

**OFFICE OF THE POLICE AND CRIME COMMISSIONER FOR GWENT**

**Treasury Management Strategy 2013/14 – 2015/16**

**1 INTRODUCTION**

- 1.1 Treasury Management is the management of cash flows, banking, money market and capital market transactions; the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks. The treasury management service is an important part of the overall financial management of the Commissioner's affairs. The Commissioner is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Commissioner's low risk appetite, providing adequate liquidity initially before considering investment return. The second main function of the treasury management service is the funding of the Commissioner's capital plans. These capital plans provide a guide to the borrowing need of the Commissioner, essentially the longer term cash flow planning to ensure that the Commissioner can meet his capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet the Commissioner's risk or cost objectives.
- 1.2 The Commissioner's treasury activities are strictly regulated by statutory requirements and a professional code of practice, the CIPFA Code of Practice on Treasury Management. Under the Code the Commissioner is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.
- 1.3 The adoption of a Treasury Management Strategy for 2013/14, prior to the start of the financial year, is the first of the three reporting requirements in respect of that year. This will be followed in due course by a mid year Treasury Management report and an Annual Treasury Report before 30<sup>th</sup> September 2014 providing a selection of actual prudential and treasury indicators.

- 1.4 The Treasury Management Strategy for 2013/14 covers two main areas:

**Capital Issues**

- The capital plans and the prudential indicators;
- The Minimum Revenue Provision (MRP) strategy.

**Treasury Management Issues**

- debt and investment projections;
- limits on borrowing activity;
- the expected movement in interest rates;
- borrowing and investment strategies;
- treasury performance indicators; and
- specific limits on treasury activities.

**2. CAPITAL PRUDENTIAL INDICATORS 2013-14 to 2015-16**

- 2.1 The Local Government Act 2003 requires the Commissioner to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the underlying capital appraisal systems. This document updates currently approved indicators and introduces new indicators for 2015/16.
- 2.2 Within this overall prudential framework there is an impact on the Commissioner's treasury management activity, as it will directly impact on borrowing or investment activity.

**2.3 Capital Expenditure Plans**

- 2.3.1 The capital expenditure plans are summarised below and this forms the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; any decisions by the Commissioner to spend above this level will be considered unsupported capital expenditure.
- 2.3.2 This unsupported capital expenditure needs to have regard to:
- Service objectives (e.g. strategic planning);
  - Stewardship of assets (e.g. asset management planning);
  - Value for money (e.g. option appraisal);
  - Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
  - Affordability (e.g. implications for the council tax); and
  - Practicality, e.g. the achievability of longer term plans.

- 2.3.3 The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the Commissioner's own resources.
- 2.3.4 This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants etc., or revenue resources), but if these resources are insufficient any residual capital expenditure will add to the Commissioner's borrowing need.
- 2.3.5 A key risk to the plans are that the level of Government support has been estimated and could therefore be subject to change.
- 2.3.6 The Commissioner is asked to approve the following summary capital expenditure projections which is the first prudential indicator:

Capital Expenditure	2012/13 Original	2012/13 Revised	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
	£m	£m	£m	£m	£m
<b>Capital expenditure</b>	<b>7,288</b>	<b>3,019</b>	<b>11,296</b>	<b>6,679</b>	<b>3,000</b>
Financed by:					
Capital receipts	677	1,087	680	3,000	0
Capital grants	1,200	1,157	1,037	1,100	1,100
Capital reserves	5,411	775	9,579	2,579	1,900
Revenue	0	0	0	0	0
<b>Net financing need for the year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

## 2.4 The Commissioner's Borrowing Need (the Capital Financing Requirement)

- 2.4.1 The second prudential indicator is the Commissioner's Capital Financing Requirement (CFR) which is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Commissioner's underlying borrowing need. Any capital expenditure in the table in paragraph 2.3.6 above which has not immediately been paid for will increase the CFR.
- 2.4.2 Following accounting changes the CFR now includes any other long term liabilities (e.g. PFI schemes) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Commissioner's borrowing requirement, these types of scheme include a borrowing facility and so the Commissioner is not required to borrow separately for this scheme. The Commissioner currently has £5.27m of such schemes within the CFR.

2.4.3 The Commissioner is asked to approve the CFR projections below:

	2012/13 Original	2012/13 Revised	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
	£m	£m	£m	£m	£m
CFR at 1 <sup>st</sup> April	8,730	8,877	8,743	8,608	8,479
Movement in CFR	(359)	147	(134)	(135)	(129)

Movement in CFR represented by					
Net financing need for the year	0	0	0	0	0
Less MRP/VRP and other financing movements	(359)	147	(134)	(135)	(129)
Movement in CFR	(359)	147	(134)	(134)	(129)

### 3. MINIMUM REVENUE PROVISION POLICY

3.1 The Commissioner is required to pay off an element of outstanding capital borrowing each year through a revenue charge known as the Minimum Revenue Provision (MRP). It is also permissible to pay an additional amount known as a Voluntary Revenue Provision (VRP). Under WAG Regulations the Commissioner has to approve an MRP Statement in advance of each year. The Commissioner is recommended to adopt the following MRP policy for 2013-14:

- (i) for all capital expenditure incurred before 1 April 2008 and all supported capital expenditure incurred since that date or in the future, the MRP policy will be 4% of the Capital Financing Requirement. This is consistent with the practice in place prior to the current regulations; and
- (ii) for all unsupported borrowing since 1<sup>st</sup> April 2008 and in the future, the asset life method will be used, i.e., the amount borrowed will be divided by the life of the asset.

#### 4. The Use of the Commissioner's Resources and the Investment Position

- 4.1 The application of resources (capital receipts, reserves etc.) will have an ongoing impact on investments. Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2012/13 Original	2012/13 Revised	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
	£m	£m	£m	£m	£m
Fund balance	7,582	8,518	8,518	7,052	7,052
Earmarked reserves	23,119	30,410	19,008	16,472	14,572
Provisions	1,459	1,459	1,459	1,459	1,459
<b>Total Core Funds</b>	<b>32,160</b>	<b>40,387</b>	<b>28,985</b>	<b>24,983</b>	<b>23,083</b>
Working Capital	3,500	3,500	3,500	3,500	3,500
<b>Expected Investments</b>	<b>35,660</b>	<b>43,887</b>	<b>32,485</b>	<b>28,483</b>	<b>26,583</b>

\*Working capital balances shown are estimated year end; these may be higher mid year.

#### 5. Affordability Prudential Indicators

- 5.1 The previous sections cover the overall capital and control of borrowing prudential indicators. Prudential indicators are also required to assess the affordability of the capital investment plans. The Commissioner is asked to approve the third and fourth prudential indicators, which assess affordability in terms of the impact of the capital investment plans on the Commissioner's overall finances.
- 5.2 The third prudential indicator is the ratio of financing costs to net revenue stream. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
	%	%	%	%
Ratio	0.20	0.21	0.23	0.23

- 5.3 The estimates of financing costs include current commitments and the proposals in the budget report.

- 5.4 The fourth prudential indicator identifies the increased revenue costs associated with the approved three year capital programme and expresses these in terms of the increase in Band D council tax. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which is not published over a three year period.

	Forward Projection 2013/14	Forward Projection 2014/15	Forward Projection 2015/16
	£	£	£
Council Tax – Band D	0.21	0.11	0.04

## 6. BORROWING

- 6.1 The capital expenditure plans are set out in Section. The treasury management function ensures that the cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet the capital expenditure requirements. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury prudential indicators, the current and projected debt positions and the annual investment strategy.

### 6.2 Current portfolio position

The treasury portfolio position at 1 April 2012, with forward projections, are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2012/13 Revised	2013/14 Estimated	2014/15 Estimated	2015/16 Estimated
	£000's	£000's	£000's	£000's
<b>External Debt</b>				
Debt at 1 April	5,553	5,392	5,231	5,070
Expected change in debt	(161)	(161)	(161)	(161)
Other Long Term Liabilities (Finance Lease Liability – PFI) at 1 April	5,266	5,139	5,024	4,910
Expected change in OLTL	(127)	(115)	(114)	(122)
<b>Gross Debt at 31 March</b>	<b>10,531</b>	<b>10,255</b>	<b>9,980</b>	<b>9,697</b>
Capital Financing Requirement	8,877	8,743	8,608	8,479
<b>Under/(Over) Borrowing</b>	<b>(1,654)</b>	<b>(1,512)</b>	<b>(1,372)</b>	<b>(1,218)</b>

- 6.3 The related impact of the above movements on the revenue budget is shown below:

	2012/13 Revised	2013/14 Estimated	2014/15 Estimated	2015/16 Estimated
	£000's	£000's	£000's	£000's
<b>Revenue Budgets</b>				
Interest on Borrowing	332	321	310	299
Investment income	(248)	(197)	(170)	(157)
Net General Fund	84	124	140	142
Borrowing Cost				

## 7. Limits on Borrowing Activity

- 7.1 Within the prudential indicators there are a number of key indicators to ensure that the Commissioner operates activities within well-defined limits. For the first of these the Commissioner needs to ensure that gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2013/14 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. The following table is relevant for this indicator.

	2012/13 Revised	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
	£000's	£000's	£000's	£000's
Gross Debt	10,531	10,255	9,980	9,697
Investments	(40,397)	(28,985)	(24,983)	(23,083)
Net Borrowing	(29,866)	(18,730)	(15,003)	(13,386)
CFR	8,877	8,743	8,608	8,479

In previous years this prudential indicator was calculated by deducting investments from gross debt and comparing this figure with the Capital Financing Requirement. The new requirement to exclude investments shows that gross debt needs to be reduced below the CFR. Resources are available from investments to do this, but such action would incur penalties for early repayment of debt.

- 7.2 The next key indicator is the operational boundary. This is the limit beyond which external debt is not normally expected to exceed.

Operational boundary	2012/13 Revised	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
	£000's	£000's	£000's	£000's
Debt	5,553	5,392	5,231	5,070
Other long term liabilities	5,266	5,139	5,024	4,910
<b>Operational Boundary</b>	<b>10,819</b>	<b>10,531</b>	<b>10,255</b>	<b>9,980</b>

- 7.3 A further key prudential indicator representing a control on the overall level of borrowing is the Authorised Limit for External Debt. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Commissioner. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total plans of all local authorities and commissioners, or those of a specific authority or commissioner, although no control has yet been exercised. The Commissioner is asked to approve the following Authorised Limit:

Authorised limit	2012/13 Revised	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
	£000's	£000's	£000's	£000's
Borrowing 1 <sup>st</sup> April	5,553	5,392	5,231	5,070
Borrowing less than 1 month	3,000	3,000	3,000	3,000
Other long term liabilities	5,266	5,139	5,024	4,910
<b>Authorised Limit</b>	<b>13,819</b>	<b>13,531</b>	<b>13,255</b>	<b>12,980</b>

- 7.4 Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism.

## 8. Prospects for Interest Rates

- 8.1 The Commissioner uses Sector as treasury management advisor and part of their service is to provide a view on the prospects for interest rates. The following table gives the Sector view on the prospects for interest rates.

Annual Average %	Bank Rate	Money Rates		PWLB Borrowing Rates		
		3 month	1 year	5 year	25 year	50 year
March 2013	0.50	0.50	1.00	1.50	3.80	4.00
June 2013	0.50	0.50	1.00	1.50	3.80	4.00
Sept 2013	0.50	0.50	1.00	1.60	3.80	4.00
Dec 2013	0.50	0.50	1.00	1.60	3.80	4.00
March 2014	0.50	0.50	1.00	1.70	3.90	4.10
June 2014	0.50	0.50	1.10	1.70	3.90	4.10
Sept 2014	0.50	0.60	1.10	1.80	4.00	4.20
Dec 2014	0.50	0.60	1.20	2.00	4.10	4.30
March 2015	0.75	0.70	1.30	2.20	4.30	4.50
June 2015	1.00	0.80	1.30	2.30	4.40	4.60



UBS and Capital Economics also hold the view that the Bank of England Base Rate will remain at 0.5% until at least December 2014.

- 8.2 The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on repayment of personal debt, inflation eroding disposable income, general malaise about the economy and employment fears.

The primary drivers of the UK economy are likely to remain external. The Eurozone accounts for 40% of UK exports so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, is addressing similar debt problems to the UK. The resulting US fiscal tightening and continuing Eurozone problems will depress UK growth and is likely to see the UK deficit reduction plans slip.

This challenging and uncertain economic outlook has several key treasury management implications:

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2013/14 and beyond;
- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

## **9. BORROWING STRATEGY 2013/14 – 2015/16**

- 9.1 The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Commissioner will continue a cautious approach to treasury strategy.
- 9.2 The Treasurer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. It is likely that shorter term fixed rates may provide lower cost opportunities in the short/medium term.
- 9.3 With the likelihood of long term rates increasing, debt restructuring is likely to focus on switching from longer term fixed rates to cheaper shorter term debt, although the Treasurer and treasury consultants will monitor prevailing rates for any opportunities during the year.
- 9.4 The option of postponing borrowing and running down investment balances will also be considered, reducing cost and counterparty risk.

## **10. INVESTMENT STRATEGY 2013/14 – 2015/16**

**10.1 Key Objectives** - The Commissioner's primary investment strategy objectives are, firstly, safeguarding the re-payment of the principal and interest of its investments on time and, secondly, ensuring adequate liquidity. The investment return is an important third objective, but not as important as the first two objectives. Following the economic background outlined above, the current investment climate has one over-riding risk consideration; that of counterparty security risk.

**10.2 Risk Benchmarking** – A development in the revised Codes and the WAG Investment Guidance is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are new requirements in the revised Code, although the application of these is more subjective in nature.

**10.3** These benchmarks are simple guides (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

**10.4 Security** - The Authority's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.9% historic risk of default when compared to the whole portfolio.

**10.5 Liquidity** – In respect of this area the Commissioner seeks to maintain:

- Bank overdraft facility of £0.5m.
- Liquid short term deposits of at least £2m available with a week's notice.
- Weighted Average Life benchmark is expected to be 2 months, with a maximum of 3 months.

**10.6 Yield** - Local measures of yield benchmarks are:

- Investments – Internal returns compared to the 7 day LIBID rate

**10.7** The security benchmark for each individual year is:

	<b>1 year</b>	<b>2 years</b>	<b>3 years</b>	<b>4 years</b>	<b>5 years</b>
Maximum	0.09%	Not applicable	Not applicable	Not Applicable	Not Applicable

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

- 10.8 **Investment Counterparty Selection Criteria** - The primary principle governing the Commissioner's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. The Commissioner will not use non-specified investments. The Commissioner will ensure:
- a policy covering types of investment, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified investment sections below.
  - sufficient liquidity in investments. For this purpose procedures will be set out for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the prudential indicators covering the maximum principal sums invested.
- 10.9 The Assistant Chief Officer - Resources will maintain a counterparty list in compliance with the following criteria. This criteria is separate from that which chooses Specified and Non-Specified investments as it provides an overall pool of counterparties considered high quality the Commissioner may use rather than defining what its investments are.
- 10.10 The rating criteria use the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the Commissioner's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Commissioner's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.
- 10.11 Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance a negative rating watch applying to a counterparty at the minimum Authority criteria will be suspended from use, with all others being reviewed in light of market conditions.

10.12 The Commissioner only uses the following high credit quality counterparties:

- UK banks and banks domiciled in a country other than the UK which has a minimum Sovereign long term rating of AAA, which have at least the following Fitch, Moody's and Standard and Poors ratings (where rated):
  - **Short Term – F1/A1/P1**
  - **Long Term – A**
  - **Individual / Financial Strength – C** (Fitch / Moody's only)
  - **Support – 3** (Fitch only)
- Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks above.
- Building Societies which:
  - i. meet the ratings for banks outlined above; or
  - ii. and have assets in excess of £1bn.
- Money Market Funds – AAA
- UK Government (including gilts and the DMADF)
- Local Authorities
- Supranational institutions

10.13 Due care will be taken to consider the country, group and sector exposure of the Commissioner's investments. In part the country selection will be chosen by the credit rating of the Sovereign state. In addition:

- no more than £3m will be placed with any single non-UK country at any time;
- limits in place above will apply to Group companies;
- Sector limits will be monitored regularly for appropriateness.

10.14 Additional requirements under the Code of Practice now require the Commissioner to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

10.15 The time and monetary limits for institutions on the Commissioner's Counterparty List are as follows:

	<b>Fitch (or equivalent)</b>	<b>Money Limit</b>	<b>Time Limit</b>
Banks (Groups)	P1/F1/A1	£3m	<365days
Building Societies	P1/F1/A1	£3m	<365days
Money Market Funds	AAA	£3m	<365days
Local Authorities	-	£10m	<365days
UK DMO	-	None	<365days
Guaranteed Organisations	-	£3m*	<365days

*\*Guaranteed institutions will need to be restricted to the terms of the guarantee.*

10.16 In the normal course of the Commissioner's cash flow operations it is expected that only Specified Investments will be utilised.

**10.17 The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. However, under exceptional market conditions the Treasurer may, after consulting the Commissioner, temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments may be restricted.** Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMADF – a Government body which accepts local authority deposits), Money Market Funds, guaranteed deposit facilities and strongly rated institutions offered support by the UK Government. The credit criteria have been amended to reflect these facilities.

## **11. Sensitivity to Interest Rate Movements**

11.1 The Commissioner is required to disclose in the accounts the impact of risks on treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management costs/income for next year. That element of the debt and investment portfolios which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

	2013/14 Estimated + 1%	2013/14 Estimated - 1%
	£m	£m
<b>Revenue Budgets</b>		
Interest on Borrowing	Nil	Nil
Investment income	0.472	0.194

## 12. Treasury Management Limits on Activity

- 12.1 There are four further treasury activity limits, which were previously prudential indicators. The purpose of these is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. The Commissioner approves the limits:

	2013/14	2014/15	2015/16
<b>Interest rate Exposures</b>			
	<b>Upper</b>	<b>Upper</b>	<b>Upper</b>
<b>Limits on fixed interest rates based on net debt</b>	100%	100%	100%
<b>Limits on variable interest rates based on net debt</b>	35%	35%	35%
<b>Maturity Structure of fixed interest rate borrowing 2011/12</b>			
	<b>Lower</b>	<b>Upper</b>	
Under 12 months	0%	20%	
12 months to 2 years	0%	20%	
2 years to 5 years	0%	20%	
5 years to 10 years	0%	20%	
10 years and above	20%	90%	
<b>Maximum principal sums invested &gt; 364 days</b>			
Principal sums invested > 364 days	£m 0	£m 0	£m 0

## 13. Performance Indicators

- 13.1 The Code of Practice on Treasury Management requires the Commissioner to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. Performance indicators to be used for the treasury function are:

- Debt – Borrowing - Average rate of borrowing for the year compared to PWLB rates
- Investments – Internal returns compared with the 7 day LIBID rate

The results of these indicators will be reported in the Treasury Annual Report.

#### **14. Treasury Management Advisers**

14.1 The Commissioner uses Sector as treasury management consultants. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and code compliance;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings/market information service comprising the three main credit rating agencies;

14.2 Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Commissioner.

#### **15. Treasury Management Training**

15.1 Officer training needs are assessed on appointment, as part of the PDR process and when legislation changes are announced. Officers attend seminars arranged by Sector and other organisations. A training seminar on treasury management will be arranged for the Commissioner, Deputy Commissioner and members of the Joint Audit Committee early in the new financial year.





## **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 requirements

TMP 7 Budgeting, accounting and audit arrangements

TMP 8 Cash and cash flow management

TMP 9 Money laundering

TMP 10 Training and qualifications

TMP 11 Use of external service providers

TMP 12 Corporate governance

## 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.**

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:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- 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.
- 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, 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:

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. 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.

5. A body that is considered of a high credit quality (such as a bank or building society. For category 5 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 Sector as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. 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 Treasurer 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 approach (LCD) 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 Treasurer & Deputy Chief Executive 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 treasury management function.

## **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 bank overdraft facility of £0.5m; and
- 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 2 months with a maximum of 3 months.

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

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

Maximum proportion of interest on borrowing which is subject to variable rate interest.	35 %
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Minimum proportion of interest on borrowing which is subject to variable rate interest	0 %
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### **3.2 Minimum/maximum proportions of fixed rate debt/interest**

Minimum proportion of interest on borrowing which is subject to fixed rate interest.	65 %
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Maximum proportion of interest on borrowing which is subject to fixed rate interest	100 %
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### **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.

- 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**

The treasury management activities of the Commissioner shall comply fully with legal statute and the regulations. These are:

- CIPFA's Treasury Management Code of Practice 2011
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities
- CIPFA Standard of Professional Practice on Treasury Management
- The Prudential Code for Capital Finance in Local Authorities (2011 Edition);
- Local Government Act 2003
- BoE Non Investment Products Code (April 2009).
- Standing Orders relating to Contracts
- Financial Standing Orders, Regulations and Procedures
- The Commissioner's Scheme of Delegation
- The Accounts and Audit (Wales) Amendment Regulations (2010)

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

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

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

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

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

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

The Treasurer shall take appropriate action with the Commissioner and the Chief Executive 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**

Authority:

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

Occurrence:

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

Completeness:

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

#### Measurement:

- The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy.
- The Treasury Management spreadsheet automatically calculates periodic interest payments of PWLB and other long term loans. This is used to check the amount paid to these lenders.
- Rates generated are compared with other local authorities and against the Treasury Strategy Statement.

#### Timeliness:

- The Assistant Financial Accountant Treasury Management ensures that money borrowed or lent is repaid on time.

#### Regularity:

- All lending is only made to institutions on the Approved List.
- All loans raised and repayments made go directly to and from the Commissioner's bank accounts.
- Limits on value are set for every category of specified and non-specified investments and institution.
- Brokers have a list of named officials authorised to perform loan transactions.
- There is adequate insurance cover for employees involved in loans management and accounting.
- 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 Principal Financial Accountant.
- There is a separation of duties in the Section between the repayment of a loan and its checking and authorisation.
- The bank reconciliation is carried out regularly from the bank statement to the financial ledger.
- The treasury team has an up to date financial code list.

#### Security:

- The Treasury Management spreadsheet can only be accessed by a password.
- Payments can only be authorised by nominated persons, using the Co-operative Bank's Financial Director System. The list of signatories having previously been agreed with the current provider of our banking services.

#### Substantiation:

- 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.
- 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**

If the Treasury System PC fails the software can be reinstalled on another PC that will then be able to access the appropriate files on the network. The Information Communications Technology Department backs up the data on a daily basis.

CHAPS payments are normally made using the Co-operative Bank's Financial Director 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.**

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

The Commissioner also has a 'Business Interruption' cover of £1m as part of its property insurance.

## **8. MARKET RISK MANAGERMENTS**

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

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**

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**

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

#### **2.2.2 Banking services**

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

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

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**

The Commissioner currently uses Sector as treasury management consultants. The contract for this service is let in accordance with Contract Standing Orders.

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

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**

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

- Average period to maturity of new loans in previous year
- Comparison with UK average for public sector bodies

#### **2.4.2 Investment.**

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**

The Treasury section has a treasury management spreadsheet. All loan transactions and investments are recorded using this system.

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

- Daily cash projections.
- Telephone and email rates.
- Dealing slips for all money market transactions – including rate changes.
- PWLB loan schedules.
- Temporary loan receipts.
- Market bond certificates.
- Special loan certificates.
- Brokers confirmations for deposits/investments

#### **3.1.2 Processes to be pursued**

- Cash flow analysis.
- Maturity Analysis;
- Security Analysis;
- Liquidity Analysis (Weighted Average Life);
- Yield Analysis;
- Ledger reconciliations
- Review of borrowing requirement.
- Monitoring of projected loan charges, interest and expenses costs.
- Collation of monthly performance information
- Monitoring against Prudential Limits

#### **3.1.3 Issues to be addressed**

##### **3.1.3.1. 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
- e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

##### **3.1.3.2 In respect of borrowing and other funding decisions, the 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
- d) Consider the ongoing revenue liabilities created, and the implications for future plans and budgets.

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

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

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

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

All investments will comply with the Annual Treasury Management Strategy and the guidance issued by the Welsh Assembly 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**

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	●	●
EIB	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
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	●	●

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

Government and EC Capital Grants  
Lottery monies  
PFI/PPP

Operating leases  
Joint arrangements

All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Treasurer 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**

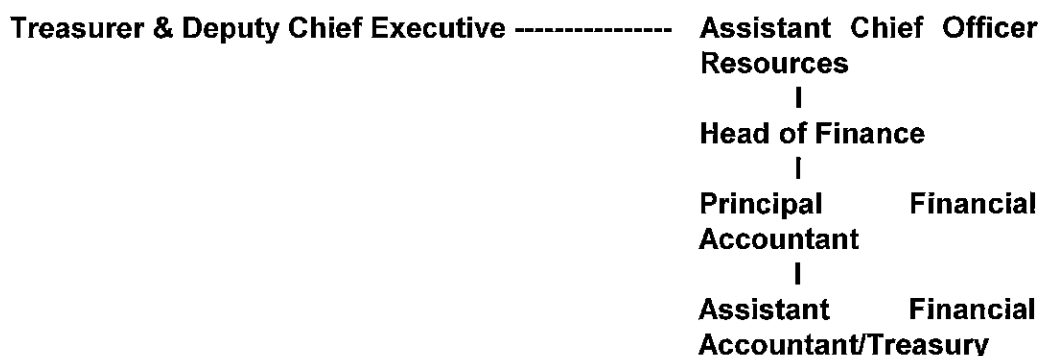
### **INDEX OF SCHEDULES**

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- 5.7 Policy on brokers' services**
- 5.8 Policy on taping of conversations**
- 5.9 Direct dealing practices**
- 5.10 Settlement transmission procedures**
- 5.11 Documentation requirements**

## 5.1 LIMITS TO RESPONSIBILITIES/DISCRETION

- a) The Treasurer will be responsible for recommending amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.
- b) The Treasurer will approve the segregation of responsibilities.
- c) The Treasurer 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 Treasurer

- (1) The Treasurer & Deputy Chief Executive will:
  - a) Recommend clauses, treasury management policy / practices for approval, reviewing the same on a regular basis, and monitoring compliance.
  - b) Submit treasury management policy reports as required.
  - c) Submit budgets and budget variations in accordance with Financial Regulations and Procedures.
  - d) Receive and review management information reports.
  - e) Review the performance of the treasury management function and promote best value reviews.
  - f) Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
  - g) Ensure the adequacy of internal audit, and liaising with external audit.
  - h) Recommend on appointment of external service providers in accordance with standing orders.
- (2) The Treasurer & Deputy Chief Executive 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.
- (3) Power to borrow and invest may be delegated to members of the Finance Section. The Assistant Financial Accountant Treasury Management (or staff authorised by the Head of Finance to act as temporary cover for leave/sickness) must conduct all dealing transactions.
- (4) The Head of Finance will ensure that the Policy is adhered to, and if not will bring the matter to the attention of the Treasurer & Deputy Chief Executive as soon as possible.



- (5) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Head of Finance to be satisfied that the proposed transaction does not breach any statute, external regulation or the Financial Regulations and Procedures.
- (6) It is also the responsibility of the Head of Finance 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.

#### **5.3.2 Assistant Financial Accountant - Treasury**

The responsibilities of this post will be: -

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

#### **5.3.3 Chief Executive**

The responsibilities of this post will be: -

- a) Ensuring that the Treasurer & Deputy Chief Executive reports regularly to the Commissioner on treasury policy, activity and performance.

#### **5.3.4 Monitoring Officer**

The responsibilities of this post will be: -

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

#### **5.3.5 Internal Audit**

The responsibilities of Internal Audit will be: -

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

#### **5.4 ABSENCE COVER ARRANGEMENTS**

In the absence of the Assistant Financial Accountant - Treasury his/her treasury management duties are carried out by the Principal Financial Accountant or Financial Accountant.

#### **5.5 DEALING LIMITS**

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

#### **5.6 LIST OF APPROVED BROKERS**

A list of approved brokers is maintained within the Treasury Team and a record of all transactions recorded against them.

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

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**

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

#### **5.9 DIRECT DEALING PRACTICES**

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**

The Assistant Financial Accountant – Treasury Management will produce documentation to support the transaction set up within the Finance Director system. An approved signatory will authorise the payment, noting the Financial Director transaction reference number.

#### **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), broker.

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

### **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:
- the current Treasury portfolio position;
  - the prospects for interest rates;
  - the limits placed by this organisation on treasury activities;
  - the expected borrowing strategy;
  - the expected temporary investment strategy;
  - the policy concerning retention of the set aside capital receipts;
  - the expectations for debt rescheduling;
  - borrowing requirements;
  - 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 Assembly Government requiring all local authorities 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:
- Investment Principles
  - Specified and Non-Specified Investments
  - Permitted Investments
  - Liquidity
  - Security of Capital
  - Investment Limits
  - 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:

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

6.3.2 The Treasurer & Deputy Chief Executive 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 Treasurer shall submit the changes for approval to the Commissioner.

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

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 end of 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;
- i) report on compliance with CIPFA Code recommendations.

## **6.5 MANAGEMENT INFORMATION REPORTS**

Management information reports will be prepared every month by the Principal Financial Accountant and will be presented to the Treasurer & Deputy Chief Executive.

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;
- c) degree of compliance with original strategy and explanation of variances.

## **6.6 PERIODIC MONITORING COMMITTEE REPORTS**

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; and
- c) an annual treasury management activity report before the 30<sup>th</sup> September after the year end to which it relates.
- d) A mid year monitoring report

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

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

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

### **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.**

The following information is required by the external auditor:

- reconciliation of loans interest and premiums paid to financial ledger by loan type;
- maturity analysis of loans outstanding;
- calculation of loans interest and debt management expenses;
- annual Treasury Report;
- calculation of Revenue Interest;
- analysis of any Deferred Charges;
- principal and interest charges from Treasury Management records; and
- interest accruals calculation from Treasury Management records.

### **7.4 Monthly Budget Monitoring Report**

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**

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**

The Assistant Financial Accountant Treasury Management 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**

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

- payroll for salaries, national insurance, superannuation and income tax information;
- treasury Management spreadsheet for interest and loans principal payments;
- precept income;
- pensions lump sums;
- police pension account surplus/deficit payments;
- income forecasts; and
- creditor payment schedules.

### **8.3 BANK STATEMENT PROCEDURES**

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**

The policy is to pay creditors within 28 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**

The creditors section provides the Principal Financial Accountant with monthly statistics of invoices paid and the percentage paid within 28 days.

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

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 Procedure Rules.

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

All prepayments must be authorised by the Treasurer & Deputy Chief Executive.

## **TMP 9 MONEY LAUNDERING**

### **9.1 Statutory Requirements**

The Commissioner is not directly required to implement the requirements of the Money Laundering Regulations 2003, 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 process 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 it 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**

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 Treasurer & Deputy Chief Executive as the nominated Money Laundering Reporting Officer (MLRO).

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

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

### **9.4 REPORTING PROCEDURES**

- (a) Any person in the organisation having reasonable grounds for suspecting money laundering must report their suspicions without delay to the Treasurer & Deputy Chief Executive, as nominated Money Laundering Reporting Officer.
- (b) On receipt of a disclosure the MLRO should consider, in the light of all information, whether it gives rise to such knowledge or suspicion.
- (c) If the MLRO determines that the information or matter should be disclosed he should do so to the National Criminal Intelligence Service.

### **9.5 TRAINING**

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 Treasurer & Deputy Chief Executive and Assistant Chief Officer - Resources 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 Co-operative Bank. The branch address is 28/29 John Frost Square, Newport. NP20 1HZ.
- b) Contract commenced in 1996.
- c) Cost of service is free. Interest on the Reserve Account is currently 0.375%.

#### **11.1.2 Money-broking services**

Names of suppliers of service:

Martin Brokers (UK) plc  
Prebon Yamane  
Tradition UK Limited  
Icap

#### **11.1.3 Treasury Management Advisors**

Sector  
40 Dukes Place  
London  
EC3A 7NH

### **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**

**Annual accounts  
Annual Budget  
3 Year Capital Plan  
Treasury Management Strategy  
Mid Year Monitoring Report(s)  
Annual Treasury Report  
Annual Investment Strategy  
Relevant Decisions of the Commissioner**