

## **APPENDIX B**

### **SCHEDULE OF TREASURY MANAGEMENT PRACTICES (TMP's)**

TMP 1 - Risk Management

TMP 2 - Performance Measurement

TMP 3 - Decision–Making and Analysis

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

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TMP 11 - Use of External Service Providers

TMP 12 - Corporate Governance

# Treasury Management Practice (TMP) 1 RISK MANAGEMENT

## 1. CREDIT AND COUNTERPARTY RISK MANAGEMENT

### 1.1 CRITERIA TO BE USED FOR CREATING AND MANAGING APPROVED COUNTERPARTY LISTS/LIMITS

1.1.1 The Welsh Government issued revised Investment Guidance in April 2010, and this forms the structure of the Commissioner's policy below.

1.1.2 The key intention of the Guidance is to maintain the current requirement for Local Authorities and Police and Crime Commissioners to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires the Commissioner to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2011 edition). **TMP 1(1), covering investment counterparty policy requires approval each year. A revised publication of the Code is expected in December 2017, but guidance has suggested no anticipated major additions to the current requirements.**

1.1.3 **Annual Investment Strategy** - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- a) The strategy guidelines for choosing and placing investments, particularly non-specified investments;
- b) The principles to be used to determine the maximum periods for which funds can be committed;
- c) Specified investments the Commissioner will use. These are high security (i.e. high credit rating, although this is defined by the Commissioner, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year (two years for Local Authorities); and
- d) Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

1.1.4 The investment policy proposed for the Commissioner is:

**Strategy Guidelines** – The main strategy guidelines are contained in the Treasury Management Strategy.

**Specified Investments** – These investments are sterling investments of not more than one-year maturity (two years for Local Authorities), or those which could be for a longer period but where the Commissioner has the right to be repaid within 12 months if he wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

- a) The UK Government (such as the Debt Management Account Deposit Facility (DMADF), UK Treasury Bills or a Gilt with less than one year to maturity);
- b) Supranational bonds of less than one year's duration;
- c) A Local Authority, parish council or community council;

- d) Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. Money Market Funds, have to be rated AAA by Standard and Poor's, Moody's or Fitch rating agencies; and
- e) A body that is considered of a high credit quality (such as a bank or building society. This covers bodies with a minimum short term rating of P1/F1/A1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Commissioner has set additional criteria to set the time and amount of monies which will be invested in these bodies. Non-specified investments will not be utilised.

**1.1.5 The Monitoring of Investment Counterparties** - The credit rating of counterparties will be monitored regularly. The Commissioner receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services (formerly known as Capita Asset Services) as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The Commissioner retains the right to continue an investment until it matures in the event of a down-grading providing that the exposure risk can be managed and/or mitigated appropriately. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by treasury management staff and if required new counterparties which meet the criteria will be added to the list.

1.1.6 The Treasury Management Strategy will include suitable criteria for assessing and monitoring the credit risk of investment counterparties which will be used to construct a lending list comprising time, type, sector, country and specific counterparty limits.

1.1.7 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.

1.1.8 The Commissioner will use credit criteria to determine creditworthy counterparties for the placing of investments.

1.1.9 In the event that more than one rating agency provides a credit rating for a counterparty, then the Lowest Common Denominator (LCD) approach must be applied when determining the rating for a particular counterparty.

1.1.10 Treasury Management Consultants will provide a weekly update of all ratings relevant to the Commissioner and notify the Commissioner of any changes to credit ratings during the week.

1.1.11 The approved counterparty list and type, limit and period of investment are determined by the criteria set out in the Annual Treasury Management Strategy.

1.1.12 The Commissioner should not place an over reliance on credit rating information. Other market information, such as concerns raised in the quality financial press, should also be used to ascertain the credit risk of a particular counterparty.

## **1.2 APPROVED METHODOLOGY FOR CHANGING LIMITS AND ADDING / REMOVING COUNTERPARTIES**

1.2.1 Credit ratings for individual counterparties can change at any time. The Chief Finance Officer (Section 151 Officer) to the Office of the Police and Crime Commissioner (hereafter referred to as the CFO) is responsible for applying the

stated credit rating criteria 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 takeovers. This is delegated on a daily basis to staff in the Finance Department.

## **2. LIQUIDITY RISK MANAGEMENT**

### **2.1 CASH BALANCES, BORROWING AND INVESTMENTS**

2.1.1. The Commissioner will ensure adequate cash resources, borrowing arrangements and overdraft facilities, for the achievement of business/service objectives.

2.1.2 The Commissioner 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.

2.1.3 The Commissioner will maintain the following:

a) Liquid short term deposits of at least £2m available with a week's notice.

2.1.4 The Commissioner will also monitor the weighted average length of deposits so that the weighted average life of deposits is between 3 months with a maximum of 12 months.

## **3. INTEREST RATE RISK MANAGEMENT**

### **3.1 Minimum/Maximum proportions of variable rate debt/interest**

Minimum proportion of interest on borrowing which is subject to variable rate interest. 0 %

Maximum proportion of interest on borrowing which is subject to variable rate interest 35 %

### **3.2 Minimum/Maximum proportions of fixed rate debt/interest**

Minimum proportion of interest on borrowing which is subject to fixed rate interest. 65 %

Maximum proportion of interest on borrowing which is subject to fixed rate interest 100 %

### **3.3 Forward Dealing**

Consideration will be given to dealing for forward periods dependent upon market conditions. When forward dealing is more than one week forward, the approval of the Head of Finance is required.

## **4. EXCHANGE RATE RISK MANAGEMENT**

### **4.1 Approved criteria for managing changes in exchange rate levels**

- a) As a result of the nature of the business, there may from time to time be exposure to exchange rate risk. This will arise from the receipt of income or the incurring of expenditure in a currency other than sterling. The Commissioner will adopt a full hedging strategy to control and add certainty to the sterling value of these transactions. This will mean that the Commissioner will eliminate all foreign exchange exposures as soon as they are identified; and
- b) Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered. Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity unless the Commissioner has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency will be held on deposit to meet this expenditure commitment.

## **5. REFINANCING RISK MANAGEMENT**

### **5.1 DEBT/OTHER CAPITAL FINANCING MATURITY PROFILING, POLICIES AND PRACTICES**

- 5.1.1 The organisation will ensure that its borrowing, private finance 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 financing, if required, which are competitive and as favourable to the Commissioner as can be reasonably achieved in light of the market conditions prevailing at the time.
- 5.1.2 The Commissioner will actively manage relationships with 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**

### **6.1 REFERENCES TO RELEVANT STATUTES AND REGULATIONS**

- 6.1.1 The treasury management activities of the Commissioner shall comply fully with legal statute and the regulations. These are:
  - a) CIPFA's Treasury Management Code of Practice (2011 Edition);
  - b) CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities;
  - c) CIPFA Standard of Professional Practice on Treasury Management;
  - d) The Prudential Code for Capital Finance in Local Authorities (2011 Edition);
  - e) Local Government Act 2003;
  - f) Bank of England Non Investment Products Code (2011);
  - g) Standing Orders relating to Contracts;
  - h) Financial Standing Orders, Regulations and Procedures; and
  - i) The Commissioner's Manual of Corporate Governance and Scheme of Delegation.
  - j) Markets in Financial Instruments Directive (MiFiD II).

## **6.2 PROCEDURES FOR EVIDENCING THE ORGANISATION'S POWERS / AUTHORITIES TO COUNTERPARTIES**

6.2.1 The Commissioner will prepare, adopt and maintain, as the cornerstones for effective treasury management:

- a) A Treasury Management Strategy Statement, stating the overriding principles and objectives of his treasury management activities and, as an integral part of that Statement; and
- b) Treasury Management Practices, setting out the manner in which the Commissioner will achieve those principles and objectives, and prescribing how he will manage and control those activities.

## **6.3 REQUIRED INFORMATION FROM COUNTERPARTIES CONCERNING THEIR POWERS/AUTHORITIES**

6.3.1 Lending shall only be made to counterparties on the authorised list.

6.3.2 The Office of the Police and Crime Commissioner for Gwent will apply the MiFiD II regulations using the elected professional status to allow the Commissioner to execute his investment strategy.

## **6.4 STATEMENT ON THE ORGANISATION'S POLITICAL RISKS AND MANAGEMENT OF SAME.**

6.4.1 The CFO shall take appropriate action with the Commissioner to respond and manage appropriately political risks.

## **7. FRAUD, ERROR AND CORRUPTION, AND CONTINGENCY MANAGEMENT**

### **7.1 DETAILS OF SYSTEMS AND PROCEDURES TO BE FOLLOWED, INCLUDING INTERNET SERVICES**

7.1.1 Authority:

- a) Loan procedures are defined in the Commissioner's Financial Standing Orders, Regulations and Procedures; and
- b) The Scheme of Delegation sets out the appropriate delegated levels. All loans and investments are negotiated by authorised persons.

7.1.2 Occurrence:

- a) A detailed register of loans and investments is maintained and independently checked to the ledger balance;
- b) Adequate and effective cash flow forecasting records are maintained on the Treasury Management spreadsheet to support the decision to lend or borrow;
- c) A written acknowledgement of the deal is sent promptly in the case of borrowing from or lending to another counterparty; and
- d) All transactions placed through the brokers are confirmed by a broker note showing details of the loan arranged.

7.1.3 Completeness:

- a) The loans register is updated to record all lending and borrowing. This includes the date of the transaction, brokerage fees etc.

#### 7.1.3 Measurement:

- a) The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy;
- b) The Treasury Management spreadsheet automatically calculates periodic interest payments of Public Works Loans Board (PWLB) and other long term loans. This is used to check the amount paid to these lenders; and
- c) Rates generated are compared with other Local Authorities and against the Treasury Strategy Statement.

#### 7.1.4 Timeliness:

- a) The Assistant Accountant responsible for treasury ensures that money borrowed or lent is repaid on time.

#### 7.1.4 Regularity:

- a) All lending is only made to institutions on the Approved List;
- b) All loans raised and repayments made go directly to and from the Commissioner's bank accounts;
- c) Limits on value are set for every category of specified and non-specified investments and institution;
- d) Brokers have a list of named officials authorised to perform loan transactions;
- e) There is adequate insurance cover for employees involved in loans management and accounting;
- f) The control totals on the Treasury Management spreadsheet for borrowing and lending are regularly reconciled with the ledger balance sheet codes under the direction of the SFA.
- g) There is a separation of duties in the Section between the repayment of a loan and its checking and authorisation;
- h) The bank reconciliation is carried out regularly from the bank statement to the financial ledger; and
- i) The Assistant Accountants have up to date financial code lists.
- j)

#### 7.1.5 Security:

- a) The Treasury Management Investment spreadsheet can only be accessed by a password; and
- b) Payments can only be authorised by nominated persons, using the Lloyds Bank On-line Banking System. The list of signatories having previously been agreed with the current provider of our banking services, this is reviewed on a quarterly basis.

#### 7.1.6 Substantiation:

- a) The Treasury Management spreadsheet balances are proved to the balance sheet ledger codes at the end of each month and at the financial year end. Working papers are retained for audit inspection; and
- b) A debt charge/investment income listing is produced every time the debt charges/investment income is recalculated for budget monitoring purposes. A debt charge/investment listing is also produced at the financial year end and this

document is retained for audit inspection. The method of accounting for unrealised losses or gains on the valuation of assets within the funds will comply with best CIPFA Accounting Code of Practice by reflecting the market value of the fund in the balance sheet. This will be agreed with external auditors.

## **7.2 EMERGENCY AND CONTINGENCY PLANNING ARRANGEMENTS**

7.2.1 Emergency payments are normally made using the Lloyds Commercial On-line Banking System. Balances can also be obtained from the same system. In the event of failure of the electronic system, alternative arrangements can be made by fax or e-mail.

## **7.3 INSURANCE COVER DETAILS.**

7.3.1 The Commissioner has general 'Fidelity' insurance cover of £1m, increased to £3m for specific posts within the Finance Department. This covers the loss of cash by fraud or dishonesty of employees and carries a £10,000 excess level.

7.3.2 The Commissioner also has a 'Business Interruption' cover of £3m (with a 36 month indemnity – totalling £9,000,000) as part of his insurance arrangements.

## **8. MARKET RISK MANagements**

### **8.1 DETAILS OF APPROVED PROCEDURES AND LIMITS FOR CONTROLLING EXPOSURE TO INVESTMENTS WHOSE CAPITAL VALUE MAY FLUCTUATE (GILTS, CDS, etc.)**

8.1.1 The Commissioner currently does not invest in instruments where capital value can fluctuate.



## **TMP 2 PERFORMANCE MEASUREMENT**

### **2.1 METHODOLOGY TO BE APPLIED FOR EVALUATING THE IMPACT OF TREASURY MANAGEMENT DECISIONS**

2.1.1 The Commissioner carries out efficiency reviews on a rolling programme basis.

### **2.2 POLICY CONCERNING METHODS FOR TESTING VALUE FOR MONEY IN TREASURY MANAGEMENT**

#### **2.2.1 Frequency and processes for tendering**

a) The process for advertising and awarding contracts will be in line with Contract Standing Orders.

#### **2.2.2 Banking services**

a) Banking services will be re-tendered in accordance with Contract Standing Orders.

#### **2.2.3 Money-broking services**

a) The Commissioner will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them. An approved list of brokers will be established which takes account of both prices and quality of services.

#### **2.2.4 Consultants'/advisers' services**

a) The Commissioner currently uses Link Asset Solutions as treasury management consultants. The contract for this service is let in accordance with Contract Standing Orders.

#### **2.2.5 Policy on External Managers**

a) The Commissioner's current policy is to manage cash flow surpluses and deficits in-house. This policy will be kept under review.

### **2.3 METHODS TO BE EMPLOYED FOR MEASURING THE PERFORMANCE OF THE ORGANISATION'S TREASURY MANAGEMENT ACTIVITIES**

2.3.1 Performance measured against Annual Treasury Strategy Statement targets.

2.3.2 Compliance to CIPFA Code of Treasury Practice.

2.3.3 Expenses contained within approved budget.

### **2.4 BENCHMARKS AND CALCULATION METHODOLOGY**

#### **2.4.1 Debt management**

- a) Average rate on all external debt;
- b) Average rate on external debt borrowed in previous financial year;
- c) Average rate on internal borrowing;

- d) Average period to maturity of external debt;
- e) Average period to maturity of new loans in previous year; and
- f) Comparison with UK average for public sector bodies.

#### **2.4.2 Investment.**

- a) The performance of in house investment earnings will be measured against the 7 day LIBID rate.

## **TMP 3 DECISION-MAKING AND ANALYSIS**

### **3.1 FUNDING, BORROWING, LENDING, AND NEW INSTRUMENTS/TECHNIQUES:**

#### **3.1.1 Records to be kept**

3.1.2 The Finance Department maintains a treasury management spreadsheet. All loan transactions and investments are recorded using this system.

3.1.2 The following records will be used relative to each loan or investment:

- a) Daily cash projections;
- b) Telephone and email rates;
- c) Dealing slips for all money market transactions – including rate changes;
- d) PWLB loan schedules;
- e) Temporary loan receipts;
- f) Market bond certificates;
- g) Special loan certificates; and
- h) Brokers confirmations for deposits/investments.

#### **3.2 Processes to be pursued**

- a) Cash flow analysis;
- b) Maturity Analysis;
- c) Security Analysis;
- d) Liquidity Analysis (Weighted Average Life);
- e) Yield Analysis;
- f) Ledger reconciliations;
- g) Review of borrowing requirement;
- h) Monitoring of projected loan charges, interest and expenses costs;
- i) Collation of monthly performance information; and
- j) Monitoring against Prudential Limits.

#### **3.3 Issues to be addressed**

##### **3.3.1 In respect of every decision made the organisation will:**

- a) Above all be clear about the nature and extent of the risks to which the organisation 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 organisation'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 organisation's creditworthiness policies, and that limits have not been exceeded; and
- e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

##### **3.3.2 In respect of borrowing and other funding decisions, the organisation 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; and
- d) Consider the on-going revenue liabilities created, and the implications for future plans and budgets.

**3.3.3 In respect of investment decisions, the organisation will:**

- a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions; and
- 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.

## **TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

### **4.1. APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION**

- 4.1.1 Borrowing.
- 4.1.2 Lending.
- 4.1.3 Debt repayment and rescheduling.
- 4.1.4 Consideration, approval and use of new financial instruments and treasury management techniques.
- 4.1.5 Managing the underlying risk associated with the capital financing and surplus funds activities.
- 4.1.6 Managing cash flow.
- 4.1.7 Banking activities.
- 4.1.8 Leasing.
- 4.1.9 Managing the underlying exchange rate risk associated with business activities.

### **4.2. APPROVED INSTRUMENTS FOR INVESTMENTS**

- 4.2.1 All investments will comply with the Annual Treasury Management Strategy and the guidance issued by the Welsh Government on Investment Strategy issued under Section 15(1) (a) of the Local Government Act 2003. The instruments available for investment and the limitations on their use will be listed in the appendix to the Annual Treasury Management Strategy.

### **4.3. APPROVED METHODS AND SOURCES OF RAISING CAPITAL FINANCE**

- 4.3.1 Finance will only be raised in accordance with the Prudential Code. The Commissioner has a number of approved methods and sources of raising capital finance. These are:

<b>On Balance Sheet</b>	<b>Fixed</b>	<b>Variable</b>
PWLB	●	●
European Investment Bank	●	●
Market (long-term or temporary)	●	●
Market (Lender Option Borrower Option)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Leasing (not operating leases)	●	●
Deferred Purchase	●	●

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

- a) Government and EU Capital Grants;
- b) Lottery monies;
- c) Private Finance Initiative/Public Private Partnerships;
- d) Operating leases; and
- e) Joint arrangements.

4.3.3 All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The CFO has delegated powers in accordance with Standing Orders, Financial Regulations, the Scheme of Delegated Powers and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

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

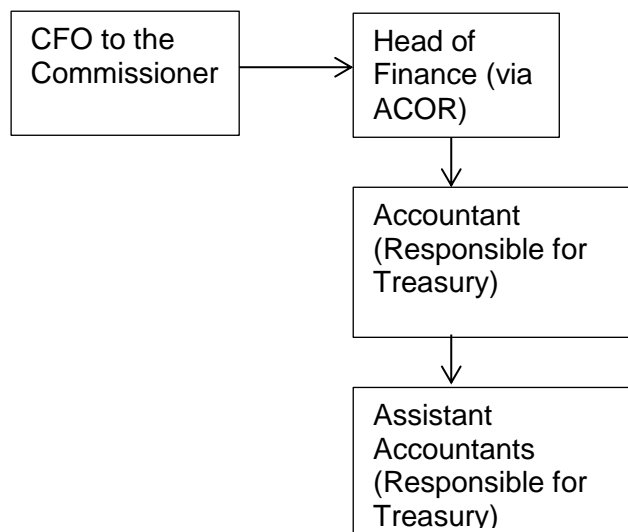
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## 5.1 LIMITS TO RESPONSIBILITIES/DISCRETION

- 5.1.1 The CFO will be responsible for recommending amendments to the organisation's adopted clauses, Treasury Management policy statement and treasury management practices.
- 5.1.2 The CFO will approve the segregation of responsibilities.
- 5.1.3 The CFO will receive and review external audit reports concerning treasury management and put recommendations to the Joint Audit Committee and/or Commissioner.

## 5.2 TREASURY MANAGEMENT ORGANISATION CHART



## 5.3 STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST

### 5.3.1 CFO

a) The CFO will:

- i. Recommend clauses, treasury management policy / practices for approval, reviewing the same on a regular basis, and monitoring compliance;
- ii. Submit treasury management policy reports as required;
- iii. Submit budgets and budget variations in accordance with Financial Regulations and Procedures;
- iv. Receive and review management information reports;
- v. Review the performance of the treasury management function and promote best value reviews;
- vi. Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- vii. Ensure the adequacy of internal audit, and liaising with external audit; and
- viii. Recommend on appointment of external service providers in accordance with standing orders.



- b) The CFO has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments; and
- c) Power to borrow and invest may be delegated to members of the Finance Department. The Assistant Accountant (or staff authorised by the Accountant to act as temporary cover for leave/sickness) must conduct all dealing transactions;

### **5.3.2 Assistant Accountant – Treasury Management**

- a) Execution of transactions;
- b) Adherence to agreed policies and practices on a day-to-day basis;
- c) Maintaining relationships with third parties and external service providers;
- d) Monitoring performance on a day-to-day basis;
- e) Submitting management information reports to the SFA; and
- f) Identifying and recommending opportunities for improved practices.

### **5.3.3 Accountant responsible for Treasury**

- a) The Accountant will manage the day to day operation of the treasury function;
- b) The Accountant will ensure that the Treasury Management Strategy and TMP's are adhered to, and if not will bring the matter to the attention of the Head of Finance as soon as possible;
- c) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Accountant to be satisfied that the proposed transaction does not breach any statute, external regulation or the Financial Regulations and Procedures; and
- d) It is also the responsibility of the Accountant to ensure that the Commissioner complies with the requirements of The Non-Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

### **5.3.4 Internal Audit**

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

## **5.4 ABSENCE COVER ARRANGEMENTS**

- 5.4.1 In the absence of the Assistant Accountant his/her treasury management duties are carried out by the Accountant or a member of staff in the Finance Department nominated by the Accountant.

## **5.5 DEALING LIMITS**

- 5.5.1 Dealing limits are set out in the Annual Treasury Management Strategy.

## **5.6 LIST OF APPROVED BROKERS**

- 5.6.1 A list of approved brokers is maintained within the Finance Department and a record of all transactions recorded against them.

## **5.7 POLICY ON BROKERS' SERVICES**

5.7.1 It is the Commissioner's policy to allocate business to the brokers offering the best rate on the day.

## **5.8 POLICY ON TAPING OF CONVERSATIONS**

5.8.1 It is not Commissioner's policy to tape brokers' conversations.

## **5.9 DIRECT DEALING PRACTICES**

5.9.1 Direct dealing contacts are established with the Commissioner's own bank and several other banks and building societies via the use of Business Reserve Accounts. Direct dealing can bring additional benefits e.g. may take smaller amounts for deposits and may lend direct as well saving on broking fees.

## **5.10 SETTLEMENT TRANSMISSION PROCEDURES**

5.10.1 The Assistant Accountant will produce documentation to support the transaction set up within the Lloyds On-Line system. An approved signatory will authorise the payment within Lloyds Commercial On-Line.

## **5.11 DOCUMENTATION REQUIREMENTS**

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

## **TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGMENTS**

### **6.1 ANNUAL TREASURY MANAGEMENT STRATEGY STATEMENT**

- 6.1.1 The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Commissioner for approval before the commencement of each financial year.
- 6.1.2 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.
- 6.1.3 The Treasury Management Strategy is concerned with the following elements:-
- a) The current Treasury portfolio position;
  - b) The prospects for interest rates;
  - c) The limits placed by this organisation on treasury activities;
  - d) The expected borrowing strategy;
  - e) The expected temporary investment strategy;
  - f) The policy concerning retention of the set aside capital receipts;
  - g) The expectations for debt rescheduling;
  - h) Borrowing requirements; and
  - i) Any extraordinary treasury issue.
- 6.1.4 The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable), and highlight sensitivities to different scenarios.

### **6.2 ANNUAL INVESTMENT STRATEGY**

- 6.2.1 One of the consequences of the introduction under the Local Government Act 2003 of the Prudential Code for Capital Finance in Local Authorities, was the withdrawal of the approved investment regulations. In place of the regulations, guidance on investment practice was formally issued by the Welsh Government requiring all local authorities (including Commissioners) to formulate an annual investment strategy to be adopted by the Commissioner prior to the start of the financial year.
- 6.2.2 The Annual Investment Strategy will cover the following:
- a) Investment Principles;
  - b) Specified and Non-Specified Investments;
  - c) Permitted Investments;
  - d) Liquidity;
  - e) Security of Capital;
  - f) Investment Limits; and
  - g) External Fund Managers.

### **6.3 POLICY ON INTEREST RATE EXPOSURE**

- 6.3.1 The Commissioner approves before the beginning of each financial year the following treasury limits:

- a) The amount of the overall borrowing limit which may be outstanding by way of short term borrowing; and
- b) The maximum proportion of interest on borrowing which is subject to variable rate interest.

6.3.2 The CFO is responsible for incorporating these limits into the Annual Treasury Management Strategy, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the CFO shall submit the changes for approval to the Commissioner.

#### **6.4 ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY**

6.4.1 An annual report will be presented to the Commissioner at the earliest practicable meeting after the end of the financial year, but in any case by the 30<sup>th</sup> September. This report will include the following:

- a) A comprehensive picture for the financial year of all treasury policies, plans, activities and results;
- b) Transactions executed and their revenue (current) effects;
- c) Report on risk implications of decisions taken and transactions executed;
- d) Monitoring of compliance with approved policy, practices and statutory / regulatory requirements;
- e) Monitoring of compliance with powers delegated to officers;
- f) Degree of compliance with the original strategy and explanation of deviations;
- g) Explanation of future impact of decisions taken on the organisation;
- h) Measurements of performance; and
- i) Report on compliance with CIPFA Code recommendations.

#### **6.5 MANAGEMENT INFORMATION REPORTS**

6.5.1 Management information reports will be prepared every month by the Accountant and will be presented to the CFO.

6.5.2 These reports will contain the following information:

- a) A summary of transactions executed and their revenue (current) effects;
- b) Measurements of performance including effect on borrowing charges/investment income; and
- c) Degree of compliance with original strategy and explanation of variances.

#### **6.6 PERIODIC MONITORING COMMITTEE REPORTS**

6.6.1 The Commissioner will receive and consider as a minimum:

- a) An annual treasury strategy before the commencement of the new financial year;
- b) An annual investment strategy before the commencement of the new financial year;
- c) An annual treasury management activity report before the 30<sup>th</sup> September after the year end to which it relates; and
- d) A mid-year monitoring report.

## **TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

### **7.1 STATUTORY/REGULATORY REQUIREMENTS**

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

### **7.2 ACCOUNTING PRACTICES AND STANDARDS**

Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to the Police Service in Great Britain. The Commissioner adopts in full the principles set out in CIPFA's 'Code of Best Practice and Guide for Treasury Management in the Public Services' (the 'CIPFA Code and Guide'), together with those of its specific recommendations that are relevant to this organisation's treasury management activities.

### **7.3 LIST OF INFORMATION REQUIREMENTS OF EXTERNAL AUDITORS.**

- 7.3.1 The following information is required by the external auditor:-

- a) Reconciliation of loans interest and premiums paid to financial ledger by loan type;
- b) Maturity analysis of loans outstanding;
- c) Calculation of loans interest and debt management expenses;
- d) Annual Treasury Report;
- e) Calculation of Revenue Interest;
- f) Analysis of any Deferred Charges;
- g) Principal and interest charges from Treasury Management records; and
- h) Interest accruals calculation from Treasury Management records.

### **7.4 MONTHLY BUDGET MONITORING REPORT**

- 7.4.1 This report will consider year to date and forecast outturn against budget with variances examined in terms of interest and expense rates derived from the treasury management records.

### **7.5 BUDGET SETTING EXERCISE**

- 7.5.1 A budget for interest paid and received, expenses and minimum revenue provision is prepared as part of a budget setting exercise.

## **TMP 8 CASH AND CASH FLOW MANAGEMENT**

### **8.1 ARRANGEMENTS FOR PREPARING/SUBMITTING CASH FLOW STATEMENTS**

8.1.1 The Assistant Accountant responsible for day to day treasury management activities maintains a rolling annual cash flow budget, which is revised daily.

### **8.2 LISTING OF SOURCES OF INFORMATION**

8.2.1 In drawing up cash flow projections the following sources of information are used:

- a) Payroll for salaries, national insurance, superannuation and income tax information;
- b) Treasury Management spreadsheet for interest and loans principal payments;
- c) Precept income;
- d) Grant income;
- e) Pensions lump sums;
- f) Police pension account surplus/deficit payments;
- g) Income forecasts; and
- h) Creditor payment schedules.
- i) Capital expenditure programme

### **8.3 BANK STATEMENT PROCEDURES**

8.3.1 Bank Statements are reconciled against payment and income records on the General Ledger. Finance staff, check all items going through the financial ledger to the Bank Statement and investigate discrepancies. Presented cheque information is also uploaded and recorded against cheques drawn, general ledger and bank statements.

### **8.4 PAYMENT SCHEDULING AND AGREED TERMS OF TRADE WITH CREDITORS**

8.4.1 The policy is to pay creditors within 30 days of the invoice date and this effectively schedules the payments. Certificated payments to sub-contractors must be paid within 14 days.

### **8.5 ARRANGEMENTS FOR MONITORING DEBTORS / CREDITORS LEVELS**

8.5.1 The Purchase to Pay section provides the Accountant with monthly statistics of invoices paid and the percentage paid within 30 days.

### **8.6 PROCEDURES FOR BANKING OF FUNDS**

8.6.1 All money received by officers on behalf of the Commissioner will without unreasonable delay be paid to the Cashier or deposited in the Commissioner's bank accounts. Details are included in the Financial Regulations and Financial Procedures.

### **8.7 PRACTICES CONCERNING PREPAYMENTS TO OBTAIN BENEFITS**

8.7.1 All prepayments must be authorised by the CFO.

## **TMP 9 MONEY LAUNDERING**

### **9.1 STATUTORY REQUIREMENTS**

9.1.1 The Commissioner is not directly required to implement the requirements of the Money Laundering Regulations 2007, but the implications of the Terrorism Act 2000, the Anti-Terrorism, Crime and Security Act 2001 and The Proceeds of Crime Act 2002 place an onus of responsibility on individuals associated with treasury processes to consider its implications. It follows that officers involved in treasury management activities must be alert to the possibility that the Commissioner may become the subject of an attempt to involve him in a transaction involving the laundering of money and aware of their reporting responsibility in those circumstances.

### **9.2 PROCEDURES FOR ESTABLISHING IDENTITY / AUTHENTICITY OF LENDERS**

9.2.1 The Commissioner does not accept loans from individuals. All material loans are obtained through brokers, from other local authorities or from authorised institutions. Receipts will normally be paid by BACS or cheques and the relevant bank will be required to comply with money laundering regulations for their customer. Any cash deposits must without delay be reported to the CFO as the nominated Money Laundering Reporting Officer (MLRO).

### **9.3 METHODOLOGIES FOR IDENTIFYING SOURCES OF DEPOSITS**

9.3.1 In the course of its Treasury activities, the Commissioner will only lend money to or invest with those counterparties that are on his approved lending list.

### **9.4 REPORTING PROCEDURES**

9.4.1 Any person in the organisation having reasonable grounds for suspecting money laundering must report their suspicions without delay to the CFO, as nominated MLRO.

9.4.2 On receipt of a disclosure the MLRO should consider, in the light of all information, whether it gives rise to such knowledge or suspicion.

9.4.3 If the MLRO determines that the information or matter should be disclosed he should do so to the National Crime Agency.

### **9.5 TRAINING**

9.5.1 Relevant employees must be made aware of their responsibilities relating to money laundering and receive appropriate training in recognising and dealing with transactions which may be related to money laundering.

## **TMP 10 TRAINING AND QUALIFICATIONS**

- 10.1** Details of staff and relevant member training needs will be identified as part of the Personal Development Reviews.
- 10.2** Training and training updates will be provided as appropriate on the Treasury Management system.
- 10.3** Treasury Management seminars will be attended as appropriate.
- 10.4** The CFO and Assistant Chief Officer – Resources (ACOR), are committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.



## **TMP 11 USE OF EXTERNAL SERVICE PROVIDERS**

### **11.1 DETAILS OF CONTRACTS WITH SERVICE PROVIDERS, INCLUDING BANKERS, BROKERS, CONSULTANTS, ADVISERS**

#### **11.1.1 Banking services**

- a) Name of supplier of service is the Lloyds Bank. The branch address is 1 Gwent Square, Town Centre, Cwmbran, NP44 1XN;
- b) Contract commenced in December 2014 and is due to expire on 30 July 2018 with an option for a 12 month extension; and
- c) Cost of service is dependent on transaction volumes through the account.

#### **11.1.2 Treasury Management Advisors**

Link Asset Services (formerly known as Capita Asset Services)  
6<sup>th</sup> Floor  
65 Gresham Street  
London  
EC2V 7NQ

Contract is due to expire on 31 March 2018 with an option to extend for 24 months.

#### **11.1.3 Money-broking services**

- a) Martin Brokers (UK) plc;
- b) Tullett Prebon;
- c) Tradition UK Limited;
- d) ICAP; and
- e) BCG Partners.

### **11.2 PROCEDURES AND FREQUENCY FOR TENDERING SERVICES**

See TMP2.

## **TMP 12 CORPORATE GOVERNANCE**

### **12.1 LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION**

- a) Statement of Accounts (PCC Group and Chief Constable);
- b) Annual Budget;
- c) 3 Year Capital Plan;
- d) Treasury Management Strategy;
- e) Mid-Year Monitoring Report(s);
- f) Annual Treasury Report;
- g) Annual Investment Strategy; and
- h) Relevant Decisions of the Commissioner