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# **TREASURY MANAGEMENT PRACTICES**

## **Part 2: Schedules**

**2023 - 2026**

**Flintshire County Council**

## Treasury Management Practice Schedules 2023 - 2026

### 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 the Council

	<b>Page</b>
Treasury Management Practices – Schedules	2
Treasury Management Definitions	
TMP 1 Risk management	3
TMP 2 Performance Measurement	10
TMP 3 Decision-making and analysis	11
TMP 4 Approved instruments, methods and techniques	13
TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements	15
TMP 6 Reporting requirements and management information Arrangements	19
TMP 7 Budgeting, accounting and audit arrangements	22
TMP 8 Cash and cash flow management	23
TMP 9 Money laundering	24
TMP 10 Staff training and qualifications	24
TMP 11 Use of external service providers	25
TMP 12 Corporate governance	26
Appendix A – Definition of ratings	26

## Treasury Management Practice Schedules 2023 - 2026

### TREASURY MANAGEMENT DEFINITIONS

Treasury Management is defined by CIPFA as

‘The management of the Council’s borrowing, investments and cash flows, including 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.’

‘Investments’ covers all the financial assets of the Council, as well as other non-financial assets which the Council holds primarily or partially to generate a profit, including but not limited to commercial property. Investments will be categorised in accordance with the primary purpose of the investment.

- Treasury management investments are those investments that arise from the Council’s cash flows or treasury risk management activity and ultimately represent balances that need to be invested until the cash is required for use in the course of business.
- Service investments are those held primarily and directly for the delivery of public services (including housing, regeneration and local infrastructure) or in support of joint working with others to deliver such services. They may or may not involve financial returns.
- Commercial investments are those held primarily for financial return and are not linked to treasury management activity or directly part of delivering services.

Service and commercial investments assets are not managed as part of the Council’s normal treasury management or under treasury management delegations, but they nonetheless require appropriate investment and risk management under the Code; separate Investment Management Practices (IMPs) are therefore included in this document, specific to these investments.

### TMP1 RISK MANAGEMENT

#### 1 Credit & Counterparty Policies

1. Criteria to be used for creating/managing approved counterparty lists/limits -
  - The Chief Finance Officer 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 Technical Accountancy Section. It should be noted that not all of these

## Treasury Management Practice Schedules 2023 - 2026

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 a selection of credit rating agencies.
- The minimum level of credit rating for an approved counterparty will be as follows: -

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£4m	Unlimited
Secured investments *	25 years	£3m	Unlimited
Banks (unsecured) *	13 months	£3m	Unlimited
Building societies (unsecured) *	13 months	£3m	Unlimited
Registered providers (unsecured) *	5 years	£2m	Unlimited
Money market funds *	n/a	£4m	Unlimited
Strategic pooled funds	n/a	£1m	£5m
Real estate investment trusts	n/a	£1m	£1m
Other investments *	5 years	£2m	£10m

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

**\* Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £100k per counterparty as part of a diversified pool.

**Government:** Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the

## Treasury Management Practice Schedules 2023 - 2026

UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

**Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

**Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

**Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

**Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

**Strategic pooled funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

**Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price

## Treasury Management Practice Schedules 2023 - 2026

reflects changing demand for the shares as well as changes in the value of the underlying properties.

**Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.

**Operational bank accounts:** The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept as low as possible. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

### Specified investments

The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement unless the counterparty is a local authority,
- 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".

The Council defines 'high credit quality' organisations as those having a credit rating of A- or higher that are, domiciled in the UK, or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

### Non-Specified Investments

Any financial 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. Given the wide definition of a loan, this category only applies to units in pooled funds and shares in companies. Limits on non-specified investments are shown in the table below. The Council confirms that its current non-specified investments remain within these limits.

## Treasury Management Practice Schedules 2023 - 2026

	Cash Limit
Total invested in pooled funds without credit rating	£5m
Shares in real estate investment trusts	£1m
Shares in local organisations	£1m
<b>Total non-specified investments</b>	<b>£7m</b>

### Foreign countries

Investments in foreign countries will be limited to a maximum of £5 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.

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

Credit ratings for individual counterparties can change at any time. The Chief Finance Officer 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 Chief Finance Officer 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 Fitch, Moody's or Standard & Poor's are updated monthly by the Council's treasury management adviser; 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.
- The Council's treasury management adviser will also inform the Chief Finance Officer 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.

#### 4. Environmental, Social & Governance (ESG) Policy

The Council is committed to invest responsibly. As such when investing, we will consider environmental, social and governance factors alongside the financial factors. Where possible ESG investments will be maximised. However,

## Treasury Management Practice Schedules 2023 - 2026

security, liquidity and yield will still be prioritised and investments must still be diversified.

### 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 zero cash balance each day unless it is uneconomic to do so (e.g., it may cost more to send an investment to a counterparty and recall the next day than to keep the funds in the account overnight to cover the following days payments). Otherwise, a zero balance will be achieved as far as possible by means of temporary investments, borrowing or use of call accounts. 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.
- Short-term borrowing facilities - short term borrowing will be arranged for any overdrawn balance 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 and money market funds (subject to ratings and sector limits).

### 1.3 Interest Rate

#### 1. Details of approved interest rate exposure limits

A fall in interest rates is beneficial for variable rate debt and short-term borrowing which needs to be refinanced, but not for variable rate investments. Conversely, a rise in interest rates is beneficial for short-term investments which can be reinvested at higher rates but will be a cost for variable rate borrowing or short-term borrowing which needs to be refinanced.

The Council sets an Interest Rate Risk indicator as part of its Treasury Management Strategy to control exposure to interest rate risk. This is set as-

Interest rate risk indicator	2023/24 £m	2024/25 £m	2025/26 £m
Upper limit on one-year revenue impact of a 1% rise in interest rates	0.114	0.166	0.213
Upper limit on one-year revenue impact of a 1% fall in interest rates	0.032	0.024	(0.023)

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



## Treasury Management Practice Schedules 2023 - 2026

- This is monitored in conjunction with the Council's treasury advisers 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 Inflation

Guidelines for managing changes to inflation rate levels

- This is monitored in conjunction with the Council's treasury advisers through monthly economic updates.

### 1.6 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
4. Policy where the Council provides financial guarantees to third parties.
  - These are recorded and regularly reassessed as to the probability they will be called upon.
5. To assist with long-term borrowing decision making the Council creates, with advice and assistance from its treasury advisor, a 'Liability Benchmark' [LB] which is the lowest risk level of borrowing. The LB is an important tool which takes into account maturing loans and represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

## Treasury Management Practice Schedules 2023 - 2026

The LB is represented as a graph in the annual treasury management strategy. It will be updated regularly through the year by the Council in conjunction with the treasury management advisors with developments and/or timing changes in the capital programme as well as changes to balance sheet resources.

Based on the output of the Liability Benchmark and the Council's outlook on interest rates, any longer-term borrowing will be undertaken in accordance with the Code and will comply with the Council's Prudential Indicators and the Annual Treasury Management Strategy.

6. The Council's debt portfolio includes loans borrowed on a Lender's Option Borrower's Option (LOBO) basis.

The call dates for each LOBO loan are referenced to the LOBO documentation.

Prior to each call date, the Council will evaluate alternative funding sources for comparable interest rates/maturities.

If the Lender exercises the call option (directly or via the broker) for a revision to the terms of the loan, the Council will thoroughly evaluate the new terms and additionally seek advice from the Council's advisor.

It is important to remain within the timescale for the Council to exercise its option should the call be made, but not be rushed into a decision.

### 1.7 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 Chief Finance Officer to be satisfied, by reference to the Monitoring Officer, the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach statute, external regulations or the Council'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](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](http://www.opsi.gov.uk/legislation/wales/wsi2003/wsi_20033239_en.pdf)
  - ❖ Welsh Government "Guidance on Local Government Investments" <https://gov.wales/local-government-investments-guidance>
  - ❖ CIPFA "Treasury Management in the Public Services Code of Practice"
  - ❖ CIPFA "Prudential Code for Capital Finance in Local Authorities"

## Treasury Management Practice Schedules 2023 - 2026

Hard copies are available in Technical Accountancy.

### 1.8 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
  - The Council's treasury management processes are fully digital. Principal Accountants and Strategy Finance Managers have Council issued iPads allowing treasury management to be done anywhere with internet connection.
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 Chief Finance Officer and Head of Internal Audit and subsequently to Governance and Audit Committee and Council.

### 1.9 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 limits are set, current criteria for these investments does not allow exposure to high fluctuations in value.
- 

### 1.10 Non-treasury investments

- Commercial Investments - The profit generated by investment activity makes a small contribution to achieving a balanced revenue budget. In comparison to the net revenue budget, investment income is less than 0.5% as a proportion. The Council's investment properties are historical investment decisions and therefore will have limited impact on the Council's liquidity. No recent investment has taken place in investment properties, and therefore there is no recent borrowing associated. Changes in tenant demand may impact the income levels. This will be identified through monthly budget monitoring.
- Service Investments - The Council, as required, has considered allowing for an 'expected credit loss' model for loans and receivables as set out in IFRS 9: *Financial Instruments*, as adopted by proper practices, to measure the credit risk of its loan portfolio. When calculated, the expected credit loss was very small. Given the high

## Treasury Management Practice Schedules 2023 - 2026

level of control the Council has over NEW Homes and the security arrangements, the Council decided against setting up a provision for expected credit loss from the loans to NEW Homes.

In the event of a default, the Council could either sell the properties to repay its borrowing or include them within the Housing Revenue Account and continue to rent at social housing rent levels.

### TMP2 PERFORMANCE MEASUREMENT

#### 2.1 Performance Measurement

1. In the annual Treasury Management Outturn Report, investment and borrowing rates are analysed against the budget and previous year's data.
2. Health checks are undertaken by the Council's treasury management advisers.

#### 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 adviser's 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 Council's Treasury Management activities

1. The Chief Finance Officer will receive a monthly update on treasury management from the Strategic Finance Manager – Capital, Technical and Financial Systems.
2. The performance of treasury management will be reported quarterly to the Governance and Audit Committee and then to Cabinet and Council in the Mid-year Report and Annual Outturn Report using the performance measures outlined in 2.1.
3. Non-treasury investments - for both commercial and service investments:
  - Regular fair value assessments
  - Performance reported through monthly budget monitoring
  - Ongoing repairs so that value and income are maintained

## Treasury Management Practice Schedules 2023 - 2026

### TMP3 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 on-line 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 Chief Finance Officer 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 its 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 Council's future plans and budgets.
  - In respect of investment decisions, the Council will:
    - a. Consider the optimum period, in the light of cash flow availability and prevailing market conditions.
    - b. Consider the alternative investment products and techniques

## Treasury Management Practice Schedules 2023 - 2026

available, especially the implications of using any which may expose the Council 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.
    - c. Using the Ratings spreadsheet – 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 and money market funds are full, then invest with Debt Management Office (DMO).
5. The 2021 Prudential Code is clear that in order to comply with this Code, an authority must not borrow to invest primarily for financial return.

It is not prudent for the Council to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the Council's functions and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.

The Statutory Guidance of Local Authority Investments in Wales 2019 considers that borrowing in advance of need purely to profit from the investment of the extra sums borrowed is against the principles in the statutory framework. If the Council chooses not to comply with this principle in order to invest in property or other financial assets for commercial return, then the Council must make additional disclosures about the reasons for doing so.

6. Liability benchmark [LB]: The Liability Benchmark is a long-term measure of the underlying need to borrow for all purposes over the long term and is based on its current capital programme and other forecast cash flow movements.

It is a tool to compare the current loans portfolio against the current and planned need to borrow, in terms of both the level and term of borrowing. It indicates whether long term borrowing (or long term investments, if the Council is a net

## Treasury Management Practice Schedules 2023 - 2026

investor) are more appropriate.

The LB an important borrowing risk management measure and will be inclusive in the decision-making process so as to prevent over-borrowing; it will also therefore form part of the Council's audit trail justifying long-term borrowing decisions.

To determine future years' debt requirement or, conversely, monies available for longer-term investment, the Council will estimate and measure the LB for the full debt maturity profile. It is presented as a chart of four balances:

- the Council's current and projected Loans CFR and MRP
- existing loan debt (does not include forecast debt),
- net loans requirement, taking into account balance sheet resources
- liability benchmark, which also takes into account the Council's required liquidity allowance.

The LB is analysed as part of the annual treasury management strategy.

Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment.

Our treasury advisor Arlingclose provides the Council with an online live tool (using Microsoft Teams) to assist with the preparation and regular updating of this important treasury management indicator.

### 6. Non-treasury investments - for each individual investment:

- A business case is produced and is taken through the required approval process
- Due diligence is performed and professional advice taken, where necessary
- The duration of any borrowing required is determined based on a scheme appraisal and / or the expected asset life

## TMP4 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.

## Treasury Management Practice Schedules 2023 - 2026

- 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

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

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Clwyd Pension Fund)
- insurance companies
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leases
- hire purchase
- Private Finance Initiative
- sale and leaseback
- WG Mutual Investment Model

### 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
- Loans
- Bonds
- Reverse Repurchase Agreements
- Commercial Papers



## Treasury Management Practice Schedules 2023 - 2026

### 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  
Leases

#### **Off Balance Sheet**

Deferred Purchase

#### **Other Methods of Financing**

Government and EC Capital Grants  
Lottery monies  
Private Finance Initiative (PFI)  
WG Mutual Investment Model

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

### 4.6 Register of financial institutions who have approved the Council as “professional clients” under the provisions of MiFID II

<b>Financial Institution:</b>	<b>Relationship with the Council:</b>
Arlingclose Limited	Treasury management advisors
Martin Brokers Ltd	Broker
Tradition (UK) Ltd	Broker
ICAP plc	Broker
Tullet Prebon (UK) Ltd	Broker
Imperial Treasury Services	Broker

## Treasury Management Practice Schedules 2023 - 2026

BGC Partners	Broker
King & Shaxson Limited	Broker & Custodians
Institutional Cash Distributors (ICD)	Money market funds
Federated Investors (UK) LLP	Money market funds
Aberdeen/Standard Life	Money market funds
Insight Investment	Money market funds
Coventry Building Society	Building society

- 4.7** Financial derivatives: (Councils) Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 24 of the Local Government and Election (Wales) Act 2021 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to.

In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

## **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 Council'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 Chief Finance Officer informed by the deliberations of the Governance and Audit Committee on the

## Treasury Management Practice Schedules 2023 - 2026

implementation and regular monitoring of its Treasury Management Policy, Strategy and Practices.

- Consideration of Treasury Policy and Strategy for approval by Council.

### 3. Governance and Audit Committee

The Governance and 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

<b>Procedure</b>	<b>Regular</b>	<b>Trained in Absence</b>
Cash balances	Accounting Technician	Accounting Technician/Technical Principal Accountant/FSO
Dealing and limit calculations	Accounting Technician	Accounting Technician/Technical Principal Accountant/FSO
Logotech	Accounting Technician	Accounting Technician/Technical Principal Accountant/FSO
Dealing check	Accounting Technician	Accounting Technician/Technical Principal Accountant/FSO
Dealing authorisation	6 Authorised Bank Signatories - Corporate Finance Manager, 5 Strategic Finance Managers	
Funds transfer operators	Finance Support Officer (FSO)	4 Accounting Technicians/Technical Principal Accountant
Funds transfer approval	6 Principal Accountants	
Bankline system administrators	Principal Accountant (Systems)	Accounting Technician

### 5.3 Statement of duties/responsibilities of each Treasury post

#### 1. Chief Finance Officer

- Recommending clauses, Treasury Management Policy/Practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular Treasury Management Policy and Strategy reports.

## Treasury Management Practice Schedules 2023 - 2026

- 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. Strategic Finance Manager - Capital, Technical and Financial Systems

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

### 3. Technical Principal 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 Governance and 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

## Treasury Management Practice Schedules 2023 - 2026

As outlined in 1 - Credit and Counterparty Policies

### 5.5 List of Approved Brokers

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

- ICAP Limited
- Martin Brokers (UK) Plc
- Prebon Marshall Yamane (UK) Limited
- Tradition (UK) Ltd
- Imperial Treasury Services
- BGC Sterling

### 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.
- Flintshire CC Treasury Management Mid-Year Report
- Treasury Management Health checks.
- Loans and Treasury Management System Manual (LOGOTECH).
- Cash Flow Statement (LOGOTECH).
- Money Market Dealing Form.
- Loans and Investments Outstanding / Limit Calculations.
- List of Brokers and Telephone Numbers.
- Approved Counterparties (Regular update from TM Advisers).
- Arlingclose Consultancy Services Correspondence (TM Advisers).
- Treasury Management Operational Guidelines.
- Treasury Management (Long Term Borrowing) Operational Guidelines.
- Treasury Management Procedures

## Treasury Management Practice Schedules 2023 - 2026

### 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 -

- Insurance Fund – average seven-day rate, annually.

### 5.12 Non-treasury investments

NEW Homes is a company limited by shares, wholly owned by the Council (1 at £1 par value), established under section 95 of the Local Government Act 2003. The Council has a high level of control over NEW Homes as the single shareholder.

Arrangements for each investment as TMP3 above.

## TMP6 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 Governance and 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, the Council may decide to postpone borrowing if fixed interest rates are expected to fall or borrow early if fixed interest rates are expected to rise.
3. The Treasury Management Strategy is concerned with the following elements:
  - the prospects for interest rates.
  - the limits placed by the Council on treasury activities
  - the expected borrowing strategy.
  - the expected investment strategy.
  - the expectations for debt rescheduling.
  - any extraordinary treasury issues.
  - 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).

## Treasury Management Practice Schedules 2023 - 2026

### 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.

- Capital expenditure
- Capital financing requirement (CFR)
- Authorised Limit and Operational boundary
- Gross debt and the CFR
- Financing costs to net revenue stream
- Net income from commercial and service investments to net revenue stream

The following are within the Treasury Management Code.

- Liability benchmark (from 2023/24)
  - Maturity structure of borrowing
  - Long-term treasury management investments Upper limit on fixed 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 Chief Finance Officer is responsible for putting forward for approval 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 Chief Finance Officer shall submit the changes for scrutiny by the Governance and 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 Governance and Audit Committee, Cabinet and then the County Council at the earliest practicable meeting after the end of the financial year. This report will include the following: -

## Treasury Management Practice Schedules 2023 - 2026

- 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 Council
- measurements of performance
- report on compliance with CIPFA Code recommendations

The report will be subject to review by the Governance and Audit Committee.

### 6.5 Mid-Year Review

A mid-year report will be presented to the Governance and Audit Committee, Cabinet and County 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 Governance and Audit Committee

### 6.6 Management Information Reports

The Technical Principal Accountant will report management information to the Strategic Finance Manager - Capital, Technical and Financial Systems monthly for review. The Strategic Finance Manager will report monthly to the Chief Finance Officer.

### 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 Council's Treasury Management Policy Statement and TMPs.



## **Treasury Management Practice Schedules 2023 - 2026**

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

Treasury Management Indicators will be reported in the strategy.

### **6.8 Non-treasury investments**

- Commercial investments - Proportionality of forecasted income against net revenue budget is reported regularly.

Income generated from commercial investments monitored on a monthly basis and any significant variances reported through monthly budget monitoring, with any on-going pressures or efficiencies fed through to the MTFs.

- Service Investments - Reported annually to Cabinet.

## **TMP7 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).

## **TMP8 CASH AND CASH FLOW MANAGEMENT**

### **8.1 Arrangements for preparing/submitted 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.

## Treasury Management Practice Schedules 2023 - 2026

### 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
- 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.

### 8.8 Liability Benchmark

The LB is helps establish whether the Council is likely to be a long-term borrower or long-term investor in the future and represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level to manage day-to-day cash flow.

The LB will be updated regularly through the year by the Council with developments and/or timing changes in the capital programme as well as changes to balance sheet resources.

## Treasury Management Practice Schedules 2023 - 2026

### TMP9 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 FCA 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 1<sup>st</sup> December 2001.
2. Any borrowing undertaken from the money markets is through money brokers, who are also authorised and regulated by the Financial Conduct Authority. This adds a further layer of protection as the broker vets the institutions involved in any transactions.
3. Appropriate consideration will be given to identify and verify SMEs when undertaking any lending to SMEs.

### TMP10 TRAINING AND QUALIFICATIONS

#### 10.1 Details of approved training courses

1. Reviewed as part of the annual employee appraisal process. The Council's treasury advisers also provide training on treasury issues to staff when 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 Association of Accounting Technicians level as a minimum.

#### 10.4 Training of Members

Governance and 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 Chief Finance Officer is a member of CIPFA, there is a professional need for the Chief Finance Officer 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

## Treasury Management Practice Schedules 2023 - 2026

CIPFA must also comply with the SOPP.

### 10.6 Non-treasury investments

The Council employs qualified property, legal and finance officers to manage activity and provide advice within their respective disciplines. Specialist external advisors will be engaged where appropriate.

## TMP11 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 January 2020 to run for 5 years
- Cost of core service - £33,000 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.

- ICAP plc
- Martin Brokers (UK) plc
- Prebon Marshall Yamane (UK) Limited
- Tradition UK Limited
- BGC Sterling
- Imperial Treasury Services

#### 3. Treasury Consultant services:

- Arlingclose Consultancy Services
- Contract commenced 10<sup>th</sup> September 2021 for 3 years, with the option to extend for a further 2 years.
- Cost of service - £11,750 plus VAT per annum, increasing by £750 each year
- Payments due annually

### 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.

## **Treasury Management Practice Schedules 2023 - 2026**

### **TMP12 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 Outturn 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 & Poor's 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.

## Treasury Management Practice Schedules 2023 - 2026

- **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