FLINTSHIRE COUNTY COUNCIL

REPORT TO: **AUDIT COMMITTEE**

DATE: **30 JANUARY 2013**

REPORT BY: **HEAD OF FINANCE**

SUBJECT: **TREASURY MANAGEMENT STRATEGY 2013/14, TREASURY MANAGEMENT POLICY STATEMENT 2013 – 2016, TREASURY MANAGEMENT PRACTICES 2013 – 16 AND TREASURY MANAGEMENT UPDATE 2012/13,**

1.00 PURPOSE OF REPORT

1.01 To present the draft Treasury Management Strategy 2013/14 for review prior to recommending to Cabinet in conjunction with:-

- Draft Treasury Management Policy Statement 2013 – 2016,
- Draft Treasury Management Practices 2013 -16.

1.02 To provide members with a quarterly update on matters relating to the Council's 2012/13 Treasury Management Policy and Strategy Statement up to the end of December 2012.

1.03 This report will be supplemented with training available to all Members of the Council on treasury management on 29th January 2013.

2.00 BACKGROUND

2.01 The Local Government Act 2003 requires all local authorities to have due regard to both the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice (The CIPFA Code of Practice) and Welsh Government guidance on Local Authority Investments.

2.02 The Council adopted the 2011 edition of The CIPFA Code of Practice in March 2012 which requires:-

- The Council to create and maintain a Treasury Management Policy Statement which states the Council's policies, objectives and approach to risk management of its treasury management activities.

- The Council to create and maintain suitable Treasury Management Practices (TMPs) and accompanying schedules, stating how those policies and objectives will be achieved and prescribing how those activities will be managed and controlled.

- The Council to receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

- Responsibility for Treasury Management to be clearly defined. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to Head of Finance, who will act in accordance with the organisation's policy statement and TMPs and, CIPFA's *Standard of Professional Practice on Treasury Management*.

- A body to be responsible for the scrutiny of Treasury Management Policy, Strategy and Practices. The Council has nominated the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management function. The Audit Committee has previously agreed to include treasury management as a standing item on each quarterly agenda to receive an update.

2.03 The Welsh Government guidance on Local Authority investments requires that the Council prepares an Investment strategy before the start of each financial year which sets out the Council's policies for the prudent management of its investments, giving priority, firstly to the security of those investments (protecting the capital sum from loss), and secondly liquidity (keeping money readily available for expenditure). The generation of investment income is distinct from these prudential objectives, however provided that proper levels of security and liquidity are achieved, it may (but only then) be reasonable to seek the highest yield consistent with those priorities.

The guidance stipulates that the investment strategy must also include the following:
- Specified Investments
- Non-specified Investments
- Credit Risk Assessment
- Investment Consultants
- Investment Training
- Investment of money borrowed in advance of need

2.04 On 1st March 2012 the Council approved the Treasury Management Policy and Strategy Statement for 2012/13, following the recommendation of the Cabinet and consideration by Audit Committee.

2.05 The Council's treasury management advisors have changed to Arlingclose Ltd, as detailed in paragraph 3.06.

3.00 CONSIDERATIONS

2013/14 and onwards Treasury Management Documentation

3.01 In previous years members have been asked to approve a combined Treasury Management Policy and Strategy Statement which included the Policy Statement, the annual Strategy and as an appendix, detailed Treasury Management Practices and accompanying Schedules.

3.02 Following discussions with Arlingclose, the Council's Treasury Management advisors, the conclusion was drawn that it would be clearer if separate treasury management documents were provided.

3.03 Attached in Appendix 1 for review and discussion is the Treasury Management Policy Statement to cover the 3 year period from 2013/14 to 2015/16. Once approved, this document will only be reported to members during its lifetime in the event of any significant changes. The content of the Policy Statement remains unchanged from its approval in 2012/13; defining the Council's treasury management activities, setting out the Council's criteria to measure the effectiveness of treasury management activities and includes the Council's high level policies for borrowing and investments.

3.04 The Treasury Management Practices (TMPs) and accompanying schedules to cover the 3 year period from 2013/14 to 2015/16 are attached in Appendix 2 and Appendix 3 for review and discussion. Again, once approved, this document will only be reported to members during its lifetime in the event of any significant changes.

The TMPs and schedules state how treasury management policies and objectives will be achieved and give specific details of the systems and routines employed and the records to be maintained including:-

TMP 1 Risk Management
TMP 2 Performance measurement
TMP 3 Decision-making
TMP 4 Approved instruments, methods and techniques
TMP 5 Organisation, clarity and segregation of responsibilities and dealing Arrangements
TMP 6 Reporting requirements and management information arrangements
TMP 7 Budgeting, accounting and audit arrangements
TMP 8 Cash and cash flow management
TMP 9 Money laundering
TMP 10 Training and qualifications
TMP 11 Use of external service providers
TMP 12 Corporate Governance

The contents of the practices and schedules have been changed to reflect the transfer of responsibility of the treasury management function from the Funds section to the Strategy and Technical section of Corporate Finance following the Finance Function Review.

Treasury Management Strategy 2013/14

3.05 The 2013/14 Treasury Management Strategy is attached in Appendix 4 for review and discussion. The Strategy will be updated and reported annually to members in accordance with the CIPFA Code of Practice and the Welsh Government guidance.

The Treasury Management Strategy details the approach the Council will take for investing and borrowing over the next year, including the budgetary implications of the planned investment and borrowing strategy and a number of treasury management indicators that the CIPFA Code requires.

The contents of the 2013/14 Strategy has not materially changed from that of the 2012/13 Strategy. Following the transfer of the treasury management function as described in paragraph 3.03 above and discussions with Arlingclose, the Council's Treasury Management advisors, the layout of the Strategy has been amended to make plans clearer and easier to follow.

The few minor changes that have been made to the 2013/14 Treasury Management Strategy and the rationale behind the changes made are listed below:-

- In defining ‘high credit quality’ investments the Council will only use Long Term credit ratings and will no longer use Short Term ratings to simplify and strengthen the Council’s counterparty list.

- Time limits on investments have been introduced to differentiate between the grades awarded by the credit rating bodies. For example, previously there was no distinction made between an investment made with a counterparty rated as the highest credit quality AAA, and high credit quality A. The Strategy now reflects the lower credit risk associated with counterparties awarded higher credit quality by placing a higher time limit on investments with those counterparties. An investment could be made for up to 4 years for a counterparty rated as AA / Aa2, but only up to 1 year for a counterparty rated as A / A2.

- Following discussion with Arlingclose, the Council’s Treasury Management advisors, investments rated as A-/A3 will be defined as high credit quality. This is a reduction from the A/A2 current position, which does introduce a higher level of credit risk; however this has been mitigated by placing a time limit of 6 months on such investments and is considered to be a measured risk that will introduce more counterparties to spread the risk.

3.06 A training session open to all Members on treasury management will be run by Arlingclose, the Council’s treasury management advisors on the morning of the 29th January. Further explanation of the content of the Policy Statement, Practices and Strategy will be covered in this training session.

<u>Treasury Management 2012/13 Update</u>

3.07 A statement setting out the Council’s investments as at 31st December 2012 is attached as Appendix 5. Members are requested to note the following:

- The investment balance was £66.4m across 22 counterparties.
- Our self-imposed low risk strategy of investing for a maximum of 3 months with banks and building societies, with consideration given to suitable longer term investments as appropriate, continued.
- Given sustained improvements in monitored credit risk, with credit ratings being more stable and some banks’ profitability improving, steps banks have taken towards strengthening their balance sheets, and central bank intervention both in the UK and the Eurozone increasing liquidity the risk of a bank that the council deals with defaulting has reduced and consideration was given to relaxing the self imposed rule of investing for a maximum of 3 months with banks and building societies. Discussions took place with Arlingclose, the Council’s treasury management advisors. All though the economic outlook is somewhat mixed, with significant risks still being posed by the US public finance ‘fiscal cliff’ and a sustainable solution to the Eurozone crisis being someway off, as can be see from the economic context in Appendix 4 – 2013/14 Treasury Management Strategy, the decision has been made that the time is right to invest with banks and building societies for longer.
- One long-term investment was made - £3 million with Bank of Scotland at an interest rate of 1.6%, maturing on 5th December 2013.

- The Council's treasury management advisor, Sterling Consultancy Services was acquired by Arlingclose Limited in October 2012. The terms of the contract remain unchanged and Arlingclose continues to provide advice and information on the Council's investments and borrowing activities.
- Arlingclose revised their base interest rate forecast from that included in the 2012/13 Strategy, with the rate now remaining at 0.50% until at least the end of 2015. The financial implications of this change of rate will be reported in the Central Loans and Investment Account in the revenue budget monitoring report.
- A £1.5 million PWLB loan matured on 22nd November 2012, and due consideration was given to either repay or refinance the loan with new borrowing. Given the Council's high level of cash balances, the current cost of debt being higher than returns on investments the prudent decision was made, following discussion with the Arlingclose, to reduce interest risk and credit risk and repay the loan.
- The transfer of responsibility for the treasury management function from the Funds section to Strategy and Technical team in Corporate Finance continues, and is expected to be completed by the end of the 2012/13 financial year.

Landsbanki

3.08 Previous reports to the Audit Committee have updated members with the latest position regarding the reimbursement of our investments with Landsbanki and an estimate of associated legal costs.

3.09 A further £217k was received from Landsbanki on 9th October 2012. The total received to date is now £1.76 million. The total outstanding is £1.94 million, approximately 52.4%. In March 2012, the Winding up Board announced that recoveries in the Landsbanki administration would now likely be 100% of deposits, subject to potential future exchange rate fluctuations, although this is only a forecast and not guaranteed. The pattern of future distributions is not yet known.

3.10 The Local Government Association have recently written to advise that Flintshire's share of the associated legal costs between 18th December 2011 and 17th December 2012 is £2,607. A budget of £3,700 has been set to cover our anticipated legal fees for 2012/13 within the Central Loans and Investment Account.

4.00 RECOMMENDATIONS

4.01 That members review the draft Treasury Management Strategy 2013/14 and identify any matters to be drawn to the attention of Cabinet on 19/02/2013.

4.02 That members review the draft Treasury Management Policy Statement 2013-2016 and identify any matters to be drawn to the attention of Cabinet on 19/02/2013.

4.03 That members review the draft Treasury Management Practices 2013-2016 and identify any matters to be drawn to the attention of Cabinet on 19/02/2013.

4.04 That members note the Treasury Management 2012/13 quarterly update.

5.00 FINANCIAL IMPLICATIONS

5.01 As set out in the report.

6.00 ANTI-POVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report.

10.00 CONSULTATION REQUIRED

10.01 Arlingclose Limited.

11.00 CONSULTATION UNDERTAKEN

11.01 Arlingclose Limited.

12.00 APPENDICES

12.01 Appendix 1 – Draft Treasury Management Policy Statement 2013 – 2016
Appendix 2 – Draft Treasury Management Practices 2013 - 2016
Appendix 3 – Draft Treasury Management Practices Schedules 2013 - 16
Appendix 4 – Draft Treasury Management Strategy 2013/14
Appendix 5 – Investments as at 31/12/2012

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: Treasury Management Policy Statement 2013 – 2016
Treasury Management Practices 2013 - 2016
Treasury Management Strategy 2013/14

Contact Officer: Liz Thomas
Finance Manager – Strategy & Technical
Telephone: 01352 702289
E.mail: liz.thomas@flintshire.gov.uk

Appendix 1

FLINTSHIRE COUNTY COUNCIL

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TREASURY MANAGEMENT POLICY STATEMENT

2013 - 2016

1.0 TREASURY MANAGEMENT POLICY STATEMENT

The Council defines the policies and objectives of its treasury management activities as follows: -

1.1 "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".

1.2 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 Council, and any financial instruments entered into to manage these risks.

1.3 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.

1.4 The Council greatly values revenue budget stability and will therefore borrow the majority of its long-term funding needs at long-term fixed rates of interest. Short-term and variable rate loans will only be borrowed to the extent that they either offset short-term and variable rate investments or can be shown to produce revenue savings.

1.5 The Council will set an affordable borrowing limit each year in compliance with the *Local Government Act 2003*, and will have regard to the *CIPFA Prudential Code for Capital Finance in Local Authorities* when setting that limit. It will also set limits on its exposure to changes to interest rates and limits on the maturity structure of its borrowing in the treasury management strategy report each year.

1.6 The Council's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of local authority services is an important, but secondary, objective.

1.7 The Council will have regard to Welsh Government Guidance on Local Government Investments and will approve an investment strategy each year as part of the treasury management strategy. The strategy will set criteria to determine suitable organisations in which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.

1.8 The Council has adopted the 2011 edition of the Chartered Institute of Public

Finance and Accountancy's Treasury Management in Public Services: Code of Practice and has included the Code's required clauses in its Financial Procedure Rules.

Appendix 2

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TREASURY MANAGEMENT PRACTICES

Part 1: Main Principles

2013 - 2016

Flintshire County Council

TREASURY MANAGEMENT PRACTICES

Treasury Management Practices (TMPs) set out the manner in which this organisation will seek to achieve its treasury management policies and objectives and how it will manage and control those activities.

TMP1 TREASURY RISK MANAGEMENT

The Head of Finance 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 Council'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 out in the schedule to this document.

[1] Credit and counterparty risk management

The Council 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 and listed in the schedule to this document. 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 or derivative arrangements.

[2] Liquidity risk management

The Council 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.

The Council 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.

[3] Interest rate risk management

The 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 requirement and management information arrangements.

It will achieve this by the prudent use of its approved 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 subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

[4] Exchange rate risk management

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

[5] Refinancing risk management

The 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 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 over-reliance on any one source of funding if this might jeopardise achievement of the above.

[6] Legal and regulatory risk management

The Council will ensure that all of 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 effect 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.

[7] Fraud, error and corruption, and contingency management

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.

[8] Market risk management

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.

TMP2 PERFORMANCE MEASUREMENT

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

TMP3 DECISION-MAKING AND ANALYSIS

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1, Risk management.

Where the Council intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The Council will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, and for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Head of Finance will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The Head of Finance will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover. The Head of Finance will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

The Head of Finance will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegations to the Head of Finance in respect of treasury management are set out in the schedule to this document. The Head of Finance will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on treasury management.

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum:

The County Council will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and TMPs.

In addition to the above, the Audit Committee will receive regular monitoring reports on treasury management activities and risks. Audit Committee will also have responsibility for the scrutiny of treasury management policies and practices.

Treasury Management Indicators will be reported in the Strategy.
The present arrangements and the form of these reports are detailed in the schedule to this document.

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Head of Finance will prepare, and this organisation will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance Measurement, and TMP4 Approved instruments, methods and techniques. The Head of Finance will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

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 Head of Finance, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Head of Finance will ensure that these are adequate for the purposes of monitoring compliance with TMP1 [1] liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

TMP9 MONEY LAUNDERING

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule to this document.

TMP10 STAFF TRAINING AND QUALIFICATIONS

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are

both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Head of Finance will recommend and implement the necessary arrangements.
The Head of Finance will ensure that committee/council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule to this document.

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Head of Finance, and details of the current arrangements are set out in the schedule to this document.

TMP12 CORPORATE GOVERNANCE

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Head of Finance will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Appendix 3

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TREASURY MANAGEMENT PRACTICES

Part 2: Schedules

2013 - 2016

Flintshire County Council

TREASURY MANAGEMENT PRACTICES - SCHEDULES

This section contains the schedules which set out the details of how the Treasury Management Practices (TMPs) are put into effect by this organisation.

TMP1 RISK MANAGEMENT

1 Credit & Counterparty Policies

1. Criteria to be used for creating/managing approved counterparty lists/limits -

- The Head of Finance will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising time, type, sector and specific counterparty limits.
- Treasury Management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties. The complete list is available in the Strategy & Technical Section. It should be noted that not all of these counterparties will be used. This depends on whether they are in the market at the time of investment and whether they are offering competitive rates.
- The Council will use credit criteria in order to select creditworthy counterparties for placing investments.
- Credit ratings will be used as supplied from Fitch, Moody's and Standard & Poors credit rating agencies.
- The minimum level of credit rating for an approved counterparty will be as follows: -

	Fitch	Moody's	S & P	Cash Limit	Time Limit
Banks, Building Societies and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	Aaa	AAA	£7m each	5 years
	AA+	Aa1	AA+		5 years
	AA	Aa2	AA		4 years
	AA-	Aa3	AA-		3 years
	A+	A1	A+		2 years
	A	A2	A		1 year
	A-	A3	A-	£5m	6 months
The council's current account bank (NatWest Bank plc) if rated below A-				£5m	next day
UK Building Societies with assets greater than £1bn, which are either unrated by the credit rating agencies or have a minimum rating of BBB or equivalent and above.				£5m each	1 year
Money Market Funds[1] and similar pooled vehicles whose lowest published credit rating is AAA				£7m each	1 year
UK Central Government (irrespective of credit rating)				unlimited	5 years
UK Local Authorities[2]				£7m each	5 years

[1] as defined in the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 [2] as defined in the Local Government Act 2003

A definition of the ratings can be found in appendix A.

- In addition, UK Building Societies without credit ratings or those which are lower rated will be considered to be of 'high credit quality', but subject to a lower cash limit (£5m) and shorter time period than higher rated building societies in the table above The minimum asset size of the building society must be £1bn. However, no investments will be made with building societies that hold a long term credit rating lower than BBB Fitch and Standard & Poors or Baa2 Moody's, due to the increased likelihood of default implied by this rating. Due to the strong regulatory framework to which building societies must adhere, the additional risk is minimised and widening the scope for investment will maximise the investment return available.
- The Council also has access to all UK local authorities, the Governments Debt Management Office (DMO) and AAA rated Money Market Funds (MMFs)
- The maximum period for investments will be 5 years.
- For rated banks and building societies, the maximum value for any one investment transaction will be £7 million or 25% of the total portfolio if balances fall below £30 million. For non-rated the limit will be £5 million or 10% of the total portfolio if balances fall below £30 million. The aim is to spread any risk over as many Counterparties as are available within the credit rating criteria.
- A group of financial institutions under the same ownership will be treated as a single organisation for limit purposes with a maximum limit of £7m.
- The maximum percentage of the portfolio which may be invested in the building society sector will be 60%.
- The approved counterparty list may include non UK registered counterparties from foreign countries with a minimum sovereign rating of AA+. The individual overseas country limit will be £10 million. Total Overseas % of investment portfolio will be 25% (Overseas banks do not include UK incorporated banks e.g. Clydesdale. Although they are subsidiaries of foreign banks they are incorporated in the UK, have substantial domestic operations and are subject to full oversight by the FSA.)
- The sector limits are shown below –

UK banks	100%
Building Societies	60%
Overseas Banks	25%
Money Market Funds	100%
Debt Management Office (DMO)	100%

2. Approved methodology for changing limits and adding/removing counterparties

Credit ratings for individual counterparties can change at any time. The Head of Finance is responsible for applying the stated credit rating criteria in 1.1 for selecting approved counterparties, and will add or delete counterparties as appropriate to / from the approved counterparty list when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or take-overs. The Head of Finance will also adjust lending limits and periods when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or take-overs in accordance with the criteria in 1.1.

3. Details of Credit Rating Agencies' services or other services which provide current credit ratings and updates on changes.

- Ratings from the three agencies are updated monthly by Arlingclose; however, they will provide immediate notification of any changes which affect Flintshire County Council counterparties. If a counterparty no longer meets the investment criteria, no further investments will be made with that counterparty and consideration will be given to recalling the monies. If a counterparty is being reviewed for a possible downgrade outside the criteria no more investments will be made.
- Arlingclose will also inform the Head of Finance of any other market information that they have (e.g. Credit Default Swap prices, news reports and opinion, balance sheet analysis in the absence of credit ratings) which may require credit ratings to be overridden and no further investment to be made with that counterparty.

1.2 Liquidity

1. Amounts of approved minimum cash balances and short-term investments

- The Council manages its cash balances on a daily basis, dependent upon cash flow demands. The objective is to achieve a balance of +/- £300,000 each day by means of temporary investments and borrowing. Temporary investments are cash flow driven with the objective of ensuring that future temporary borrowing is minimised.

2. Details of:

- Standby facilities - Short-term borrowing undertaken.
- Bank overdraft arrangements - authorised arrangement up to £300,000 overdrawn.
- Short-term borrowing facilities - short term borrowing will be arranged for any overdrawn balance in excess of £200,000 through the money market if no call money is available.
- Insurance/guarantee facilities - not required.
- Other contingency arrangements - negotiations with the Council's bankers.
- Call Accounts with limits of £7 million each (subject to ratings and sector limits).

1.3 Interest Rate

1. Details of approved interest rate exposure limits -

    - The upper limit on fixed interest rate exposures is £200 million.
    - The upper limit on variable interest rate exposures is £40 million.

2. Trigger points and other guidelines for managing changes to interest rate levels –

    - This is monitored in conjunction with the Council's treasury advisers, Arlingclose and through the London money market on a daily basis.
    - The management of a balanced investment portfolio which retains a mix of long term investments (fixed rate) and shorter term (variable rate) investments which are variable to protect against interest risk.

1.4 Exchange Rate

Approved criteria for managing changes in exchange rate levels -

- The Council does not make payments or receive foreign currency in sufficient levels that warrant currency management e.g. hedging

1.5 Refinancing

1. Debt/other capital financing maturity profiling, policies and practices.

    - To manage the Council's debt maturity profile i.e. to leave no one future year with a high level of repayments that could cause problems in re-borrowing.

2. Projected capital investment requirements.

    - The borrowing requirement is determined as part of the Capital Programme.

3. Policy concerning limits on revenue consequences of capital financing.

    - This is part of the ongoing budget monitoring process

1.6 Legal & Regulatory

References to relevant statutes and regulations

- Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Head of Finance to be satisfied, by reference to the Monitoring Officer, the Authority's legal department and external advisors as appropriate, that the proposed transaction does not breach statute, external regulations or the Authority's Financial Procedures.

- The Council's legal powers and regulatory requirements come from –

  - ❖ Local Government Act 2003 http://www.opsi.gov.uk/acts/acts2003/pdf/ukpga_20030026_en.pdf
  - ❖ Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 (and subsequent amending regulations) http://www.opsi.gov.uk/legislation/wales/wsi2003/wsi_20033239_en.pdf
  - ❖ Welsh Government "Guidance on Local Government Investments" http://wales.gov.uk/topics/localgovernment/publications/guideinvest/;jsessionid=mp3KKnDTyn91SG3PQvlFrpqnBVTnlXvyGH1pynJcCpJg5n9hL0tP!514291769?lang=en
  - ❖ CIPFA "Treasury Management in the Public Services Code of Practice"
  - ❖ CIPFA "Prudential Code for Capital Finance in Local Authorities"

  Hard copies are available in the Strategy & Technical Section.

1.7 Fraud, error and corruption, and contingency management

1. Details of systems and procedures to be followed, including internet services.

   - These are documented in the Treasury Management Operational Guidelines.

2. Emergency and contingency planning arrangements

   - This process is currently under review.

3. Fraud, Error & Corruption.

   - There is a system of internal control in place to prevent and identify fraud and error.
   - Any issue identified will be immediately reported to the Head of Finance and Head of Internal Audit and subsequently to Audit Committee and Council.

1.8 Market Value of Investments

Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (Government Issue Long Term Stock - GILTS, Certificates of Deposit - CDs, etc.)

- No current investments are held where capital values may be influenced by market movements and fluctuate.

TMP 2 PERFORMANCE MEASUREMENT

2.1 Performance Measurement

1. The Council's Treasury Management Consultants recommended the following for use as benchmarks against which to compare performance. For investments, the most commonly used benchmark is the 3 month London Inter-Bank Bid (LIBID) rate.

2. In the annual Treasury Management Out-turn Report, investment and borrowing rates are analysed against the above recommended rates and with previous years.

3. Health checks are undertaken by the Council's Treasury Management Consultants.

4. The Council is a member of CIPFA's benchmarking club on Treasury Management

2.2 Value for Money

Frequency for reviewing and tendering for the following services:

- Banking services - tendered every 5 years.
- Money-broking services - annual review.
- Treasury Consultant services – tendered every 3 years.
- External Cash Managers - none currently employed but this will be analysed as part of a continuous review.

2.3 Methods to be employed for measuring the performance of the organisation's Treasury Management activities

1. The Head of Finance will receive a monthly update on Treasury Management from the Finance Manager (Strategy & Technical).

2. The performance of treasury management will be reported quarterly to the Audit Committee and then to Cabinet and Council in the Mid-year Report and Annual Out-turn Report using the performance measures outlined in 2.1.

2.4 Benchmarks and calculation methodology:

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.

2. Investment:

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

- 3 month LIBID rate.
- Indicative rates provided by the CIPFA Benchmarking Club on Treasury Management.

TMP 3 DECISION-MAKING AND ANALYSIS

3.1 Funding, borrowing, lending and new instruments/techniques:

1. Records to be kept:

- These are documented in the Treasury Management Operational Guidelines. All records are kept to provide a full audit trail for all Treasury decisions.

2. Processes to be pursued:

- All reports on Treasury Management issues are submitted to the Head of Finance for decision making

3. Issues to be addressed:

- In respect of every 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 organisation'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.

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

  a. Evaluate the economic and market factors that might influence the manner and timing of any decision to fund.
  b. Consider the merits and demerits of alternative forms of funding,

including funding from revenue, leasing and private partnerships.

c. Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

d. Consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets.

- In respect of investment decisions, the organisation 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 organisation to changes in the value of its capital.

4. Considerations to be made before each temporary borrowing and investment decision.

- Borrowing

a. Are funds available in call accounts?

b. Arrange temporary borrowing through a broker for the shortest period of time at the lowest rate of interest available.

- Investing

a. Establish funds available to be invested

b. Establish a maturity date using cash flow and Arlingclose's monthly investment strategy

c. Using the Ratings spreadsheet –
Check the limit for building societies (60% of portfolio)
Headroom available with each counterparty

d. Check the credit ratings and other market information available for the chosen counterparty.

e. Use a broker to find the highest rate of interest for the requirements above

f. If after the above, funds still cannot be placed and call accounts are full, then invest with DMO.

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 Approved activities of the Treasury Management operation

All borrowing is undertaken in accordance with the Local Government Act 2003 section 1 and all investments undertaken in accordance with section 12.

The approved activities are:

- 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 Borrowing

All borrowings are undertaken in line with the following approved loan instruments -

- Public Works Loan Board (PWLB)
- European Investment Bank (EIB)
- Local Authorities
- Banks
- Building Societies
- Pension Funds
- Negotiable Bonds
- Stock Issues
- Internal sources
- Sterling commercial paper (for 7 days to 1 year)
- Sterling medium term notes (for 1 to 5 years)

4.3 Approved Instruments for Investments

The annual Treasury Management Strategy provides details of specified and non-specified investments and the maximum limits for each, as is required under Guidance issued by the Welsh Government. The approved investment instruments are -

- Fixed Term Deposits
- Certificates of Deposit
- Bank Accounts (Instant Access & Notice Accounts)
- Pooled Investment Vehicles (Such as Money Market Funds)
- U.K. Treasury Bills
- U.K. Government Bonds (Gilts)

4.4 Approved Techniques

- Forward dealing up to 364 days;
- Callable deposits.

4.5 Approved methods and sources of raising capital finance

Finance will only be raised in accordance with the Prudential Code for Capital Finance, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet
Public Works Loan Board (PWLB)
European Investment Bank (EIB)
Local Authorities
Banks
Building Societies
Pension Funds
Stock issues
Negotiable Bonds
Internal sources (capital receipts & revenue balances)
Sterling commercial paper
Sterling medium term notes
Finance Leases

Off Balance Sheet
Deferred Purchase

Other Methods of Financing
Government and EC Capital Grants
Lottery monies
Private Finance Initiative (PFI)

All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Head of Finance has delegated powers through this Policy and the Strategy to take the most appropriate form of borrowing from approved sources.

TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

5.1 Limits to Responsibilities/Discretion at Committee/Cabinet levels

1. **County Council**

The Council is responsible for:-

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of annual policy and strategy.
- Approval of/amendments to the organisation's adopted clauses, treasury management policy and strategy.
- Budget consideration and approval.
- Approval of the division of responsibilities.

2. **Cabinet**

The Cabinet is responsible for:

- Receiving reports from the Head of Finance informed by the deliberations of the Audit Committee on the implementation and regular monitoring of its treasury management policy, strategy and practices.
- Consideration of Treasury Policy and Strategy for approval by Council.

3. **Audit Committee**

The Audit Committee is responsible for –

- Reviewing the treasury management policy and practices and making recommendations to Cabinet.
- Receiving and reviewing regular monitoring reports.

5.2 Principles and practices concerning segregation of duties

Procedure	Regular	Trained in Absence
Cash Balances	Accounting Technician	Accounting Technician
Dealing and Limit Calculations	Accounting Technician	Accountancy Technician
Logotech	Accounting Technician	Accounting Technician
Dealing Check	Accounting Technician	Accounting Technician /Finance Assistant
Dealing Authorisation	5 Authorised Bank Signatories (Head of Finance, Corporate Finance Manager, 3 Finance Managers)	
Funds Transfer Operators	Finance Assistant	Finance Assistant
Funds Transfer Approval	Accountants	
Bankline System Administrators	Administration Manager	Business Support Officer

5.3 Statement of duties/responsibilities of each Treasury post

1. Head of Finance / Corporate Finance Manager –

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular treasury management policy and strategy reports.
- Submitting budgets and budget variations.

- Receiving and reviewing management information reports.

- Reviewing the performance of the treasury management.
- Ensuring the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit and liaising with external audit.
- Approving the selection of external service providers (within the Council's Contract Procedure Rules) and agreeing terms of appointment.

2. Finance Manager (Strategy & Technical)

- To deputise for the Head of Finance.
- To advise the Head of Finance in the discharge of his/her duties.
- Regularly review the Treasury Management function.
- Submitting management information reports to the Head of Finance.
- Drafting reports for Audit Committee, Cabinet and Council.
- Review a monthly report from the Technical Accountant on the performance of the Treasury Management function.

3. Technical Accountant

- Supervise treasury management staff.
- Review the draft report on the performance of the Treasury Management function.
- Identify and recommend opportunities for improved practices.
- Ensure that the day to day activities accord with the Treasury Management Policy Statement and Practices.

4. Accounting Technician

- Execution of transactions.
- Adhere to agreed policies and practices on a day-to-day basis.
- Maintain relationships with counterparties and external service providers.
- Draft reports for Audit Committee, Cabinet and Council.
- Produce cash flow projections and monitor performance.
- Report on the performance of the treasury management function.

5. Other Officers

- To deputise as necessary for the above posts, adhering to their duties and responsibilities.

5.4 Dealing Limits

As outlined in 1 - Credit and Counterparty Policies

5.5 List of Approved Brokers

Five approved brokers are currently used by the Council (see 11.2).

- Garban Intercapital Limited
- Martin Brokers (UK) Plc
- Prebon Marshall Yamane (UK) Limited
- Tradition (UK) Ltd
- Sterling International Brokers Ltd

5.6 Policy on Brokers' Services

Reviewed annually.

5.7 Policy on taping conversations

No conversations are currently taped

5.8 Direct Dealing Practices

This is undertaken as and when required to maximise investment return

5.9 Settlement transmission procedures

Standard Settlement Instructions

5.10 Documentation Requirements

- Flintshire CC Treasury Management Policy Statement.
- Flintshire CC Treasury Management Annual Strategy.
- Flintshire CC Treasury Management Annual Outturn Report.
- Treasury Management Health checks.
- Loans and Treasury Management System Manual (LOGOTECH).
- Manual Diary and Cash Flow Statement (LOGOTECH).
- Money Market Dealing Form.
- Loans Outstanding Form / Limit Calculations.
- List of Brokers and Telephone Numbers.
- Approved Counterparties (Regular update from Arlingclose).
- Outstanding and Matured Investments/Borrowing File.
- Previous TM Consultants Correspondence Files.
- Arlingclose Consultancy Services Correspondence File (TM Consultants).
- Treasury Management Operational Guidelines.
- Treasury Management (Long Term Borrowing) Operational Guidelines.

5.11 Arrangements concerning the management of third-party funds.

Third party funds are included in the net daily bank balance and the funds are utilised by the Council on that basis. Interest is paid as follows -

- Education Trust Funds – base rate, annually.
- Optec Youth Exchange Fund – average monthly rate, quarterly.
- Insurance Fund – average seven day rate, annually.
- Education Delegated Fund – average seven day rate, annually.

TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1 Annual Treasury Management Strategy Statement

1. The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This Strategy will be scrutinised by Audit Committee, submitted to the Cabinet and then to the County Council Committee for approval before the commencement of each financial year.

2. The formulation of the annual Treasury Management Strategy 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, this organisation 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 is concerned with the following elements:

   - the prospects for interest rates;
   - the limits placed by this organisation on treasury activities
   - the expected borrowing strategy;
   - the expected investment strategy;
   - the expectations for debt rescheduling;
   - any extraordinary treasury issue.
   - Treasury Management Indicators.

4. The Treasury Management Strategy will establish the expected move in interest rates (using all available information such as published interest rate forecasts where applicable).

6.2 Prudential Code for Capital Finance

1. In accordance with legislation, the Council is required to approve key indicators and limits for the Prudential Code for Capital Finance. These are listed below and reported in the Prudential Indicators Report.

   - Estimates of Capital Expenditure
   - Ratio of financing costs to net revenue stream
   - Incremental impact of capital investment decisions on council tax/housing rents
   - Capital financing requirement

- Authorised limit for external debt
- Operational Boundary for external debt

The following are within the Treasury Management Code.

- Upper limit on fixed interest rate exposures
- Upper limit on variable interest rate exposures
- Upper and lower limits for maturity structure of borrowing
- Limit for principal sums invested for periods longer than 364 days

2. The Head of Finance is responsible for incorporating the relevant limits for the Treasury Management Code into the Annual Treasury Management Strategy, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Head of Finance shall submit the changes for scrutiny by the Audit Committee and recommendation by the Cabinet before submission to County Council for approval.

6.3 Annual Investment Strategy

The Welsh Government requires the documentation of an Annual Investment Strategy including the following:

- Specified Investments – Investments offering high security and liquidity
- Non-specified Investments – Investments with greater potential risk
- Investments which can be prudently committed for longer than 1 year.
- Credit Risk Assessment.
- Use of Investment Consultants.
- Investment Training.
- Investment money borrowed in advance of need.

6.4 Annual Report on Treasury Management Activity

An annual report will be presented to the Audit Committee, Cabinet and then the County 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 comprehensive picture for the financial year of all treasury policies, plans, activities and results
- transactions executed and their revenue (current) effects
- report on risk implications of decisions taken and transactions executed
- monitoring of compliance with approved policy, practices and statutory / regulatory requirements
- monitoring of compliance with powers delegated to officers
- degree of compliance with the original strategy and explanation of deviations
- explanation of future impact of decisions taken on the organisation
- measurements of performance

- report on compliance with CIPFA Code recommendations

The report will be subject to review by the Audit Committee

6.5 Mid-Year Review

A mid-year report will be presented to the Audit Committee, Cabinet and Council, which will include the following:

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

The report will be subject to review by the Audit Committee

6.6 Management Information Reports

The Technical Accountant will report management information to the Finance Manager (Strategy & Technical) monthly for review. The Finance Manager (Strategy & Technical) will report monthly to the Head of Finance/Corporate Finance Manager.

6.7 Presentation of Reports

As a minimum:

The County Council will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and TMPs.

In addition to the above, the Audit Committee and Cabinet will receive regular monitoring reports on treasury management activities and risks. Audit Committee will also have responsibility for the scrutiny of treasury management policies and practices.

Treasury Management Indicators will be reported in the strategy.

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 Statutory/ Regulatory Requirements

The Treasury Management part of the statement of accounts has been prepared in accordance with the accounting policies applicable to local authorities.

7.2 Accounting Practices and Standards

The accounts are prepared in accordance with the CIPFA Treasury Management in the Public Sector Code of Practice, supported by guidance notes on the application of accounting standards.

7.3 Budget Monitoring

The budget for treasury management activities is monitored on a monthly basis through the Central Loans and Investment Account (CLIA).

TMP 8 CASH AND CASH FLOW MANAGEMENT

8.1 Arrangements for preparing/submitting cash flow statements

Annual cash flow prepared before the start of the financial year and updated throughout the year.

8.2 Content and frequency of cash flow budgets

All known cash flow factors are included for the coming financial year.

8.3 Listing of sources of information

Correspondence from external organisations and internal departments, together with various information extracted from the Annual Budget Book.

External –

- Welsh Government
- North Wales Police Authority
- North Wales Fire Authority

Internal –

- Payroll
- Pensions

- Council Tax
- Creditors

8.4 Bank statement procedures

All bank statement information is obtained electronically from the NatWest Bankline website.

8.5 Procedures for banking of funds

All day to day treasury management transactions are paid and received by the Clearing House Automated Payments System (CHAPS).

8.6 Cash Flow Management

Arrangements as detailed in section 3.1.4

8.7 Debtors and Creditors

Debtors and Creditors are monitored so that any significant moves can be prepared for. Creditors provide warning of payments 2 days in advance.

TMP 9 MONEY LAUNDERING

9.1 Procedures for establishing identity/authenticity of Lenders

1. The Council does not accept loans from individuals. All loans are obtained from the PWLB or from authorised institutions on the FSA Register which is a public record of financial service firms, individuals and other bodies which fall under its regulatory jurisdiction as defined in the Financial Services & Markets Act 2000 (FSMA). This Act came into force on 1st December 2001.

2. Any borrowing undertaken from the money markets is through money brokers, who are also authorised and regulated by the Financial Services Authority. This adds a further layer of protection as the broker vets the institutions involved in any transactions.

TMP 10 STAFF TRAINING AND QUALIFICATIONS

10.1 Details of approved training courses

1. Reviewed as part of the annual Employee Appraisal process. Arlingclose also provide training on treasury issues to staff when required.

2. Flintshire County Council is a member of the CIPFA Treasury Management Network. Treasury officers receive weekly updates from the Network and attend seminars organised by the Network, as required.

10.2 Records of training received by Treasury staff

All training is recorded on a departmental database.

10.3 Approved qualifications for Treasury staff

All treasury officers are qualified to AAT Technician level as a minimum.

10.4 Training of Members

Audit Committee Members will receive a quarterly Treasury Management report and training will be given as required. Other Members will be invited to attend training and receive treasury reports as outlined in these practices.

10.5 Statement of Professional Practice (SOPP)

1. Where the Head of Finance is a member of CIPFA, there is a professional need for the Head of Finance 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.

TMP 11 USE OF EXTERNAL SERVICE PROVIDERS

11.1 Details of contracts with Service Providers, including Bankers, Brokers, Consultants & Advisers

1. Banking services:

- National Westminster Bank Plc
- Contract commenced June 2008 to run for 5 years.
- Cost of core service - £35,000 p.a.
- Payments due on an ongoing basis throughout the year

2. Money-broking services:

The following money market brokers services are utilised for day to day transactions as and when required.

- Garban Intercapital plc
- Martin Brokers (UK) plc
- Prebon Marshall Yamane (UK) Limited
- Tradition UK Limited

3. Treasury Consultant services:

- Arlingclose Consultancy Services

- Contract commenced 1st May 2010 for 3 years with the option to extend for a further 2 years.
- Cost of service - £8,800 plus VAT per annum
- Payments due quarterly

11.2 Procedures and frequency for tendering services

See TMP2 Performance Measurement section (2.2) for full details of services tendered. The process must comply with the Council's Contract Procedure rules.

TMP 12 CORPORATE GOVERNANCE

12.1 List of documents to be made available for public inspection

12.1.1 Treasury Management Policy Statement
12.1.2 Treasury Management Strategy
12.1.3 Treasury Management Practices
12.1.4 Treasury Management Mid Year Report
12.1.5 Treasury Management Annual Out-turn Report

APPENDIX A

Definition of Ratings

Fitch Long Term

- **AAA** -Highest credit quality. Rating denotes the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. The capacity is highly unlikely to be adversely affected by foreseeable events.
- **AA** - Very high credit quality. Rating denotes expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
- **A** - High credit quality. Rating denotes expectation of low credit risk. The capacity for payment of financial commitments is considered strong. The capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
- **BBB** - Good quality rating. 'BBB' ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.

The modifiers "+" & "-'' may be appended to any of the ratings above to denote a relative status within major categories.

Moody's Long Term

- **Aaa** - Judged to be one of the highest quality, with minimal credit risk
- **Aa** - Judged to be of high quality and are subject to very low credit risk
- **A** - Considered upper-medium grade and are subject to low credit risk
- **Baa** - Offers adequate credit quality. However, certain protective elements may be lacking or may be characteristically unreliable over any great length of time.

  Moody's appends numerical modifiers 1, 2 and 3 to each rating classification. 1 indicates that the obligation ranks in the higher end of its category, 2 mid-range and 3 a ranking in the lower end of that category.

Standard & Poors Long Term

- **AAA -** An obligor rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
- **AA** - An obligor rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
- **A** - An obligor rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.
- **BBB** - An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

  Plus (+) or minus (-) The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories

Appendix 4

CYNGOR
Sir y Fflint
Flintshire
COUNTY COUNCIL

FLINTSHIRE COUNTY COUNCIL

DRAFT

TREASURY MANAGEMENT STRATEGY

2013/14

CONTENTS

Treasury Management Strategy Report 2013/14

The Council is recommended to: • **approve the Treasury Management Strategy for 2013/14** • **approve the Treasury Management Indicators for 2013/14**

1.0 Introduction

In April 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

In addition, the Welsh Government (WG) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the WG Guidance.

2.0 Economic Context – as provided by Arlingclose Ltd

Despite some stronger economic growth data towards the end of 2012, consumers are yet to loosen their purse strings and businesses are still reticent to make long-term investment decisions. The momentum in GDP growth is therefore unlikely to be sustained while uncertainty over the economic outlook persists. Consumer Price Inflation has picked up from the low of 2.2% in September to 2.7% in December and it is expected to be affected by volatility in energy and commodity prices throughout 2013.

The Bank of England's Monetary Policy Committee is monitoring current economic conditions after voting not to extend quantitative easing in November. Policymakers appear to be hoping the Funding for Lending Scheme (FLS), which started in August, is more effective at easing restricted credit conditions. Although HSBC has opted out of the scheme, most of the UK's biggest lenders have now signed up. There has been some indication in recent data that the FLS is beginning to boost lending to the household sector, but business lending remains relatively subdued. Further asset purchases remain a distinct possibility, although above target inflation may constrain the MPC in the near future. Based on the last Inflation Report, Bank of England policymakers believe there is a good chance that the CPI rate will remain above target throughout 2013.

The US Federal Reserve has responded to the slowdown in growth and employment with large scale asset purchases of $85bn a month until the outlook for the labour market improves substantially. The US public finance 'fiscal cliff' remains a serious risk despite the last minute deal reached before the deadline at the end of December. The political turmoil is likely to return in February when the talks on increasing the debt ceiling will create a stage for further political brinkmanship, no doubt prompting further volatility in financial markets unless a political solution is reached soon.

The Eurozone is making slow headway, with the European Stability Mechanism now operational, announcements on the Outright Monetary Transactions programme well received, and some progress being made towards banking union. These have placated markets and curtailed some of the immediate risks to the stability of the monetary union. A sustainable solution to the Eurozone crisis is some way off though, as fiscal integration and mutualisation of Eurozone sovereign debt liabilities remain politically unpalatable.

3.0 Interest Rate Forecasts

The Council's treasury management adviser, Arlingclose, believes that it could be 2016 before official UK interest rates rise. The US Federal Reserve has signalled it will keep interest rates "at exceptionally low levels" until at least 2015. The UK's safe haven status and the minimal prospect of short-term rate rises, should maintain gilt yields near their current lows.

Arlingclose central interest rate forecast – December 2012

	Bank Rate	3 month LIBID	12 month LIBID	20-year gilt yield *
Q1 2013	0.50	0.40	0.90	2.80
Q2 2013	0.50	0.40	0.90	2.80
Q3 2013	0.50	0.40	0.95	2.80
Q4 2013	0.50	0.45	0.95	2.80
H1 2014	0.50	0.50	1.00	2.90
H2 2014	0.50	0.50	1.00	2.90
H1 2015	0.50	0.55	1.10	3.00
H2 2015	0.50	0.60	1.10	3.00

* The Council can currently borrow from the PWLB at 0.80% above gilt yields

HM Treasury Survey of Forecasts – November 2012

	Average annual Bank Rate %			
	2013	2014	2015	2016
Highest	0.60	1.60	2.80	3.60
Average	0.50	0.65	1.30	1.80
Lowest	0.25	0.25	0.50	0.50

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.60%, and that new long-term loans will be borrowed at an average rate of 4.1%.

4.0 Current and Expected Treasury Portfolios

Current portfolio

The Council's treasury portfolio as at 31st December 2012 was as follows.

	Principal amount £m	Interest rate %
Investments:		
Call accounts	3.3	0.40
Money market funds	30.9	0.36
Short-term deposits	30.3	0.99
Long-term deposits	-	-
Total Investments	**64.5**	**0.66**
Borrowing:		
Short-term loans	-	-
Long-term PWLB loans (fixed)	143.16	5.86
Long-term PWLB loans (variable)	10.00	0.55
Long-term market loans (LOBOs)	18.95	4.53
Total Borrowing	**172.11**	**5.42**
Net Borrowing	**107.61**	

Expected changes in portfolio

According to current cash flow forecasts, net borrowing is expected to increase to £117.11 million by 31st March 2013. Net borrowing will remain at a fairly constant level throughout 2013/14, until the single status agreement is implemented and the reserve created specifically is used.

This forecast increase in net borrowing may be achieved by reducing investment balances, as discussed in the borrowing strategy below.

Budget implications

The budget for investment income in 2013/14 is £380K, based on an average investment portfolio of £64 million at an interest rate of 0.60%. The budget for loan interest paid in 2013/14 is £9.3 million, based on an average debt portfolio of £172.11 million at an average interest rate of 5.42%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

5.0 Investment Strategy

The Council holds surplus funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £51.8 and £80.1 million, and similar levels are expected to be maintained in the forthcoming year.

Both the CIPFA Code and the WG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.

Investment criteria and limits

The Council defines the following as being of "high credit quality" (as per the WG Guidance), subject to the monetary and time limits shown.

	Fitch	**Moody's**	**S & P**	**Cash Limit**	**Time Limit**
Banks, Building Societies and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	Aaa	AAA	£7m each	5 years
	AA+	Aa1	AA+		5 years
	AA	Aa2	AA		4 years
	AA-	Aa3	AA-		3 years
	A+	A1	A+		2 years
	A	A2	A		1 year
	A-	A3	A-	£5m	6 months
The council's current account bank (NatWest Bank plc) if rated below A-				£5m	next day
UK Building Societies with assets greater than £1bn, which are either unrated by the credit rating agencies or have a minimum rating of BBB or equivalent and above.				£5m each	1 year
Money Market Funds[1] and similar pooled vehicles whose lowest published credit rating is AAA				£7m each	1 year
UK Central Government (irrespective of credit rating)				unlimited	5 years
UK Local Authorities[2]				£7m each	5 years

[1] as defined in the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003

[2] as defined in the Local Government Act 2003

To manage the risk of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £7 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

Current account bank

Following a competitive tender exercise held in 2008, the Council's current accounts are held with NatWest Bank plc, which does not currently meet the above credit rating criteria. The Council will treat NatWest as "high credit quality" for the purpose of making investments that can be withdrawn on the next working day, even if it does not meet the above criteria, subject to the bank maintaining a credit rating no lower than BBB-.

Building societies

UK building societies without credit ratings, but with an asset size of at least £1bn will be considered to be of "high credit quality", but subject to a lower cash limit and shorter time limit than rated societies. The Council takes additional comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Council's deposits would be paid out in preference to retail depositors. The Government has announced plans to amend the building society insolvency regime alongside its plans for wide ranging banking reform, and investments in lower rated and unrated building societies will therefore be kept under continuous review.

However, no investments will be made with building societies that hold a long-term credit rating lower than BBB or equivalent, due to the increased likelihood of default implied by this rating.

The limit for building society investments is 60% of the total investment portfolio.

Money market funds

Money market funds are pooled investment vehicles consisting of instruments similar to those used by the Council. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Council.

Investments in money market funds involve the acquisition of share capital, and are therefore counted as capital expenditure under WG regulations. However, since withdrawals from funds count as capital receipts, these will be used to fund the capital expenditure, leaving no overall impact on the Council's capital programme.

Foreign countries

Investments in foreign countries will be limited to those that hold an AAA or AA+ / Aa1 sovereign credit rating from all three major credit rating agencies, and to a maximum of £10 million per foreign country. Investments in countries whose lowest sovereign rating is not AAA will be limited to one year's duration. No country limit will apply to investments in the UK, irrespective of the sovereign credit rating.

Overseas subsidiaries of foreign banking groups will normally be assessed according to the country of domicile of the parent organisation. However, Santander UK plc (a subsidiary of Spain's Banco Santander) and Clydesale Bank plc (a subsidiary of National Australia bank) will be classed as UK banks due to their substantial UK franchises and the arms-length nature of the parent-subsidiary relationships.

Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank) or other supranational organisations (e.g. the European Union).

Risk assessment and credit ratings

The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service Inc and Standard & Poor's Financial Services LLC to assess the risk of investment default. The lowest available credit rating will be used to determine credit quality.

Long-term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade. The Council's credit rating criteria are set to ensure that it is unlikely that the Council will hold speculative grade investments, despite the possibility of repeated downgrades.

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it is likely to fall below the above criteria, then no further investments will be made in that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks.

The Council's investments are normally senior unsecured liabilities of the borrower, and the credit rating of the investment is therefore normally identical to the credit rating of the counterparty. However, where a credit rating agency awards a different rating to a particular class of investment instruments, the Council will base its investment decisions on the instrument credit rating rather than the counterparty credit rating.

<u>Other information on the security of investments</u>

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions.

If these restrictions mean that insufficient commercial organisations of "high credit quality" are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Non-specified investments

The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments in foreign currencies, nor any with low credit quality bodies, nor any that are defined as capital expenditure by legislation (such as company shares), Non-specified investments will therefore be limited to money market funds (which are defined as capital expenditure in Wales) and long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement.

The total limit for money market funds is £30 million, the total limit on long-term investments is £20 million and the total limit on non-specified investments is £50 million.

Liquidity management

The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments.

Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

Planned investment strategy for 2013/14

The economic climate in 2012/13 meant it was necessary for the strategic approach to centre on placing money "on call" with banks, depositing with other local authorities and extensive use of AAA rated Money Market Funds.

With the exception of two longer term fixed rate deposits, investments operated within a self-imposed maximum 3 month term for deposits with banks & building societies, unless economic conditions deteriorate.

Following discussions with the Council's treasury management advisors amid an improvement in the credit risk environment, the 3 month self imposed limit will not be applied during 2013/14.

Treasury management staff will continue to seek out investments that meet the criteria detailed within this strategy whilst having full regard for the Council's cash flow requirements, in particular the expectancy to meet single status and equal pay obligations during the 2013/14 financial year.

The cash flow forecast will be used to divide surplus funds into three categories:

- Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
- Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
- Long-term – cash not required to meet cash flows, and used primarily to generate investment income.

Short-term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although it should not be ignored. Instant access AAA-rated money market funds and bank deposit accounts will be the main methods used to manage short-term cash. It is estimated that about 35% of surplus monies will be short term for cash flow purposes, although this may vary depending on changes to the interest rate yield curve.

Medium-term funds which may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. A wide spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks. It is estimated that about 55% of surplus funds will be medium term. However, again this may vary depending on changes to the interest rate yield curve.

Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on local authority services. Security remains important, as any losses from defaults will impact on the total return, but fluctuations in price and even occasional losses can be managed over the long term within a diversified portfolio. Liquidity is of lesser concern, although it should still be possible to sell investments, with due notice, if large spending commitments arise unexpectedly. A wider range of instruments, including structured deposits, certificates of deposit, gilts and corporate bonds will be used to diversify the portfolio. The Council will consider employing external fund managers that have the skills and resources to manage the risks inherent in a portfolio of long-term investments. However, in the current economic and financial environment it is likely that only a small percentage, about 10% will be invested longer term, probably over two years in fixed term deposits or callable deposits.

With short-term interest rates currently much lower than long-term rates, due consideration will also be given to using surplus funds to make early repayments of long-term borrowing. In addition to the savings on the interest rate differential, this strategy will also reduce the Council's exposure to credit risk and interest rate risk.

6.0 Borrowing Strategy

The Council currently holds £172.11m of long-term loans, as part of its strategy for funding previous years' capital programmes. The Council's capital financing requirement (CFR, or underlying need to borrow for capital purposes) as at 31st March 2013 is expected to be £175m, and is forecast to rise to £176m by March 2014 as capital expenditure is incurred.

Given the Council's latest cash flow forecast, and the forecast pattern of interest rates during the year, the Council does not anticipate undertaking any long term borrowing during 2013/14, considering it to be more cost effective to defer borrowing until later years, and to temporarily reduce the size of the Council's investment balance instead.

In addition, the Council may borrow for short periods of time (normally for up to two weeks) to cover unexpected cash flow shortages.

The Council's debt portfolio position as at 31st December 2012 is:

	Type	Principal £m	Average Interest Rate %
Fixed Rate Funding	PWLB	143.16	5.86%
Variable Rate Funding	PWLB	10.00	0.55%
	Market	18.95	4.53%
Total Long Term Debt		**172.11**	**5.42%**

The efficient management of cash flow should mean that no short term borrowing is required unless as a short term measure during debt re-structuring, so it is assumed the cost of short term borrowing will be zero. The Council has an overdraft limit with the bank of £300,000.

The Council has £172.11m of long term borrowing. Most of these loans are with the Public Loans Works Board (£153m of PWLB debt). Loans of £143.16m are at a fixed rate of interest which has the advantage of providing budget certainty. The interest payment on this debt is £8.4m per annum. A loan of £10 million is at a variable rate (currently 0.55%), which cost the Council £70k in 2012/13. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a formula based on current interest rates. There may be opportunities to re-structure debt in 2013/14 by replacing some higher rate loans with new loans at a lower rate where this will lead to an overall saving or reduce risk. However, given current expectations of interest rates, this is unlikely.

The remainder of the long term debt (£19m) has been borrowed from banks in the form of three LOBOs (Lenders Option, Borrowers Option). These have a short fixed interest rate period (which has now passed for these loans) followed by a longer variable rate period. There is an option for the Council to repay the loan during the variable rate period if the lender increases the interest rate. The advantage of using these loans is that the interest rate, during the fixed rate period especially, can be lower than the PWLB.

The interest cost on these loans is estimated to be £860K in 2013/14 but they are all in their variable rate period and the lender could increase the interest rate, albeit given the current expectations for interest rates this is unlikely.

The total estimated interest cost for 2013/14 is £9.3m.

For a number of years the Council has not taken any new long term borrowing and used cash reserves to fund capital expenditure. The Council's Capital Programme, including Prudential Borrowing will be reviewed to consider the most financially advantageous method of financing future debt. The situation is monitored on an on-going basis by the Head of Finance.

Sources of borrowing

The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board
- any institution approved for investments above
- any other bank or building society approved by the Financial Services Authority
- capital market bond investors
- special purpose companies created to enable joint local authority bond issues.

Planned borrowing strategy for 2013/14

The Head of Finance will:

- Manage the Council's debt maturity profile, i.e. to leave no one future year with a high level of repayments that could cause problems in re-borrowing with the limits stated in this Strategy Statement. Appendix A analyses the debt portfolio of the Council, as at 31st December, 2012.

- To effect any borrowing that maybe required in 2013/14 at the cheapest cost commensurate with future risk based on interest rate forecasts.

- To monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movements, within the limits stated in this Strategy.

- Continue to monitor options for debt-restructuring and debt re-payment.

The Head of Finance will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances, reporting any decisions and actions taken under delegated powers to Cabinet via the Audit Committee.

With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either borrow short-term loans, variable rate loans or to not borrow and reduce the level of investments held instead. However, with long-term rates forecast to rise in the coming years, any such short-term savings will need to be balanced against the potential longer-term costs.

The Council has previously raised the majority of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as bond issues and bank loans, that may be available at more favourable rates.

Loans that present additional risk to the authority, such as lender's option borrower's option (LOBO) loans and variable rate loans will be restricted to the limit on the net exposure to variable interest rates in the treasury management indicators below.

7.0 Policy on Use of Financial Derivatives

The Localism Act 2011 includes a general power competence that removes the uncertain legal position over English local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). Although this change does not apply to Wales, the latest CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

In the absence of any legislative power, the Council's policy is not to enter into standalone financial derivatives transactions such as swaps, forwards, futures and options. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

8.0 Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators. The Council is asked to approve the following indicators:

Interest rate exposures
This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed will be:

	2013/14	2014/15	2015/16
Upper limit on fixed interest rate exposures	£200m	£200m	£200m
Upper limit on variable interest rate exposures	£40m	£40m	£40m

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity structure of borrowing
This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower	Upper
Under 12 months	0%	10%
12 months and within 24 months	0%	10%
24 months and within five years	0%	30%
Five years and within 10 years	0%	50%
10 years and above	0%	100%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than 364 days
The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2013/14	2014/15	2015/16
Limit on total principal invested beyond year end	£20m	£20m	£20m

Any long term investments carried forward from previous years will be included in each years limit.

Borrowing limits
The Council is being asked to approve these Prudential Indicators as part of the Capital Programme report. However they are repeated here for completeness.

	2013/14	2014/15	2015/16
Operational boundary – borrowing Operational boundary – other long-term liabilities Operational boundary – TOTAL	£182.6 £15.6 £198.2	£198 £16.6 £214.6	£233.1 £17.6 £250.7
Authorised limit – borrowing Authorised limit – other long-term liabilities Authorised limit – TOTAL	£202.6 £15.6 £218.2	£218 £16.6 £234.6	£253.1 £17.6 £270.7

9.0 Other Matters

The WG Investment Guidance requires the Council to note the following three matters each year as part of the investment strategy:

Treasury Management Advisers
The Council's treasury management adviser Sterling Consultancy Services was acquired by Arlingclose Limited in October 2012. Arlingclose continues to provide advice and information on the Council's investment and borrowing activities, although responsibility for final decision making remains with the Council and its officers. The services received include:

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

The quality of this service is controlled by Financial Procedure Rules

Investment training
The needs of the Council's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment of Money Borrowed in Advance of Need

The Council will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

The Head of Finance under delegated powers may borrow in advance of need if it is within forward approved Capital Financing Requirement estimates, and if there is a clear business case for doing so.

Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism. The Council would not look to borrow more than 12 months in advance of need.

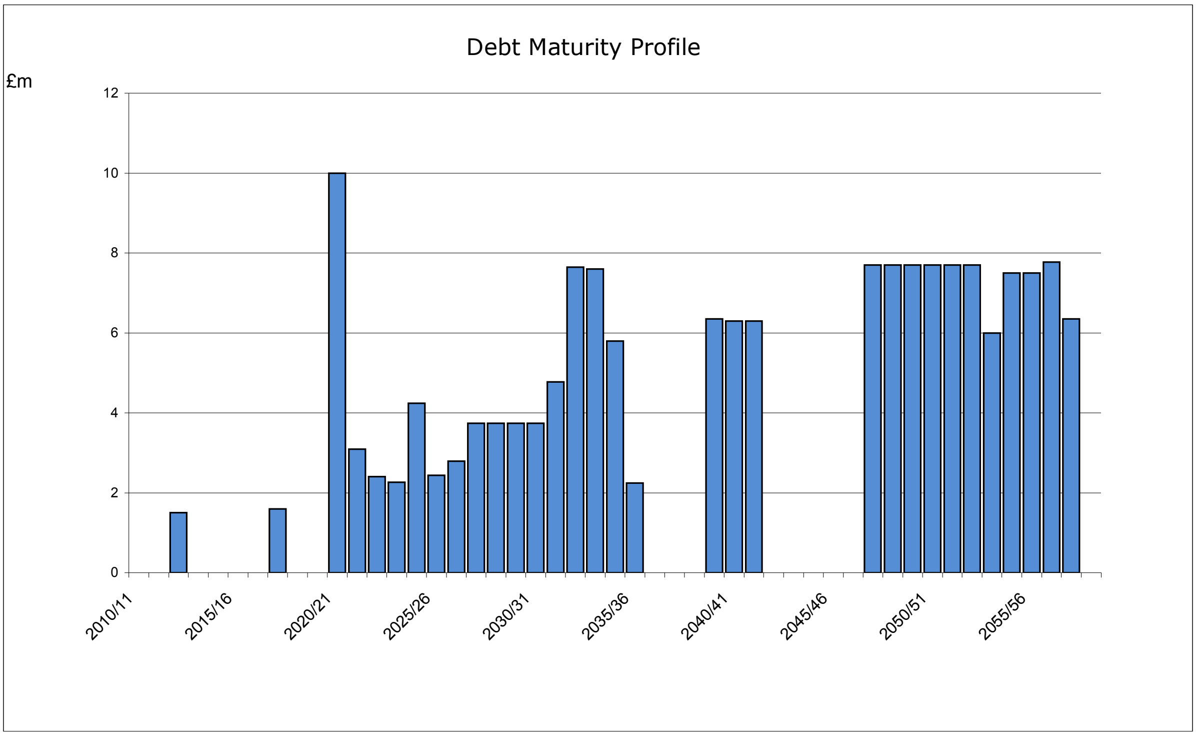
The Council will only invest money borrowed in advance of need for known debt maturities or to finance the borrowing requirement for the year concerned.

Other Options Considered

The WG Investment Guidance and the CIPFA Code of Practice do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Adopt a narrower definition of “high credit quality” and/or shorter time limits	Interest income will be lower	Reduced risk of losses from credit related defaults
Adopt a wider definition of “high credit quality” and/or longer time limits	Interest income will be higher	Increased risk of losses from credit related defaults
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing if debt rescheduling costs weren’t prohibitive	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

APPENDIX A – DEBT MATURITY PROFILE



Appendix 5

Flintshire County Council

Investments as at 31st December 2012 - by maturity date

Counterparty Name	Amount	Start Date	Maturity	Interest Rate	Interest Earned during investment period	Period to Maturity	
	£m						£m
LANDSBANKI ISLANDS	0.6	22-Jul-08	17-Oct-08	5.82%	16,646.79	Returned in part	Iceland
LANDSBANKI ISLANDS	0.8	1-Sep-08	14-Nov-08	5.70%	17,334.25	Returned in part	Iceland
LANDSBANKI ISLANDS	0.5	8-Sep-08	18-Nov-08	5.67%	11,029.32	Returned in part	Iceland
NATIONAL COUNTIES BUILDING SOCIETY	1.0	3-Oct-12	02-Jan-13	0.85%	2,119.18	1 month or less	
OVERSEA-CHINESE BANKING CORPORATION	2.2	5-Nov-12	18-Jan-13	0.36%	1,605.70	1 month or less	
NATIONAL COUNTIES BUILDING SOCIETY	2.0	24-Oct-12	22-Jan-13	0.78%	3,846.58	1 month or less	
NATIONWIDE BUILDING SOCIETY	2.0	5-Nov-12	22-Jan-13	0.44%	1,880.55	1 month or less	
COVENTRY BUILDING SOCIETY	1.5	5-Nov-12	28-Jan-13	0.46%	1,587.95	1 month or less	
COVENTRY BUILDING SOCIETY	2.0	5-Nov-12	28-Jan-13	0.46%	2,117.26	1 month or less	
DEUTSCHE MANAGED STERLING FUND	4.7	2-Apr-12	31-Jan-13	0.34%	13,116.38	1 month or less	
SSGA GBP LIQUIDITY FUND	5.2	2-Apr-12	31-Jan-13	0.37%	16,111.51	1 month or less	
SWIP GLOBAL LIQUIDITY FUND	3.2	1-Jun-12	31-Jan-13	0.35%	7,551.90	1 month or less	
BLACKROCK INST STERLING LIQUIDITY FUND	7.0	25-Jun-12	31-Jan-13	0.32%	13,433.42	1 month or less	
RBS FUND	4.2	1-Nov-12	31-Jan-13	0.34%	3,536.11	1 month or less	
HANDELSBANKEN	3.3	5-Dec-12	31-Jan-13	0.40%	2,061.37	1 month or less	
IGNIS STERLING LIQUIDITY FUND	6.6	5-Dec-12	31-Jan-13	0.51%	5,211.12	1 month or less	44.9
NATIONWIDE BUILDING SOCIETY	1.4	23-Nov-12	22-Feb-13	0.44%	1,535.78	1 - 3 months	
BARCLAYS	2.9	3-Dec-12	22-Feb-13	0.45%	2,896.03	1 - 3 months	
NATIONAL COUNTIES BUILDING SOCIETY	1.0	3-Dec-12	28-Feb-13	0.60%	1,430.14	1 - 3 months	
CAMBRIDGE BUILDING SOCIETY	1.0	3-Dec-12	28-Feb-13	0.35%	834.25	1 - 3 months	
YORKSHIRE BUILDING SOCIETY	1.5	3-Dec-12	28-Feb-13	0.35%	1,251.37	1 - 3 months	
NATIONAL COUNTIES BUILDING SOCIETY	1.0	7-Dec-12	06-Mar-13	0.60%	1,463.01	1 - 3 months	
BARCLAYS	1.8	17-Dec-12	18-Mar-13	0.46%	2,064.33	1 - 3 months	10.6
DONCASTER COUNCIL	2.0	3-Oct-11	16-Apr-13	1.30%	39,961.64	3 months +	
BANK OF SCOTLAND	4.0	27-Jul-12	04-Jul-13	3.00%	112,438.36	3 months +	
BANK OF SCOTLAND	3.0	5-Dec-12	05-Dec-13	1.60%	48,000.00	3 months +	9.0
	66.4				**331,064.30**		**66.4**

Summary	Total		1 month or less	1 - 3 months	3 months +	12 months +	Iceland
	£m	%	£m	£m	£m	£m	
DEBT MANAGEMENT OFFICE (DMO)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
UK	26.1	39.3	8.5	10.6	7.0	0.0	0.0
OVERSEAS	5.5	8.3	5.5	0.0	0.0	0.0	0.0
OTHER LOCAL AUTHORITIES	2.0	3.0	0.0	0.0	2.0	0.0	0.0
ICELAND (LANDSBANKI)	1.9	2.9	0.0	0.0	0.0	0.0	1.9
MONEY MARKET FUNDS	30.9	46.5	30.9	0.0	0.0	0.0	0.0
	66.4		**44.9**	**10.6**	**9.0**	**0.0**	**1.9**
		100.0%	67.6%	16.0%	13.5%	0.0%	2.9%

Flintshire County Council

Investments as at 31st December 2012 - by bank

Counterparty Name	Amount £m	Start Date	Maturity	Interest Rate	Interest Earned during investment period	Period to Maturity	£m
BANK OF SCOTLAND	4.0	27-Jul-12	04-Jul-13	3.00%	112,438.36	3 months +	
BANK OF SCOTLAND	3.0	5-Dec-12	05-Dec-13	1.60%	48,000.00	3 months +	7.0
BARCLAYS	2.9	3-Dec-12	22-Feb-13	0.45%	2,896.03	1 - 3 months	
BARCLAYS	1.8	17-Dec-12	18-Mar-13	0.46%	2,064.33	1 - 3 months	4.7
BLACKROCK INST STERLING LIQUIDITY FUND	7.0	25-Jun-12	31-Jan-13	0.32%	13,433.42	1 month or less	7.0
CAMBRIDGE BUILDING SOCIETY	1.0	3-Dec-12	28-Feb-13	0.35%	834.25	1 - 3 months	1.0
COVENTRY BUILDING SOCIETY	1.5	5-Nov-12	28-Jan-13	0.46%	1,587.95	1 month or less	
COVENTRY BUILDING SOCIETY	2.0	5-Nov-12	28-Jan-13	0.46%	2,117.26	1 month or less	3.5
DEUTSCHE MANAGED STERLING FUND	4.7	2-Apr-12	31-Jan-13	0.34%	13,116.38	1 month or less	4.7
DONCASTER COUNCIL	2.0	3-Oct-11	16-Apr-13	1.30%	39,961.64	3 months +	2.0
HANDELSBANKEN	3.3	5-Dec-12	31-Jan-13	0.40%	2,061.37	1 month or less	3.3
IGNIS STERLING LIQUIDITY FUND	6.6	5-Dec-12	31-Jan-13	0.51%	5,211.12	1 month or less	6.6
LANDSBANKI ISLANDS	0.6	22-Jul-08	17-Oct-08	5.82%	16,646.79	Returned in part	Iceland
LANDSBANKI ISLANDS	0.8	1-Sep-08	14-Nov-08	5.70%	17,334.25	Returned in part	Iceland
LANDSBANKI ISLANDS	0.5	8-Sep-08	18-Nov-08	5.67%	11,029.32	Returned in part	Iceland
NATIONAL COUNTIES BUILDING SOCIETY	1.0	3-Oct-12	02-Jan-13	0.85%	2,119.18	1 month or less	
NATIONAL COUNTIES BUILDING SOCIETY	2.0	24-Oct-12	22-Jan-13	0.78%	3,846.58	1 month or less	
NATIONAL COUNTIES BUILDING SOCIETY	1.0	3-Dec-12	28-Feb-13	0.60%	1,430.14	1 - 3 months	
NATIONAL COUNTIES BUILDING SOCIETY	1.0	7-Dec-12	06-Mar-13	0.60%	1,463.01	1 - 3 months	5.0
NATIONWIDE BUILDING SOCIETY	2.0	5-Nov-12	22-Jan-13	0.44%	1,880.55	1 month or less	
NATIONWIDE BUILDING SOCIETY	1.4	23-Nov-12	22-Feb-13	0.44%	1,535.78	1 - 3 months	3.4
OVERSEA-CHINESE BANKING CORPORATION	2.2	5-Nov-12	18-Jan-13	0.36%	1,605.70	1 month or less	2.2
RBS FUND	4.2	1-Nov-12	31-Jan-13	0.34%	3,536.11	1 month or less	4.2
SSGA GBP LIQUIDITY FUND	5.2	2-Apr-12	31-Jan-13	0.37%	16,111.51	1 month or less	5.2
SWIP GLOBAL LIQUIDITY FUND	3.2	1-Jun-12	31-Jan-13	0.35%	7,551.90	1 month or less	3.2
YORKSHIRE BUILDING SOCIETY	1.5	3-Dec-12	28-Feb-13	0.35%	1,251.37	1 - 3 months	1.5
	66.4				**331,064.26**		**66.4**

ESTIMATED INTEREST FOR 2012/13 AS AT 30th November 2012 is £621,715.91