduces risk to the Council from an adverse movement in interest rates. The Prudential Code is constructed on the basis of affordability, part of which is related to borrowing costs and investment returns.

7.2 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. In general, the requirement is that CFR exceeds

gross debt. However, in 2025/26 and future years gross debt is forecast to exceed CFR. This is not due to new borrowing but a technical accounting position as under IFRS 16 lease payments are to be shown as debt, loan payments are paid at maturity keeping debt higher longer and timing between capital spend and financing.

7.3 The requirement to have CFR exceed gross debt centres around providing an assurance that borrowing is not taking place for revenue purposes. However, as the Council is not borrowing any

# EXPECTED MOVEMENT

## INTEREST RATES

additional funds at this time, this is not an issue.

7.4 The Council appointed MUFG Corporate Markets as treasury advisor to the

Council and part of their service is to assist the Council to formulate a view on interest rates. MUFG provided the following forecast on 22nd December 2025. The following table gives MUFG's view of the movement in interest rates.

	Qtr 1 26/27	Qtr 2 26/27	Qtr 3 26/27	Qtr 4 26/27	Qtr 1 27/28	Qtr 2 27/28	Qtr 3 27/28	Qtr 4 27/28	Qtr 1 28/29	Qtr 2 28/29	Qtr 3 28/29
Base Rate	3.50%	3.50%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.50%
5 Yr PWLB	4.50%	4.30%	4.20%	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%
10 Yr PWLB	5.20%	4.90%	4.80%	4.80%	4.70%	4.70%	4.70%	4.70%	4.60%	4.60%	4.60%
25 Yr PWLB	5.70%	5.60%	5.50%	5.50%	5.40%	5.30%	5.30%	5.30%	5.20%	5.20%	5.20%
50 Yr PWLB	5.50%	5.40%	5.30%	5.30%	5.20%	5.10%	5.10%	5.10%	5.00%	5.10%	5.00%

## EXTERNAL DEBT

### OVERALL LIMITS

8.1 There are two Prudential Indicators which control the overall level of borrowing. These are:

- The Authorised Limit,
- The Operational Boundary.

8.2 The Authorised Limit represents the Council's total borrowing limit, covering short- and long-term debt. It is the **maximum level** of borrowing which the authority is expected to experience at any point within the year, inclusive of headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003 and needs to be set by Members and later (if necessary) revised by Members. The Authorised

Limit includes the borrowing requirement for unexpected cash movements, which is permitted under the Code. Examples of unexpected cash movements include service delivery failure etc.

8.3 The Operational Boundary is the anticipated level of external debt during the year. This indicator is primarily an internal monitoring tool that provides a warning of the potential breach of the Authorised Limit for External Debt; and it also informs whether the plans regarding capital expenditure are on target and whether cash flows are proceeding as planned.

# CONT. EXTERNAL DEBT

## OVERALL LIMITS

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
<b>Authorised Limit</b>				
Total for External Debt	£35,000	£35,000	£35,000	£35,000
<b>Operational Boundary</b>				
Total for External Debt	£20,000	£20,000	£20,000	£20,000

## EXTERNAL VS INTERNAL

### BORROWING

9.1 The Council currently has a difference between gross debt and net debt (after deducting cash balances) of £25,085m.

9.2 In 2026/27 and beyond it is assumed that during this period of uncertainty, all current investments will be repaid and used for cash flow purposes.

9.3 The general aim of this treasury management strategy is to reduce the difference between the two debt levels in order to reduce the credit risk incurred by holding investments. However, measures previously taken have already reduced substantially the level of credit risk so another factor which will be carefully considered is the difference between borrowing rates and

investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.

9.4 The next financial year is expected to see the bank rate fall to 3.25%.

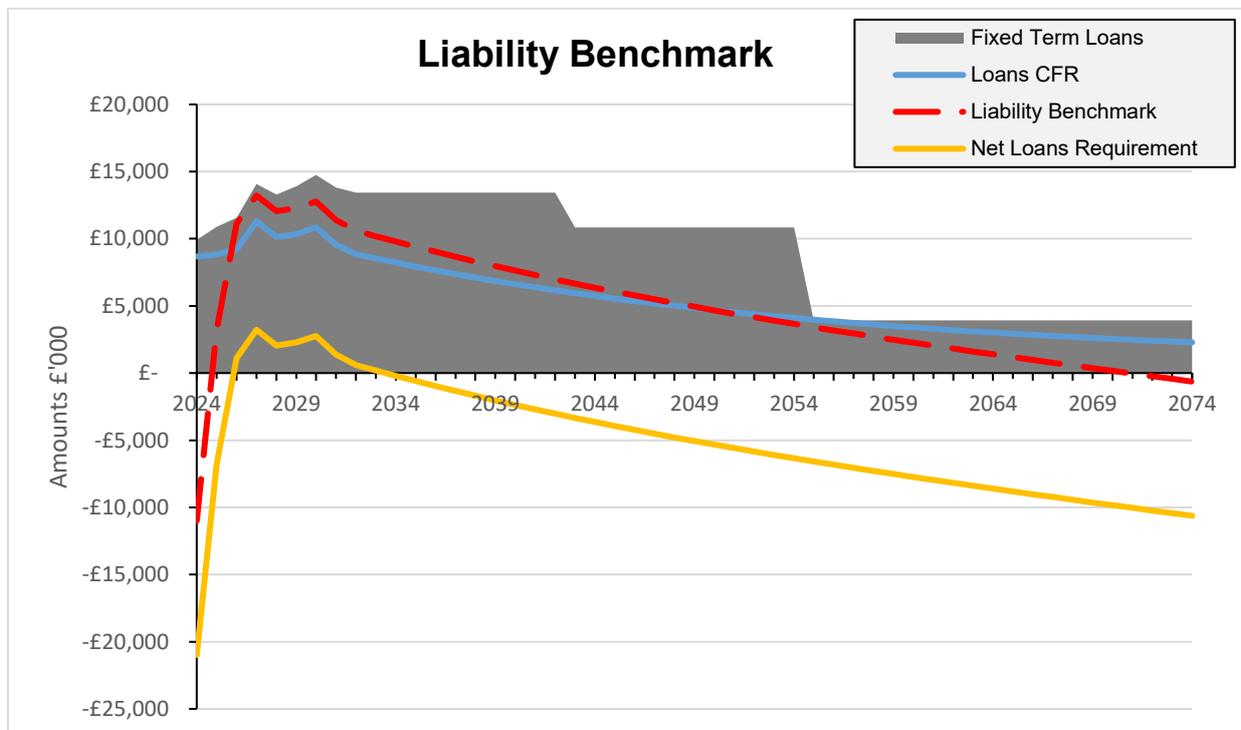
9.5 Against this background caution will be adopted with the 2026/27 treasury operations. The Executive Director of Resources will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision-making body.

	2024/25 Actual £'000	2025/26 Forecast £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Actual External Debt	£11,137	£13,683	£13,200	£12,243	£12,223
Cash Balances	£35,193	£38,768	£10,000	£10,000	£10,000
<b>Net Debt</b>	<b>(£24,056)</b>	<b>(£25,085)</b>	<b>£3,200</b>	<b>£2,243</b>	<b>£2,223</b>

# LIABILITY BENCHMARK

10.1 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as used throughout this report, but that cash and investment balances are kept to a minimum level of £10M at each year-end to maintain sufficient liquidity but minimise credit risk.

10.2 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.



10.3 The long-term liability benchmark assumes no new capital expenditure funded by borrowing and that income, expenditure and reserves all increase by inflation of 1.0% each year. This is shown in the chart above together with the maturity profile of the Council's existing borrowing.

10.4 The chart above shows that the Council has long-term borrowings, that were committed to a number of years ago, which are forecast to be above the

liability benchmark, and therefore the Council would not be expecting to enter into new borrowings over the short term.

10.5 Borrowing levels are above the liability benchmark due to high cash balances as a result of grants received in advance of capital spend, as well as the Council holding healthy levels of reserves.

# LIMITS ON ACTIVITY

11.1 The aim of the prudential indicators is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest or borrowing decisions which could impact negatively on the Council's overall financial position.

11.2 The proposed local limit of 100% on variable rate loan debt, as shown in the following table, relates to the potential situation where maturing fixed rate is not replaced.

## 11.3. TREASURY MANAGEMENT INDICATORS

	2024/25 Upper	2025/26 Upper	2026/27 Upper
Limits on Fixed Interest Rates	100%	100%	100%
Limits on Variable Interest Rates	100%	100%	100%
Maximum Principal Sums Invested for Over 365 Days	£3M	£3M	£3M

*The Council must set upper and lower limits for the maturity structure of its borrowings.*

## 11.4. LIMITS FOR MATURITY STRUCTURE FOR BORROWING

Period to Maturity of Debt	Upper Limit	Lower Limit
Under 12 Months	75%	0%
12 Months and with 24 Months	75%	0%
24 Months and within 5 Years	75%	0%
5 Years and within 10 Years	75%	0%
10 Years and Above	75%	0%

*The maturity in the under 12-month period relates to Lender Option, Borrower Option (LOBO) loans. From 2011/12, the maturity date of a LOBO is now deemed to be the next call date. The LOBO's have six monthly call dates.*

# DEBT RESCHEDULING

12.1 CIPFA issued an updated Statement of Recommended Accounting Practice (SORP 2007) incorporating, for financial instruments, Financial Reporting Standard 25 (Presentation & Disclosure), FRS 26 (Recognition & Measurement) and FRS 29 (replacement disclosure requirements). This presented major potential changes in the treatment of the valuation of debt and investments, the calculation of interest and the treatment of premiums and discounts arising from debt rescheduling. The SORP removed the ability to spread premiums and discounts arising under debt

rescheduling over the life of replacement borrowing.

12.2 In the main, the above-mentioned financial reporting standards have converged with international standards for 2011/12 and onwards reporting.

12.3 In exceptional circumstances the Executive Director of Resources may approve rescheduling under emergency powers, e.g. where swift action is required to secure favourable rates. This action would be reported to Cabinet.

# INVESTMENT STRATEGY

- 13.1 The Council will have regard to the MHCLG revised guidance on Local Government Investments; and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance notes revised in 2021. The Council's investment priorities are:
- The security of capital,
  - The liquidity of its investments.
- 13.2 The Council will also aim to achieve optimum return on its investments commensurate with proper levels of security and liquidity.
- 13.3 The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council does not engage in the activity.
- 13.4 If the Council is in a position where it has surplus funds for a period of time, competitive quotations will be sought from a range of institutions with a view to making a temporary investment. Investments will be placed with the most cost-effective institution, taking dealing costs into account. The Council uses the services of City brokers to identify the optimum investment opportunities.
- 13.5 The Council uses the credit ratings available from the three major credit rating agencies; Fitch, Moodys and Standard & Poor, to derive its lending criteria. All credit ratings will be monitored weekly. The Council is alerted to changes in Credit ratings through its use of the MUFG Corporate Markets creditworthiness service. The creditworthiness service uses a sophisticated modeling approach with credit ratings from all three credit rating agencies. If a downgrade results in the counterparty no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately. If required new counterparties which meet the criteria are added to the list. The Credit ratings are supplemented by use of Credit Default Swap (CDS) spreads which give an early warning of likely changes in credit ratings.
- 13.6 Fully Nationalised Banks in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high credit worthiness. In particular, as they are no longer separate institutions in their own right, it is impossible for Fitch to assign to them an individual rating for their stand-alone financial strength. Accordingly, Fitch have assigned an F rating which means that at a historical point of time, this bank has failed and is now owned by the Government. However, these institutions are now recipients of an F1+ short term rating as they effectively take on the credit worthiness of the Government itself i.e. deposits made with them are effectively being made to the government. They also have a support rating of 1; in other words, on both counts, they have the highest rating possible.
- 13.7 The other situation which could arise is where the Bank hasn't been fully nationalised but receives support from the UK Government, in which case the individual rating is E i.e. the Fitch definition is "A bank which requires external support".
- 13.8 Investment instruments identified for use in the financial year are classified as 'Specified' and 'Non-Specified' Investments. Counterparty limits will be as set through the Council's Treasury Management Practices.
- 13.9 Specified Investments are sterling investments of not more than one-year maturity. These are low risk assets, and the possibility of loss of

## CONT. INVESTMENT STRATEGY

principal or investment income is very low. The investments are defined as:

- The UK Government (such as the Debt Management Office, UK Treasury Bills or a gilt with less than one year to maturity),
- A local authority, parish council or community council,
- An investment scheme that has been awarded a high credit rating by a credit rating agency such as Standard and Poor, Moody's or Fitch,
- Pooled Investment Vehicles (such as Money Market Funds) that have been awarded a high credit rating by a credit rating agency,
- A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society).

13.10 Non-Specified Investments include any other type of investment (i.e. not defined as specified above). These are sterling investments with:

- Securities admitted to the Official List of the Stock Exchange, which

are guaranteed by the UK Government (such as supranational bonds),

- Gilt edged securities with a maturity of greater than one year,
- Institutions not meeting the basic security requirements under the specified investments,
- A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society), for deposits with a maturity of more than one year.

13.11 At the present time, the Council has no immediate plans to invest in non-specified investments, in order to maintain the high security and liquidity of Council funds.

## ENVIRONMENTAL, SOCIAL

## & GOVERNANCE (ESG)

14.1 Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks

that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

# TREASURY MANAGEMENT

## PRACTICES (TMP)

CIPFA recommend that all the following TMPs should be adopted, with the schedules where appropriate to the scope and nature of the treasury management activities undertaken:

### TMP1 Risk Management

The Executive Director of Resources will implement and monitor all arrangements for the identification, management and control of treasury management risk, reporting at least annually on this; relevant issues include liquidity risk management, interest rate risk management, security of investments, refinancing risk management, legal and regulatory risk management, fraud error and corruption issues, market risk management.

### TMP2 Best Value and Performance Measurement

Commitment to best value and performance measurement in treasury management activities.

### TMP3 Decision-making and Analysis

Full records to be maintained.

### TMP4 Approved Instruments, Methods, and Techniques

To list the instruments, methods, and techniques that the authority will use to ensure that any risks involved are fully understood and evaluated.

### TMP5 Organization, clarity, segregation of responsibilities, dealing arrangements.

Clear written statements of responsibilities, and arrangements for absence cover.

### TMP6 Reporting requirements and management information arrangements.

As a minimum, reports to be submitted to the Executive and Council on the strategy and plan to be pursued in the coming year, and on performance in the past year.

### TMP7 Budgeting, accounting, and audit arrangements

To be fully documented.

### TMP8 Cash and cash flow management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the Executive Director of Resources and aggregated for cash flow and investment management purposes. Cash flow projections to be prepared on a regular and timely basis.

### TMP9 Money laundering

Where appropriate, to be alert to the possibility of money laundering, and to maintain procedures for verifying and recording the identity of counterparties etc.

### TMP10 Staff training and qualifications

Recognising the importance of ensuring that staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them.

### TMP11 Use of external service providers

Recognising the potential value of employing external providers of treasury management services in order to access specialist skills and resources, subject to evaluation of costs and benefits and proper documentation.

### TMP12 Corporate governance

Commitment to the pursuit of proper corporate governance and the key recommendations of this Code; accordingly, the treasury management function to be undertaken with openness and transparency, honesty, integrity, and accountability.

A full description of each TMP is at Appendix 3.

# POLICY ON THE USE OF EXTERNAL SERVICE PROVIDERS

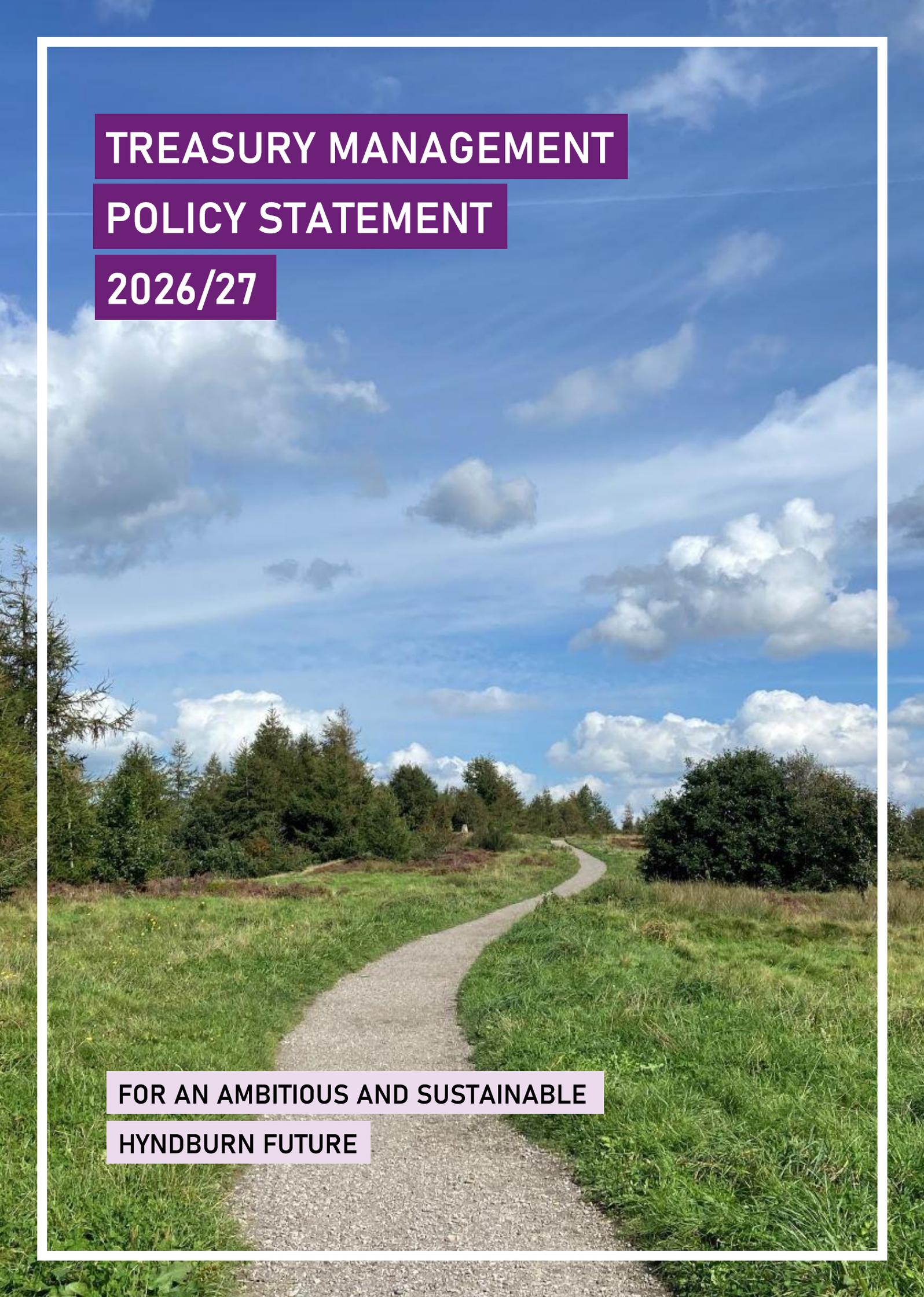
15.1 The Council uses MUFG Corporate Markets formerly Link Asset Services, as its external treasury management advisor.

15.2 The Council recognises that responsibility for treasury management always remains with the organisation and will ensure that undue reliance is not placed upon external service providers. It also recognises there is value in employing external providers of treasury management services in order to acquire specialist skills and resources.

## TREASURY MANAGEMENT STRATEGY IN-YEAR & YEAR-END REPORTING

17.1 As well as the quarterly update report to Cabinet, treasury management features, when appropriate, in revenue budget monitoring reports during the year; and the annual outturn of treasury management and indicators is reported to Cabinet as soon as practicable after the year end. In addition, considering the revised code of practice, the Resources Overview and Scrutiny Committee was given a role to monitor and review the Council's treasury management strategy and policies by the Full Council, from March 2010 via addition to terms of reference. This also includes changes made to the Financial Procedures Rules for treasury management.





**TREASURY MANAGEMENT**

**POLICY STATEMENT**

**2026/27**

**FOR AN AMBITIOUS AND SUSTAINABLE**

**HYNDBURN FUTURE**

# TREASURY MANAGEMENT POLICY

## STATEMENT 2026/27

Hyndburn Borough Council defines its treasury management activities as follows:-

1. The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

A scenic view of a pond with reeds, ducks, and power lines in the background. The pond is surrounded by lush green vegetation, and several ducks are visible in the water. In the background, there are several high-voltage power lines and towers under a clear blue sky. The foreground is dominated by tall, green reeds with some brown seed heads.

# TREASURY MANAGEMENT PRACTICES 2026/27

FOR AN AMBITIOUS AND SUSTAINABLE  
HYNDBURN FUTURE

# TMP 1 RISK MANAGEMENT

The responsible officer – Executive Director (Resources) – will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and Management Information Arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set below.

## 1.1 Credit and Counterparty Risk Management

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods and Techniques. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

### 1.1.1 Creditworthiness Policy

This Council applies the creditworthiness service provided by MUFG Corporate Markets. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

Yellow	5 years (UK Government debt, or its equivalent, money market funds)
Dark pink	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
Light pink	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days

# CONT. TMP 1 RISK MANAGEMENT

No colour not to be used  
The MUFG Corporate Markets creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria the Council use will be a Short-Term rating (Fitch or equivalents) of F1 and a Long-Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the MUFG Corporate Markets creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by MUFG Corporate Markets. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and market information, information on any external support for banks to help support its decision-making process.

## Country and sector limits

The Council has determined that due to the uncertainty of Brexit it will use any UK bank regardless that the sovereign credit rating may be reduced from its current AA rating position. It will only use approved counterparties from other countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown below.

This list is based on those countries which have sovereign ratings of AA- or higher (at the date of this report) and also have banks operating in sterling markets which have credit ratings of green or above in the MUFG Corporate Markets credit worthiness service.

### AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

### AA+

- Canada
- Finland
- U.S.A.

### AA

- Abu Dhabi (UAE)
- Qatar

### AA-

- Belgium
- France
- UK

# CONT. TMP 1 RISK MANAGEMENT

Maximum maturity periods and amounts to be placed in different types of investment instrument are as follows: -

## Maturities up to a maximum of 1 year

Organisation	Minimum 'High' Credit Criteria	Max Amount	Max Period
Debt Management Agency Deposit Facility	-	Unlimited	6months (max is set by the DMO)
Term Deposits - Local Authorities	-	£2m	1 year
Term Deposits - Banks & Building Societies	Short-term, Long-term, Viability, Support.	£2m	Colour Code Dependant but max of 1 year
Liquid Deposits - Nat West Bank	Short-term, Long-term, Viability, Support.	£3m	1 year
Lancashire County Council - Call Account	Short-term, Long-term, Viability, Support	£2m	1 year
Money Market Funds	AAA long-term rating	£2m	1 year
UK Government Support to the banking sector	Sovereign Rating	£2m	1 year

## Maturities in excess of 1 year:

### Organisation

Debt Management Agency Deposit Facility

Term Deposits - Local Authorities

Term Deposits - Banks & Building Societies \*\*

Money Market Funds

UK Government Support to the banking sector

### Minimum 'High' Credit Criteria

-

-

Short-term, Long-term, Viability, Support.

AAA long-term rating

Sovereign Rating

This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

1. Diversification: this organisation will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -
  - Maximum amount to be placed with any one institution - £2m - with the exception of a deposit in Nat West Liquidity Account where the investment will not exceed £3m and the Debt Management Agency Deposit Facility, which is unlimited.

- Group limits where a number of institutions are under one ownership - maximum of £10m.

2. Investments will not be made with counterparties, except other Local Authorities, that do not have a credit rating in their own right. The definition of 'high credit quality' in order to determine what are specified investments as opposed to non-specified investments which do not have high credit ratings is set out at the end of TMP1 in schedule 1.

## 1.2 Liquidity Risk Management

This is the risk that cash will not be available when it is needed, that ineffective management of liquidity

# CONT. TMP 1 RISK MANAGEMENT

creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised. This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

## 1.2.1 Amounts of approved minimum cash balances and short-term investments

The Treasury Management section shall seek to minimise the balance held in the Council's main bank accounts at the close of each working day. Borrowing or lending shall be arranged in order to achieve this aim.

## 1.2.2 Details of:

- a. Standby facilities  
At the end of each financial day any unexpected surplus funds are transferred to the Nat West Liquidity Account which is available from the Council's main bank. The balance on this account is instantly accessible if the group bank account becomes overdrawn.
- b. Bank overdraft arrangements  
There is no overdraft arrangement for the Council's accounts. Bank Charges will be calculated on overdrawn amounts at 15% on any amount over the Net limit.
- c. Short-term borrowing facilities

The Council may access temporary loans through approved brokers on the London money market. The approved borrowing limit for short term debt is £10m.

- d. Insurance/guarantee facilities  
There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.

## 1.3 Interest Rate Risk Management

There is a risk that fluctuations in the levels of interest rates would create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

This Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

### 1.3.1 Details of approved interest rate exposure limits

# CONT. TMP 1 RISK MANAGEMENT

The Treasury Indicators for 2026/27 include a figure of £35 million for External Debt – Authorised Limit.

## **1.3.2 Trigger points and other guidelines for managing changes to interest rate levels**

The Treasury Indicators for 2026/27 include a figure of £20 million for External Debt – Operational Boundary.

## **1.3.3 Upper limit for fixed interest rate exposure**

The Prudential Indicators for 2026/27 include an estimated exposure of 100% of principal sums outstanding in respect of borrowing at fixed interest rates.

## **1.3.4 Upper limit for variable interest rate exposure**

The prudential Indicators for 2026/27 include an estimated exposure of 100% of principal sums outstanding in respect of borrowing at variable interest rates.

## **1.3.5 Policies concerning the use of instruments for interest rate management.**

- a. **Forward Dealing**  
Consideration will be given to dealing from forward periods dependent upon market conditions.
- b. **Callable Deposits**  
The Council may use callable deposits as part as of its Annual Investment Strategy (AIS). The credit criteria and maximum periods are set out in the Schedule of Specified and Non-Specified Investments appended to the AIS.

- c. **LOBOS (borrowing under lender's option/borrower's option)**  
Use of LOBOs are considered as part of the annual borrowing strategy. All borrowing for periods in excess of 365 days must be approved by the Executive Director of Resources.

## **1.4 Exchange Rate Risk Management**

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

## **1.5 Inflation Risk Management**

The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

## **1.6 Refinancing Risk Management**

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

This Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to

# CONT. TMP 1 RISK MANAGEMENT

obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

## **1.6.1 Debt/Other Capital Financing, Maturity Profiling, Policies and Practices**

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous, and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

- a) the generation of cash savings at minimum risk,
- b) to reduce the average interest rate,
- c) to amend the maturity profile and /or the balance of volatility of the debt portfolio.

All rescheduling will be reported to the Cabinet at as soon as possible after the debt rescheduling exercise.

## **1.6.2 Projected Capital Investment Requirements**

The Executive Director of Resource will prepare a three-year plan for capital expenditure for the Council. The capital plan will be used to prepare a three-year revenue budget for all forms of financing charges.

In addition, the Executive Director (Resources) will draw up a capital strategy report which will give a longer-term view.

The definition of capital expenditure and long-term liabilities used in the Code will follow recommended accounting practice as per the Code of Practice on Local Authority Accounting.

## **1.6.3 Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing**

In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax. It will also take into account affordability in the longer term beyond this three-year period.

The Council will use the definitions provided in the Prudential Code for borrowing (65), capital expenditure (66), capital financing requirement (67), debt (68), financing costs (69), investments (70), net borrowing (71), net revenue stream (72), other long-term liabilities (73).

## **1.7 Legal and Regulatory Risk Management**

# CONT. TMP 1 RISK MANAGEMENT

The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

The Council will ensure that all its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the organisation, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

## 1.7.1 References to Relevant Statutes and Regulations

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. These are:

### English Authorities: -

- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position,
- Requirement to set a balanced budget – Local Government Finance Act 1992 section 32,
- Local Government Act 2003,

- S.I. 2003 No.2938 Local Government Act 2003 (Commencement No.1 and Transitional Provisions and Savings) Order 2003 13.11.03,
- S.I. 2003 No.3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and associated commentary 10.12.03,
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004 8.3.04,
- S.I. 2004 No.534 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 8.3.04,
- S.I. 2004 no.3055 The Local Authorities (Capital Finance and Accounting) (Amendment) (England) (No.2) Regulations 2004,
- S.I. 2006 no.521 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2006,
- S.I. 2007 no. 573 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007,
- Local Government and Public Involvement in Health Act 2007 s238(2) – power to issue guidance; to be used re: MRP,
- S.I. 2008 no. 414 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2008,
- S.I. 2009 no. 321 Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2009,
- S.I. 2009 no. 2272 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.2) Regulations 2009,
- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009,

# CONT. TMP 1 RISK MANAGEMENT

- S.I. 2010 no. 454 (Capital Finance and Accounting) (Amendment) (England) Regulations 2010,
- Localism Act 2011,
- S.I. 2012 no.265 Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2012,
- S.I.2012 no 711 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.2) Regulations 2012,
- 2012 no.1324 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.3) Regulation 2012,
- S.I. No 2269 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.4) Regulations 2012,
- S.I. 2013 no 476 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2013,
- S.I. 2015 no.234 Accounts and Audit Regulations 2015,
- S.I. 2017 no. 536 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2017,
- S.I. 2018 no. 1207 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2018,
- Statutory Guidance on Investments 2018,
- Statutory Guidance on MRP 2018,
- 2019 No. 394 Exiting the European Union financial services: The Money Market Funds (Amendment) (EU Exit) Regulations 2019,
- S.I. 2019 no. 396 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2019,

## **Guidance and codes of practice**

- CIPFA Local Authority Capital Accounting – a reference manual for practitioners latest year edition,
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996,
- CIPFA Standard of Professional Practice on Treasury Management 2002,
- CIPFA Standard of Professional Practice on Continuous professional Development 2005,
- CIPFA Standard of Professional Practice on Ethics 2006,
- The Good Governance Standard for Public Services 2004,
- CIPFA's Treasury Management Codes of Practice and Guidance Notes 2021,
- CIPFA Prudential Code for Capital Finance in Local Authorities – guidance notes for practitioners 2021,
- LAAP Bulletins,
- IFRS – Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice,
- PWLB circulars on Lending Policy,
- The UK Money Markets Guide (was formerly known as Financial Conduct Authority's Code of Market Conduct),
- The Council's Standing Orders relating to Contracts,
- The Council's Financial Regulations,
- The Council's Scheme of Delegated Functions.

## **1.7.2 Procedures for Evidencing the Council's Powers/Authorities to Counterparties**

The Council's powers to borrow and invest are contained in legislation.

# CONT. TMP 1 RISK MANAGEMENT

Investing: Local Government Act 2003, section 12

Borrowing: Local Government Act 2003, section 1

## **Required Information on Counterparties**

Lending shall only be made to counterparties on the Approved Lending list. This list has been compiled using advice from the Council's treasury advisers based upon credit ratings supplied by Fitch, Moodys and Standard & Poors.

### **1.7.3 Statement on the Council's Political Risks and Management of Same**

The Executive Director (Resources) shall take appropriate action with the Council, the Chief Executive and the Leader of the Council to respond to and manage appropriately political risks such as change of majority group, leadership in the Council, change of Government etc.

### **1.7.4 Monitoring Officer**

The monitoring officer is the Executive Director – Legal & Democratic Services; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

### **1.7.5 Chief Financial Officer**

The Chief Financial Officer is the Executive Director (Resources); the duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if they have concerns as to the financial prudence of its actions or its expected financial position.

### **1.8 Operation Risk, Including Fraud, Error and Corruption**

There is a risk that an organisation could fail to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fail to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. This is commonly referred to as operational risk.

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

The Council will therefore:-

- a) Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
- b) Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
- c) Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
- d) Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

# CONT. TMP 1 RISK MANAGEMENT

## 1.8.1 Details of Systems and Procedures to be Followed, Including Internet Services

### Authority

- The Scheme of Delegation to Officers sets out the delegation of duties to officers.
- All loans and investments are negotiated by the responsible officer or authorised persons.
- Loan procedures are defined in the Council's Financial Regulations.

### Procedures

- Electronic Banking procedures – A password and PIN number is required to access the Bankline system which is used to make electronic payments.
- CHAPS payments – Payments can only be authorised by agreed officers who have been notified to the current provider of our banking services.

### Investment and borrowing transactions

- A detailed register of all loans and investments is maintained by the treasury team. This is regularly checked to the ledger.
- Adequate and effective cash flow forecasting records are maintained on spreadsheets to support the decision to lend or borrow.
- A written acknowledgement of each deal is sent promptly to the lending or borrowing institution.
- Written confirmation is received and checked against the dealer's records for the transaction.
- Any discrepancies are immediately reported to the

Principal Accountant for resolution.

- All transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. Written confirmation is received and checked against the dealer's records for the transaction. Any discrepancies are immediately reported to the Principal Accountant for resolution.

### Regularity and security

- Lending is only made to institutions on the Approved List of Counterparties.
- All loans raised and repayments made go directly to and from the bank account of approved counterparties.
- Counterparty limits are set for every institution that the Council invests with.
- Brokers have a list of named officials authorised to agree deals.
- There is a separation of duties in the section between dealers and the checking and authorisation of all deals.
- The Council's bank holds a list of Council officials who are authorised signatories for treasury management transactions.
- Payments can only be authorised in a formal letter by an authorised signatory, the list of signatories having previously been agreed with the current provider of our banking services.
- There is adequate insurance cover for employees involved in loans management and accounting.

### Checks

- The bank reconciliation is carried out monthly from the bank statement to the financial ledger.

# CONT. TMP 1 RISK MANAGEMENT

- A debt charge/investment income listing is produced monthly when a review is undertaken against the budget for interest earnings and debt costs.

## Calculations

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the Treasury Team.

## 1.8.2 Emergency and Contingency Planning Arrangements Disaster Recovery Plan.

Treasury Management related files (word and excel) are stored on the Council's 'H' Drive with arrangements for contingency/back-up. Backup facilities can be accessed off site.

In the event of a 'Bankline System' failure, manual procedures would be followed with information being provided from the Council's Bankers by telephone.

All members of the treasury management team are familiar with this plan, and new members will be briefed on it.

## 1.8.3 Insurance Cover Details Crime Insurance

The Council has 'Crime' insurance cover with Zurich Municipal Insurance. This covers the loss of cash by fraud or dishonesty of employees.

This cover is limited to £2m per employee with an overall policy aggregate limit of indemnity of £2m. There is an excess of £10,000 for any one claim.

## Officials Indemnity Insurance

The Council also has an 'Officials Indemnity' insurance policy with Zurich Municipal which covers loss to the Council from the actions and advice of its officers in the course of their duty which are negligent and without due care. This cover is limited to £2m for any one event with an excess of £25,000 for any one event.

## Business Interruption

The Council also has a 'Business Interruption' cover as part of its property insurance with Maven Public Sector Insurance.

## 1.9 Price Risk Management

The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations.

## 1.9.1 Details of Approved Procedures and Limits for Controlling Exposure to Investments Whose Capital Value May Fluctuate (Gilts, CDs, Etc.)

# CONT. TMP 1 RISK MANAGEMENT

These are controlled through setting limits on investment instruments where the principal value can fluctuate. The limits are determined and set through the Annual Investment Strategy.

- **Non-Specified Investments:** These are investments which do not meet the Specified Investment Criteria.

The guidance and CIPFA TM Code distinguishes between specified and non-specified investments, as follows:-

## TMP 1 SCHEDULE 1 – SPECIFIED AND NON-SPECIFIED INVESTMENTS

The guidance and CIPFA TM Code distinguishes between specified and non-specified investments, as follows:-

- **Specified Investments:** All such investments will be sterling denominated with maturities up to a maximum of 1 year, meeting the minimum 'high' quality criteria where applicable.

- **Specified Investments:** All such investments will be sterling denominated with maturities up to a maximum of 1 year, meeting the minimum 'high' quality criteria where applicable.
- **Non-Specified Investments:** These are investments which do not meet the Specified Investment Criteria.

Organisation – Specified unless otherwise stated	Minimum credit criteria / colour band	Max Amount	Max Period
Term deposits with UK Clearing Banks	Blue Orange Red Green No Colour	£2m	Up to 1 year* Up to 1 year Up to 6 months Up to 100 days Not for use
Liquid deposits with Nat West Liquidity Account	Blue Orange Red Green No Colour	£3m	Up to 1 year* Up to 1 year Up to 6 months Up to 100 days Not for use
Term deposits with UK Building Societies	Blue Orange Red Green No Colour	£2m	Up to 1 year* Up to 1 year Up to 6 months Up to 100 days Not for use
UK Local Authorities	N/A	£2m	Up to 1 year
Money Market Funds CNAV	Minimum AAA	£2m	Up to 1 year
Money Market Funds LVNAV	Minimum AAA	£2m	Up to 1 year
Money Market Funds VNAV	Minimum AAA	£2m	Up to 1 year

\* Nationalised and part Nationalised banks

# TMP 2 PERFORMANCE MANAGEMENT

## 2.1 Evaluation and Review of Treasury Management Decisions

The Council has a number of approaches to evaluating treasury management decisions: -

- a. reviews with our treasury management consultants
- b. annual review after the end of the year as reported to full council
- c. half yearly reports to Cabinet

### 2.1.1 Reviews with our treasury management consultants

The treasury management team holds reviews with our consultants every 12 months to review the performance of the investment and debt portfolios.

### 2.1.2 Review reports on treasury management

An Annual Treasury Report is submitted to the Council each year after the close of the financial year which reviews the performance of the debt and investment portfolios. This report contains the following: -

- a. total debt and investments at the beginning and close of the financial year and average interest rates
- b. borrowing strategy for the year compared to actual strategy
- c. investment strategy for the year compared to actual strategy
- d. explanations for variance between original strategies and actual
- e. debt rescheduling done in the year
- f. actual borrowing and investment rates available through the year

- g. compliance with Prudential and Treasury Indicators
- h. other

### 2.1.3 Quarterly Monitoring Reports

A quarterly Report on Treasury Management is submitted to Cabinet which reviews the performance of the debt and investment portfolios. This report contains the same information as the annual report but only includes information for each quarter.

### 2.1.4 Comparative reviews

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential and Treasury Indicators are locally set). Data used will be sourced from: -

- CIPFA Treasury Management statistics published each year for the last complete financial year
- CIPFA Benchmarking Club
- Other

## 2.2 Benchmarks and Calculation Methodology:

### 2.2.1 Debt management

- Average rate on all external debt
- Average rate on external debt borrowed in previous financial year
- Average rate on internal borrowing
- Average period to maturity of external debt
- Average period to maturity of new loans in previous year

# CONT. TMP 2 PERFORMANCE

## 2.2.2 Investment.

The performance of investment earnings will be measured against the following benchmarks: -

- a. in house investments
- b. MUFG Corporate Markets model

Performance may also be measured against other local authority funds with similar benchmark and parameters managed by other fund managers.

Corporate Markets) and separate leasing advisory service.

## 2.3.5 Policy on External Managers (Other than relating to Superannuation Funds)

The Council's policy is not to appoint external investment fund managers.

## 2.3 Policy Concerning Methods for Testing Value for money in Treasury Management

### 2.3.1 Frequency and processes for tendering

Tenders are normally awarded on a 3 year basis. The process for advertising and awarding contracts will be in line with the Council's Contract Standing Orders.

### 2.3.2 Banking services

The Council's banking arrangements are to be subject to competitive tender unless it is considered that there will be changes in the volume of transactions in the foreseeable future which renders a shorter period appropriate.

### 2.3.3 Money-broking services

The Council may use money broking services in order to make deposits or to borrow and will establish charges for all services prior to using them.

### 2.3.4 Consultants'/advisers' services

This Council's policy is to appoint full-time professional treasury management consultants (MUFG

# TMP 3 DECISION-MAKING

## AND ANALYSIS

### 3.1 Funding, Borrowing, Lending, and New Instruments/Techniques:

#### 3.1.1 Records to be kept

All loan transactions are recorded on a spreadsheet. The following records will be used relative to each loan or investment.

- Daily cash balance forecasts
- Money market rates obtained by telephone and e-mail from brokers or direct
- Dealing slips for all money market transactions
- Brokers' confirmations for investment and temporary borrowing transactions
- Confirmations from borrowing /lending institutions where deals are done directly
- PWLB loan confirmations
- PWLB debt portfolio schedules.
- Certificates for market loans, local bonds and other loans

#### 3.1.2 Processes to be pursued

- Cash flow analysis.
- Debt and investment maturity analysis
- Ledger reconciliation
- Review of opportunities for debt restructuring (if applicable)
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money)
- Performance information (e.g. monitoring of actuals against budget for debt charges, interest earned, debt management; also monitoring of average pool rate, investment returns, etc).

#### 3.1.3 Issues to be addressed.

##### 3.1.3.1 In respect of every treasury management decision made the Council will:

- a) Above all be clear about the nature and extent of the risks to which the Council may become exposed

- b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
- c) Be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping
- d) Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded
- e) Be content that the terms of any transactions have been fully checked against the market and have been found to be competitive.

##### 3.1.3.2 In respect of borrowing and other funding decisions, the Council will:

- a) consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets
- b) evaluate the economic and market factors that might influence the manner and timing of any decision to finance capital schemes
- c) consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and external grant providers
- d) consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

##### 3.1.3.3 In respect of investment decisions, the Council will:

- a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions.
- b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital.

# TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

## 4.1 Approved Activities of the Treasury Management Operation

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- leasing.

## 4.2 Approved Instruments for Investments

Refer to the Annual Investment Strategy.

### 4.2.1 Implementation of MIFID II Requirements

Since 3 January 2018, UK public sector bodies have been defaulted to "retail" status under the requirements of MiFID II. However, for each counterparty it is looking to transact with, (e.g. financial institution, fund management operator, broker), there remains the option to opt up to "professional" status, subject to meeting certain requirements specified by MIFID II and that it has the appropriate level of knowledge and experience and decision-making processes in place in order to use regulated investment products.

MIFID II does not cover term deposits so local authorities should not be required to opt up to professional status. However, some non-UK banks do not have the necessary regulatory permissions to deal with retail clients, so opting up to professional status would be required.

For investing in negotiable investment instruments, (e.g. certificates of deposit, gilts, corporate bonds), money market funds

and other types of investment funds, which are covered by MIFID II, a schedule is maintained of all counterparties that the treasury management team are authorised to place investments with. This specifies for each investment instrument and for each counterparty, whether the authority has been opted up to professional status. (N.B. some money market funds will deal with both retail and professional clients.)

A file is maintained for all permissions applied for and received for opt ups to professional status specifying name of the institution, instrument, date applied for, and date received.

## 4.3 Approved Techniques

- Forward dealing
- LOBOs – lenders option, borrower's option borrowing instrument
- The use of structured products such as callable deposits

## 4.4 Approved Methods and Sources of Raising Capital Finance

Finance will only be raised in accordance with the Local Government Act 2003, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	Fixed	Variable
PWLB	•	•
Market (long-term)	•	•
Market (temporary)	•	•
Market (LOBOs)	•	•
Local authorities	•	•
Local temporary	•	•
Local Bonds	•	•
Banks	•	•
Overdraft	•	•
Internal (capital receipts & revenue balances)	•	•
Leasing (not operating leases)	•	•
Deferred Purchase	•	•

## Other Methods of Financing

- Government and EC Capital Grants
- Lottery monies
- Operating leases

## CONT. TMP 4

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations, and local considerations. The Executive Director (Resources) has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take

the most appropriate form of borrowing from the approved sources.

### 4.5 Investment Limits

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument.

### 4.6 Borrowing Limits

See the Treasury Management Strategy Statement and Prudential and Treasury Indicators.

## TMP 5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, DEALING ARRANGEMENTS

### 5.1 Allocation of responsibilities

#### (i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.
- approval of capital strategy

#### (ii) Full Council / Cabinet

- approval of amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

#### (iii) Resources Overview & Scrutiny Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible bodv.

### 5.2 Principles and Practices Concerning Segregation of Duties

5.2.1 The following duties are undertaken by separate officers:

Dealing	Negotiation and approval of deal. Receipt and checking of brokers confirmation note against loans diary. Reconciliation of cash control account. Bank reconciliation
Accounting Entry	Processing the expenditure or income i.e. posting the entries into the accounting system.
Authorisation/ Payment of Deal	Entry onto system. Approval and payment. Approval of deals

### 5.3 Treasury Management Organisation Chart



# CONT. TMP 5

## 5.4 Statement of the treasury management duties/responsibilities of each treasury post

### 5.4.1. The responsible officer

The responsible officer is the person charged with professional responsibility for the treasury management function and in this Council is the Executive Director of Resources (*This post is also the S151 officer.*) This person will carry out the following duties: -

- a) Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- b) Submitting regular treasury management policy reports
- c) Submitting budgets and budget variations
- d) Receiving and reviewing management information reports
- e) Reviewing the performance of the treasury management function
- f) Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- g) Ensuring the adequacy of internal audit, and liaising with external audit
- h) Recommending the appointment of external service providers.
- i) The responsible officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
- j) The responsible officer may delegate his power to borrow and invest to members of his staff. The Accounts Manager, the Principal Accountant or the Accountancy Assistant Treasury Management Team must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave/sickness. All transactions must

be authorised by at least two of the named officers above.

- k) The responsible officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
- l) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations
- m) It is also the responsibility of the responsible officer to ensure that the Council complies with the requirements of The UK Money Markets Code (formerly known as the Non-Investment Products Code) for principals and broking firms in the wholesale markets.

### 5.4.2. Principal Accountant

The responsibilities of this post will be: -

- a) Execution of transactions
- b) Adherence to agreed policies and practices on a day-to-day basis
- c) Maintaining relationships with counterparties and external service providers
- d) Supervising treasury management staff
- e) Monitoring performance on a day-to-day basis
- f) Submitting management information reports to the responsible officer
- g) Identifying and recommending opportunities for improved practices

### 5.4.3. The Head of the Paid Service – the Chief Executive

The responsibilities of this post will be: -

# CONT. TMP 5

- a) Ensuring that the system is specified and implemented
- b) Ensuring that the Executive Director of Resources reports regularly to the full Council and Cabinet on treasury policy, activity and performance.

## 5.4.4. The Monitoring Officer – Executive Director – Legal & Democratic Services

The responsibilities of this post will be: -

- a) Ensuring compliance by the Executive Director of Resources with the treasury management policy statement and treasury management practices and that they comply with the law.
- b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- c) Giving advice to the Executive Director of Finance when advice is sought.

## 5.4.5. Internal Audit

The responsibilities of Internal Audit will be: -

- a) Reviewing compliance with approved policy and treasury management practices.
- b) Reviewing division of duties and operational practice.
- c) Assessing value for money from treasury activities.
- d) Undertaking probity audit of treasury function.

## 5.5 Absence Cover Arrangements

The Head of Finance is also the deputy S151 Officer.

## 5.6 Dealing Limits

The following posts are authorised to deal: -

- Head of Finance
- Finance Manager
- Principal Accountant

The Senior Accounts Assistants are also authorised to deal but details checked by someone above.

The dealing limits are set out in TMP 1.1.1

## 5.7 Direct Dealing Practices

The Council will consider dealing directly with counterparties if it is appropriate and the Council believes that better terms will be available. At present, most deals are arranged through brokers. There are certain types of accounts and facilities, however, where direct dealing is required, as follows;

- Business Reserve Accounts:
- Call Accounts:
- Money Market Funds
- Debt Management Office

## 5.8 Settlement Transmission Procedures

For payments a transfer will be made through the CHAP's system or Faster Pay system to be completed by the appropriate bank deadlines in place that day.

## 5.9 Documentation Requirements

For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

## 5.10 Arrangements Concerning the Management of Third-Party Funds.

The Council holds a number of trust funds. The cash in respect of these funds is held in the Council's bank account, but transactions are separately coded. Interest is given on credit balances at the bank base rate for internal balances for the year.

# TMP 6 REPORTING REQUIREMENTS & MANAGEMENT

## 6.1 Annual programme of reporting

- a) Annual reporting requirements before the start of the year: -
  - a. review of the organisation's approved clauses, treasury management policy statement and practices
  - b. strategy report on proposed treasury management activities for the year comprising of the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement
  - c. Capital Strategy to cover the following:
    - I. Give a longer-term view of the capital programme and treasury management implications thereof beyond the three year time horizon for detailed planning.
    - II. An overview of treasury and non-treasury investments to highlight the risks and returns involved in each and the balance (proportionality), between both types of investments.
    - III. The authorities risk appetite and specific policies and arrangements for non-treasury investments.
    - IV. Schedule of non-treasury investments
- b) Quarterly Treasury Management Update
- c) Annual review report after the end of the year

## 6.2 Annual Treasury Management Strategy Statement

1. The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Cabinet and then to the full Council for approval before the commencement of each financial year.

2. The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, the Council may decide to postpone borrowing if fixed interest rates are expected to fall or borrow early if fixed interest rates are expected to rise.
3. The Treasury Management Strategy Statement is concerned with the following elements:
  - a) Prudential and Treasury Indicators
  - b) current Treasury portfolio position
  - c) borrowing requirement
  - d) prospects for interest rates
  - e) borrowing strategy
  - f) policy on borrowing in advance of need
  - g) debt rescheduling
  - h) investment strategy
  - i) creditworthiness policy
  - j) policy on the use of external service providers
  - k) any extraordinary treasury issue
  - l) the MRP strategy
4. The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable) and highlight sensitivities to different scenarios.

## 6.3 The Annual Investment Strategy Statement

At the same time as the Council receives the Treasury Management Strategy Statement it will also receive a report on the Annual Investment Strategy which will set out the following: -

- a) The Council's risk appetite in respect of security, liquidity and optimum performance
- b) The definition of 'high credit quality' to determine what are specified

## CONT. TMP 6

investments as distinct from non-specified investments

- c) Which specified and non-specified instruments the Council will use
- d) Whether they will be used by the in-house team, external managers or both (if applicable)
- e) The Council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
- f) Which credit rating agencies the Council will use
- g) How the Council will deal with changes in ratings, rating watches and rating outlooks
- h) Limits for individual counterparties and group limits
- i) Country limits
- j) Levels of cash balances
- k) Interest rate outlook
- l) Budget for investment earnings
- m) Policy on the use of external service providers

### 6.4 The Annual Minimum Revenue Provision Statement

This statement will set out how the Council will make revenue provision for repayment of its borrowing using the four options for so doing and will be submitted at the same time as the Annual Treasury Management Strategy Statement.

### 6.5 Policy on Prudential and Treasury Indicators

1. The Council approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.
2. The responsible officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the responsible officer shall submit the changes for approval to Cabinet and then full Council.

### 6.6 Quarterly Treasury Management Update

The Council will review its treasury management activities and strategy on a quarterly basis with a report presented to the Cabinet. This review will consider the following: -

- a) activities undertaken
- b) variations (if any) from agreed policies/practices
- c) interim performance report
- d) regular monitoring
- e) monitoring of treasury management indicators for local authorities.

### 6.7 Annual Review Report on Treasury Management Activity

An annual report will be presented to the Cabinet and then to the full Council at the earliest practicable meeting after the end of the financial year, but in any case, by the end of September. This report will include the following: -

- a) transactions executed and their revenue (current) effects
- b) report on risk implications of decisions taken and transactions executed
- c) compliance report on agreed policies and practices, and on statutory/regulatory requirements
- d) performance report
- e) report on compliance with CIPFA Code recommendations
- f) monitoring of treasury management indicators

### 6.8 Management Information Reports

Management information reports will be prepared every month by the Principal Accountant and will be presented to the Accounts Manager.

These reports will contain the following information: -

- a) a summary of transactions executed and their revenue effect; and
- b) the effect on loan charges/investment income; and
- c) any non-compliance with Prudential limits or other treasury management limits.

### 6.9 Publication of Treasury Management Reports

Reports presented to Council and Cabinet are available to view on the Council's website [www.hyndburnbc.gov.uk](http://www.hyndburnbc.gov.uk).

# TMP 7 BUDGETING, ACCOUNTING & AUDIT ARRANGEMENTS

## 7.1 Statutory/Regulatory Requirements

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices.

The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

## 7.2 Sample Budgets / Accounts / Prudential and Treasury Indicators

The Executive Director of Resources will prepare a three-year medium term financial plan with Prudential and Treasury Indicators for treasury management which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the function, together with associated income. The Executive Director of Resources will exercise effective controls over this budget and monitoring of performance against Prudential and Treasury Indicators and will report upon and recommend any changes required in accordance with TMP6.

## 7.3 List of Information Requirements of External Auditors.

- Reconciliation of loans outstanding in the financial ledger to Treasury Management records
- Maturity analysis of loans outstanding

- Certificates for new long-term loans taken out in the year
- Reconciliation of loan interest, discounts received, and premiums paid to financial ledger by loan type
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances
- Interest accrual calculation
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- Calculation of the Minimum Revenue Provision

## 7.4 Monthly Budget Monitoring Report

Monthly Budget Monitoring reports are produced for the Executive Director of Resources, whilst a quarterly budget monitoring report goes to Cabinet. The report is intended to highlight any variances between budgets and spend in order that the Council can assess its financial position. Details of treasury management activities are included within this report.

# TMP 8 CASH AND

# CASH FLOW MANAGEMENT

## **8.1 Arrangements for Preparing/Submitting Cash Flow Statements**

Cash flow projections are prepared annually, monthly, and daily. The annual and monthly cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

## **8.2 Bank Statements Procedures**

The Council downloads daily bank statements and a monthly download of data from its bank. All amounts on the statement are checked to source data from Payroll, Creditors etc. A formal bank reconciliation is undertaken on a monthly basis by the Finance Department.

## **8.3 Payment Scheduling and Agreed Terms of Trade with Creditors**

Our policy is to pay creditors (including sub-contractors) as per the agreed terms of trading.

## **8.4 Arrangements for Monitoring Debtors / Creditors Levels**

The Administration Services Manager is responsible for monitoring the levels of debtors and creditors.

## **8.5 Procedures for Banking of Funds**

All money received by an officer on behalf of the Council will without unreasonable delay be passed to the collection office to deposit in the Council's bank accounts. Cash and cheques banked the previous day will be taken into account in the daily cash flow.

## **8.6 Practices Concerning Prepayments to Obtain Benefits**

The Council has no formal arrangement in place. Where such opportunities arise, the prepayment would be sought and authorised by the responsible officer.

# TMP 9 MONEY LAUNDERING

## 9.1. Proceeds of Crime Act 2002

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- being concerned in an arrangement which a person knows, or suspects facilitates the acquisition, retention, use or control of criminal property
- acquiring, using or possessing criminal property.

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money-laundering activity in the UK risks a criminal conviction. Other offences under the POCA include:

- failure to disclose money-laundering offences
- tipping off a suspect, either directly or indirectly
- doing something that might prejudice an investigation – for example, falsifying a document.

## 9.2 The Terrorism Act 2000

This act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment

## 9.3 The Money Laundering Regulations 2012, 2015 and 2017

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FCA) are required to do the following:

- identify and assess the risks of money laundering and terrorist financing
- have policies, controls and procedures to mitigate and manage effectively the risks of money laundering and terrorist financing identified through the risk assessments
- appoint a nominated officer
- implement internal reporting procedures
- train relevant staff in the subject
- obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken
- report their suspicions

## 9.4 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and subsequent Terrorism Acts and may commit most of the principal offences under the POCA but are not legally obliged to apply the provisions of the Money Laundering Regulations 2012, 2015 and 2017.

However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes.

Accordingly, this Council will do the following: -

- a) evaluate the prospect of laundered monies being handled by them
- b) determine the appropriate safeguards to be put in place
- c) require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness

## CONT. TMP 9

- d) make all its staff aware of their responsibilities under POCA
- e) appoint a member of staff to whom they can report any suspicions. This person is Head of Accounts.
- f) in order to ensure compliance is appropriately managed, this Council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
- g) The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is Executive Director – Legal & Democratic Services and it shall be a requirement that all services and departments implement this corporate policy and procedures.

### **9.5 Procedures for Establishing Identity / Authenticity of Lenders**

It is not a requirement under POCA for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, there is a need for due diligence, and this will be affected by following the procedures below.

The Council does not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FCA website on [www.fca.gov.uk](http://www.fca.gov.uk).

When repaying loans, the procedures in 9.6 will be followed to check the bank details of the recipient.

### **9.6 Methodologies for Identifying Deposit Takers**

In the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that are on its approved lending list. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The FCA register can be accessed through their website on [www.fca.gov.uk](http://www.fca.gov.uk).

All transactions will normally be carried out by CHAP's or Faster Payment as appropriate for making deposits or repaying loans.

# TMP 10 TRAINING & QUALIFICATIONS

The Council recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

- a) Treasury management staff employed by the Council
- b) Members charged with governance of the treasury management function

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Personal Development Review system which identifies the training requirements of individual members of staff engaged on treasury related activities.

Additionally, training may also be provided on the job, and it will be the responsibility of the Executive Director of Resources to ensure that all staff under his authority receives the level of training appropriate to their duties. This will also apply to those staff who from time-to-time cover for absences from the treasury management team.

## **10.1 Details of Approved Training Courses**

Treasury management staff and members attend courses provided by our treasury management consultants, CIPFA, money brokers etc.

## **10.2 Records of Training Received by Treasury Staff**

The relevant line manager will update the relevant officers Personal Development Review with details of training received. This will be passed the Human Resources Department

who will maintain records on all staff and the training they receive.

## **10.3 Record of Secondment of Senior Management**

Records will be kept of senior management who are seconded into the treasury management section in order to gain first-hand experience of treasury management operations.

## **10.4 Statement of Professional Practice (SOPP)**

1. Where the Chief Financial Officer is a member of CIPFA, there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.
2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

## **10.5 Member training records**

Records will be kept of all training in treasury management provided to members.

## **10.6 Members charged with governance**

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

# TMP 11 USE OF EXTERNAL

## SERVICE PROVIDERS

### 11.1 Details of Contracts with Service Providers, Including Bankers, Brokers, Consultants, Advisers

This Council will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this organisation, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in-house treasury management team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice.

Treasury management staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance.

- The quality financial press
- Market data
- Information on government support for banks and
- The credit ratings of that government support

#### 11.1.1 Banking Services

- a) Name of supplier of service is the National Westminster Bank.
- b) Regulatory status – banking institution authorised to undertake banking activities by the FSA
- c) The branch address is:

PO Box No.2  
St James Street  
Accrington  
Lancashire  
BB5 1NB  
Tel:- 0345 835 1215

Contract commenced 13/6/1975 and is reviewed annually.

- d) Cost of service is variable depending on schedule of tariffs and volumes
- e) Payments monthly and quarterly

#### 11.1.2 Money-Broking Services

The Council may use money brokers for temporary borrowing and investment and long-term borrowing. It will seek to give an even spread of business amongst the approved brokers.

Name of supplier of service:

- a) RP Martin Brokers (UK) Ltd  
Level 3  
1 Snowdon Street  
London  
EC2A 2DQ  
Tel: 020 7894 8698  
Regulatory Status: FCA registered counterparty 187916
- b) Tullet Prebon Europe Ltd  
135 Bishopsgate  
2<sup>nd</sup> Floor  
London  
EC2M 3TP  
Tel: 020 7200 7042  
Regulatory Status: FCA Authorised 146880
- c) Imperial Treasury Services  
Imperial House  
5 Port Hill  
Hertford  
SG14 1PJ  
Tel: 01992 945 550  
Regulatory Status: FCA Authorised 836275
- d) Tradition (UK) Ltd  
Beaufort House

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15 St Botolph Street  
London  
EC3A 7QX  
Tel: 0207 422 3566  
Regulatory Status: FCA Authorised  
139200

- f) King & Shaxon  
155 Fenchurch Street  
London  
EC3M 6AL  
Tel: 0207 655 4708  
Regulatory Status: FCA Authorised  
179213

When undertaking temporary borrowing. The brokers currently charge commission at 0.1% of the amount borrowed for the duration of the loan. There is no commission charge for undertaking investment transactions.

### 11.1.3 Consultants'/Advisers' Services

#### Treasury Consultancy Services

The Council will seek to take expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties to put on its approved lending list etc.

The performance of consultants will be reviewed by the Executive Director of Resources annually to check whether performance has met expectations.

- a) Name of supplier of service is MUFG Corporate Markets Treasury Limited (formerly Link Group). Their address is 6<sup>th</sup> Floor, 65 Gresham Street, London, EC2V 7NQ Tel: 0207 204 7624
- b) Regulatory status: Investment Adviser authorised by the FCA
- c) Contract commenced 2003 and is re-negotiated annually.
- d) Cost of service is currently £8,100 per year.
- e) Payments due annually

#### Leasing Consultancy Services

- a) Currently in the process of procuring a new leasing consultant.

### 11.1.4 Credit Rating Agency

The Council receives a credit rating service through its treasury management consultants, the costs of which is included in the consultant's annual fee.

### 11.2 Procedures & Frequency for Tendering Services

The procedure for awarding contracts will be as per the Councils contract procedure rules.

## TMP 12 CORPORATE GOVERNANCE

### 12.1 List of Documents to be Made Available for Public Inspection

- a. The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.
- b. It has adopted the CIPFA Code of Practice on Treasury Management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.
- c. The following documents are available for public inspection: -
  - Treasury Management Policy Statement
  - Treasury Management Strategy Statement
  - Annual Investment Strategy
  - Minimum Revenue Provision policy statement
  - Annual Statement of Accounts
  - Annual revenue budget & capital programme
  - 3 Year Capital Plan
  - Capital Strategy
  - Medium Term Financial Plan
  - Minutes of Council, Cabinet & committee meetings

# CAPITAL STRATEGY

2026/27

FOR AN AMBITIOUS AND SUSTAINABLE  
HYNDBURN FUTURE



# OVERVIEW

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and take account of stewardship, value for money, prudence, sustainability and affordability.
- 1.2 The Capital Strategy is a key document for the Council and forms part of the

authority's integrated revenue, capital and balance sheet planning. It provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability. It includes an overview of the governance processes for approval and monitoring of capital expenditure.

# SCOPE

2.1 This Capital Strategy includes all capital expenditure and capital investment decisions, not only as an individual local authority but also those entered into under group arrangements. It sets out the long-term context in which decisions are made with reference to the life of the projects/assets.

2.2 The Capital Strategy:

- States the council's processes for:
  - project initiation
  - deciding on the prioritisation of capital projects
  - monitoring and evaluating schemes.
- Takes account of significant revenue implications,
- Provides a framework for the management and monitoring of the capital programme,
- Identifies funding and provides a basis to inform bidding for additional capital resources (e.g. from the National Lottery, government initiatives),

- Apprises the corporate review of existing properties.

2.3 The Capital Strategy considers all aspects of the Council's capital expenditure and extends to areas where the Council is able to influence others through the use of its capital resources. It forms part of the Council's integrated revenue, capital and balance sheet planning.

# CAPITAL EXPENDITURE

3.1 Capital expenditure is incurred on the acquisition or creation of assets, or expenditure that enhances or adds to the life or value of an existing fixed asset that is needed to provide services. Fixed assets are tangible or intangible assets that yield benefits to the Council generally for a period of more than one year, e.g. land, buildings, roads, vehicles. This is in contrast to revenue expenditure which is spending on the day to day running costs of services

such as employee costs and supplies and services.

3.2 The capital programme is the authority's plan of capital works for future years, including details on the funding of the schemes. Included are the projects such as the purchase of land and buildings, the construction of new buildings, design fees and the acquisition of vehicles and major items of equipment. Also included could be service and commercial investments.

# CAPITAL V TREASURY MANAGEMENT

4.1 Treasury Management investment activity covers those investments which arise from the organisation's cash flows and debt management activity and ultimately represent balances which need to be invested until the cash is required for use in the course of business.

The management of associated risk is set out in the Treasury Management Policy and the Annual Investment Strategy.

4.2 For Treasury Management investments the security and liquidity of funds are placed ahead of the investment return.

4.3 The CIPFA Treasury Management Code recognises that organisations may make investments for policy reasons outside of normal treasury management activity. These may include service and commercial investments.

# SERVICE AND COMMERCIAL

## INVESTMENTS

5.1 These are investments for policy reasons outside of normal treasury management activity. This may include:

**Service investments:** These are investments held clearly and explicitly in the course of the provision, and for the purposes, of operational services, including regeneration.

**Commercial investments:** These are investments taken for mainly financial reasons. These may include:

- investments arising as part of business structures, such as shares and loans in subsidiaries or other outsourcing structures such as IT providers or building services providers.
- investments explicitly taken with the aim of making a financial surplus for the Council.

Commercial investments also include fixed assets, which are held primarily for financial benefit, such as investment properties. Due to the nature of the assets

# CONT. SERVICE AND COMMERCIAL INVESTMENTS

or for valid service reasons, such investments do not always give priority to security and liquidity over yield. In these cases, such a decision will be explicit, with the additional risks set out and the impact

on financial sustainability identified and reported.

The Executive Director (Resources) will ensure that the Council has the appropriate legal powers to undertake such investments.

## COUNCIL OBJECTIVES

The Council has agreed a number of corporate aims, priorities and objectives which guide its work. These are set out in the Corporate Plan and Medium-Term

Financial Strategy (MTFS). Capital investment projects must be in line with these overall objectives as well as individual service aims and objectives. The following processes are designed to ensure this happens.

## CAPITAL BUDGET SETTING PROCESS

### 7.1 Identifying the need for Capital Expenditure

The need for a capital scheme is identified by a Service Manager and a bid is submitted to the Autumn Capital Programme Working Group.

Capital projects are subject to robust justification process, bringing together a clear business case with sufficient detailed costings to ensure transparent decisions can be taken.

Proposals are reviewed in terms of validation arrangements and estimated figures.

To ensure project delivery is achievable project management arrangements are undertaken with ownership and responsibility of projects siting in the initiating department.

The capital bids are discussed and prioritised at Capital Programme Working Group. This report is then considered by Corporate Management Team. The recommendations are given to members for

their discussion and input. The final report is then submitted to Cabinet and then Full Council.

### 7.2 Criteria used to decide which schemes are recommended.

Capital projects will be assessed for:

- Strategic fit – corporate objectives are being met by the expenditure,
- Identified need – e.g. vital repairs and maintenance of existing assets,
- Achievability – this may include alternatives to direct expenditure by the Council such as partnerships with others, rent or buy options, alternative delivery vehicles,
- The scheme is deliverable by the Council within its resources, skills and legal constraints,
- Acceptable risk levels,
- Reduces future capital or revenue spend,

# CONT. BUDGET SETTING PROCESS

- Practicality and deliverability,
- Revenue generation,
- The scheme has a good gearing ratio,
- Maintains or enhances service provision,
- Provides value for money for the taxpayer,
- Provides long term benefits,
- Has a positive environmental and social impact.

Additionally, consideration should be given to:

## **Prudence:**

- Recognition of the capacity in the organisation to deliver such a programme,
- The approach to treasury management and the management of risk as set out in the Treasury Management Strategy.

## **Affordability:**

- Revenue impact of the proposals on the Medium-Term Financial Plan,
- The borrowing position of the Council, projections of external debt and the use of internal borrowing to support capital expenditure,
- The authorised limit and operational boundary for the following year,
- Whether schemes are profiled to the appropriate financial year.

## **Sustainability:**

- Provision for the repayment of debt over the life of the underlying debt as set out in the Minimum Revenue Provision policy,
- An overview of asset management planning including maintenance requirements and planned disposals.

All bids are produced in line with the appropriate timetable with consideration for

the financial information contained within the bid.

Portfolio Holders must be briefed and understand the service need and the budget consequences, both revenue and capital, of completing the scheme.

Possible sources of funding can then be considered for each of the proposed capital schemes. Each project will be considered in terms of revenue funding to cover the operational running costs of the asset and any borrowing repayment costs, and also how the asset will be funded in terms of capital expenditure.

The proportionality of the proposals as a whole will then be considered in respect of overall resources and longer-term sustainability and risk. The Executive Director (Resources) will take an overall view on the prudence, affordability and sustainability of the overall borrowing level if all bids are accepted.

Once the Executive Director (Resources) has taken a view of the prudence of the overall borrowing level, the Corporate Management Team will then consider the bids from a corporate priority perspective.

## **7.3 Member Approval Process**

In autumn, the Executive Director (Resources) will present the agreed list of key capital projects to the Corporate Management Team. At this stage funding details are sometimes unavailable, as Government funding allocations are announced later in the year. The presentations inform Members of the key projects to be completed over the next year.

Where appropriate schemes will be reported to Members based on the schemes being subject to external funding approval. These overall capital programme totals are then reported to Cabinet Members as part of

# CONT. BUDGET SETTING PROCESS

the annual budget process, who then make recommendations on the overall capital programme.

The Cabinet receives the Capital Programme in February each year and makes their recommendations to full Council.

Members approve the overall borrowing levels at the budget meeting in February each year as part of the Treasury Management Report. The taking of loans then becomes an operational decision for the Executive Director (Resources) who will decide on the basis of the level of reserves and money market position whether financing should be met internally from the Capital Reserve/Capital Receipts or whether to enter into external borrowing.

Once the Council has approved the capital programme, then expenditure can be committed against these approved schemes subject to the normal contract procedure rules and the terms and conditions of funding. Before expenditure commences an "Approval to Spend" form is completed by officers and authorised. This confirms the profile of expenditure and confirmation that any external grant allocation has been obtained.

Whether capital projects are funded from grant, contributions, capital allocations or borrowing, the revenue costs must be able to be met from existing revenue budgets or identified (and underwritten) savings or income streams.

## MONITORING OF THE CAPITAL PROGRAMME EXPENDITURE

8.1 Once detailed capital programmes have been approved by members, the financial spend is monitored at Capital Programme Working Group on an alternate monthly basis.

8.2 The Council will assign a Project Manager to each project to oversee planning, delivery, management and governance of capital projects.

## MULTI-YEAR SCHEMES

9.1 Payments for capital schemes often occur over several years, depending on the size and complexity of the project. Therefore, estimated payment patterns are calculated for each project so that the expected capital expenditure per year is known. This is called a cash flow projection or budget profiling.

9.2 The approval of a rolling multi-year capital programme assists the Council in a number of ways. It assists service managers, allowing them to develop

longer term capital plans for service delivery.

9.3 It allows greater flexibility in planning workloads and more certainty for preparation work for future schemes. It will also allow greater integration of the revenue budget and capital programme. It also matches the time requirement for scheme planning and implementation since capital schemes have a considerable initial development phase.

# FUNDING STRATEGY &

## CAPITAL POLICIES

This section sets out the policies of the Council in relation to funding capital expenditure and investment.

Proposals for capital projects must identify the funding requirements for the timescale of the project including any revenue implications. Funding must be appropriate for the project and will come from:

- Reserves,
- Capital receipts – from the sale of assets or finance lease receipts,
- Government grants – such as disabled facilities grant funding,
- Third party grants and contributions,
- Revenue contributions,
- Other developer contributions,
- External (prudential) borrowing.

Any restrictions on borrowing or funding of ongoing capital finance will be assessed. Project appraisal will consider additional or alternative funding sources, match funding opportunities, bidding timeframes and the likely success of being awarded a grant. Other funding sources may include national lottery, government grant, heritage lottery fund etc.

### 10.1 External Funding

Services must seek to maximise external funding wherever possible to support capital schemes. This can be in the form of grants and contributions from outside bodies including central government. However, services must underwrite any cost overruns on externally funded schemes. If services bid for external funding for schemes and say at tender or during construction or procurement, costs exceed the available funding, then services must fund any shortfall from their existing resources (either revenue or capital).

In respect of match funding bids then the relevant service must fully identify the necessary match funding resources from within existing service budgets. If this is not possible then the appropriate service must raise this for consideration with the members of the Corporate Management Team and the relevant Portfolio Holder prior to submitting any bid for funding.

### 10.2 Capital Receipts

A capital receipt is an amount of money exceeding £10,000 which is received from the sale of an asset. This cannot be spent on revenue items.

The Executive Director (Resources) will review all of the Council's property annually. The general policy is that any capital receipts are then pooled and used to finance future capital expenditure and investment according to priorities, although they may be used to repay outstanding debt on assets financed from loans, as permitted by the regulations.

### 10.3 Revenue Funding

Services may use their revenue budgets to fund capital expenditure. The revenue reserve may also be used to finance capital expenditure as an alternative to external borrowing.

The Head of the Service and the Executive Director (Resources) will need to take an overview and decide the most appropriate way of funding their service areas.

### 10.4 Prudential/Unsupported Borrowing

Local Authorities can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code

## CONT. STRATEGY & POLICIES

and set out in the Treasury Management Statement. The borrowing costs are not supported by the Government so services need to ensure they can fund the repayment costs. This borrowing may also be referred to as Prudential Borrowing.

Capital projects that cannot be funded from any other source can be funded from Prudential Borrowing. Services must be able to afford the borrowing repayment and interest charges on the loan from existing revenue budgets, or the Council must see this as their key priority for the budget process and to be factored into the medium-term financial strategy accordingly.

The Executive Director (Resources) will make an assessment of the overall prudence, affordability and sustainability of the total borrowing requested. The impact of this borrowing will be reported in the Treasury Management Strategy alongside the Prudential Indicators required by CIPFA's Prudential Code for Capital Finance.

The view of the Executive Director (Resources) will be fed into the corporate bidding process so that, should the borrowing levels be unaffordable or not prudent, then the schemes will be

prioritised against the available funding from borrowing.

The Executive Director (Resources) will also determine whether the borrowing should be from internal resources such as the Revenue/Capital Reserve or whether to enter into external borrowing.

### 10.5 Leasing

The Executive Director (Resources) may enter into finance leasing agreements to fund capital expenditure on behalf of services. However, a full option appraisal and comparison of other funding sources must be made, and the Executive Director (Resources) must be confident that leasing provides the best value for money method of funding the scheme.

Under the Prudential Code finance leasing agreements are counted against the overall borrowing levels when looking at the prudence of the authority's borrowing.

## PROCUREMENT & VALUE FOR MONEY

11.1 Procurement is the purchase of goods and services, with a strategy being developed to assist with the definition of quality standards and securing provision of the best possible services for local people for a given price.

11.2 It is essential that all procurement activities comply with EU procurement directives and adhere to the relevant requirements stipulated in directives. Procurement must also comply with the

Councils policies and regulations such as Contract Procedural Rules and Financial Regulations.

11.3 The main aim is to hold 'value for money' as a key goal in all procurement activity to optimise the combination of cost and quality.

# PARTNERSHIPS & RELATIONSHIPS

## WITH OTHER ORGANISATIONS

12.1 Wherever possible and subject to the usual risk assessments services should look to expand the number of capital schemes which are completed on a

partnership basis and continually look for areas where joint projects can be implemented.

## MANAGEMENT FRAMEWORK

13.1 For The governance structure of the Council has the Corporate Management Team that takes a corporate and group view on the capital programme and investment.

## PERFORMANCE MANAGEMENT

14.1 Clear measurable outcomes should be developed for each capital scheme. After the scheme has been completed, services should check if outcomes have been achieved.

14.2 Post scheme evaluation reviews should look at the effectiveness of the whole project in terms of service delivery outcomes, design and construction, financing etc. and identify good practice and lessons to be learnt in delivering future projects.

# RISK MANAGEMENT

Risk is the threat that an event or action will adversely affect the Council's ability to achieve its objectives and to execute its strategies successfully.

Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all their activities.

The aim is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties.

To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored.

It is important to identify the appetite for risk by each scheme and for the capital programme as a whole, especially when investing in capital assets held primarily for financial returns. Under the CIPFA Prudential Code these are defined as investments and so the key principle of control of risk and optimising returns consistent with the level of risk applies.

The Executive Director (Resources) will report on the affordability and risk associated with the Capital Programme.

An assessment of risk should therefore be built into every capital project.

## 15.1 Credit Risk

This is the risk that the organisation with which we have invested capital monies becomes insolvent and cannot pay us our investment returns or complete the agreed contract.

## 15.2 Liquidity Risk

This is the risk that the timing of any cash inflows from a project will be delayed, for example if other organisations do not make their contributions when agreed. This is also the risk that the cash inflows will be less than expected, for example due to the effects of inflation, interest rates or exchange rates. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes.

## 15.3 Interest Rate Risk

This is the risk that interest rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Interest rates will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary, contract re-negotiations.

## 15.4 Inflation Risk

This is the risk that rates of inflation will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Rates of inflation will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary, contract re-negotiations.

## 15.5 Legal and Regulatory Risk

This is the risk that changes in laws or regulation make a capital project more

## CONT. STRATGEY & POLICIES

expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before entering into capital expenditure or making capital investments, the Council will understand the powers under which the investment is made.

### 15.6 Fraud, Error and Corruption

This is the risk that financial losses will occur due to errors or fraudulent or corrupt activities. Officers involved in any of the

processes around capital expenditure or funding are required to follow the Council's policies and procedures. This is supported by the Employee Code of Conduct and detailed policies such as Anti-Fraud and Corruption, Anti Money Laundering, Whistle Blowing and Declaration of Interests.

## OTHER CONSIDERATIONS

16.1 Capital Schemes must comply with legislation, such as the Disability Discrimination Act, and also Council policies, Contract Procedure Rules and Financial Regulations. Reference should also be made to other strategies and plans of the Council.

Important Linking Documents for reference are:

- Corporate Plan,
- Corporate Asset Management Strategy,
- Individual Service Plans,
- Procurement Strategy,
- Financial Regulations,
- Contract Procedure Rules,
- Treasury Management Strategy,
- Minimum Revenue Provision Policy,
- Medium Term Financial Strategy.