

## REPORT OF THE CHIEF FINANCIAL OFFICER

### TREASURY MANAGEMENT POLICY 2012/13

#### 1. Purpose of Report

To present to Members the 2012/13 Treasury Management Policy for consideration and recommendation to the Police Authority.

#### **Recommendations**

Members are asked to consider and recommend the approval of the Investment Strategy for 2012/13.

On advice of the Authority's Treasury Advisors, the Authority has included options to utilise non-UK banks, Gilts, Treasury Bills, bonds issued by Multilateral Development Banks, AAA rated Money Market Funds and Certificates of Deposit as investment instruments in 2012/13 should they be required to increase flexibility and management of credit and liquidity risk. These instruments are not being used at the time of writing this report and will only be used after express authorisation of the Chief Financial Officer.

Following the extreme tension and negative sentiment driving the markets recently, the Authority has taken a prudent response and has temporarily suspended new investments with UK Banks and Building Societies. At the time of writing this report, a cautious investment strategy has been adopted, with surplus funds only being invested with the Debt Management Office.

#### 2. Background

In late November 2011, CIPFA issued '*Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (the Code)*' which represents a revision of the 2009 Code. The Authority has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

One of the clauses adopted from the Code requires the Authority to maintain a Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities and suitable treasury management practices (TMPs), setting out the manner in which the authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The Investment Strategy 2012/13 and Prudential Borrowing Limits 2012/13 will be presented to members under separate cover at this meeting.

This Authority delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Finance and General Purposes Committee, and for the execution and administration of treasury management decisions to the Chief Constable and the Chief Financial Officer, who, being a CIPFA member, will act in accordance with the authority's policy statement and

TMPs and the CIPFA: *Standard of Professional Practice on Treasury Management.*

### 3. Treasury Management Policy Statement

CIPFA has defined Treasury Management as:

*“the management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*

No treasury management activity is without risk. The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the Authority, and any financial instruments entered into to manage these risks.

The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The Authority’s borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Authority transparency and control over its debt.

The Authority’s primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority’s investments followed by the yield earned on investments remain important but are secondary considerations.

This policy will be reviewed on an annual basis.

### 4. Treasury Management Practices (TMPs)

Dyfed-Powys Police Authority has twelve treasury management practices (TMP’s) that are relevant to its treasury management powers and the scope of its treasury management activities. They are as follows:-

TMP1	Risk Management
TMP2	Performance measurement
TMP3	Decision-making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management information arrangements
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money laundering
TMP10	Staff training and qualifications
TMP11	Use of external service providers
TMP12	Corporate Governance

The definitions of the TMP's are included on the following pages, these are supported by appendices referring to details of systems and routines and records to be maintained.

## **TMP1 - Risk Management**

### **General statement**

“The Chief Financial Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the authority's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting requirements and management information arrangements*. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in [Appendix A](#).”

### **Credit and counter-party risk management**

#### **Credit and counter-party risk:-**

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

“Dyfed-Powys Police Authority regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counter-party lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 *Approved instruments, methods and techniques*. It also recognises the need to have, and will therefore maintain, a formal counter-party policy in respect of those institutions from which it may borrow, or with whom it may enter into other financing arrangements.”

### **Liquidity risk management**

#### **Liquidity risk:-**

*The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.*

“Dyfed-Powys Police Authority will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives

The Authority 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.”

## **Interest rate risk management**

### **Interest rate risk:-**

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

“Dyfed-Powys Police Authority will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with *TMP6 Reporting requirements and management information arrangements*.

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

## **Exchange rate risk management**

### **Exchange Rate Risk:-**

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

“Dyfed-Powys Police Authority will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.”

## **Refinancing risk management**

### **Refinancing risk:-**

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

“Dyfed-Powys Police Authority will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing if required, which are competitive and as favourable to the authority as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counter-parties 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.”

## **Legal and regulatory risk management**

### **Legal and regulatory risk:-**

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

“Dyfed-Powys Police Authority will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counter-party policy under TMP1 *credit and counter-party risk management*, it will ensure that there is evidence of counter-parties’ powers, authority and compliance in respect of the transactions they may effect with the authority, particularly with regard to duty of care and fees charged.

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

## **Fraud, error and corruption and contingency management**

### **Fraud, error and corruption, and contingency management:-**

*The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.*

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

## **Market risk management**

### **Market risk:-**

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

“Dyfed-Powys Police Authority will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.”

## **TMP2 - Performance measurement**

“Dyfed-Powys Police Authority is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the authority’s stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured by using the criteria set out in [Appendix B](#).”

## **TMP3 - Decision-making and analysis**

“Dyfed-Powys Police Authority will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in [Appendix C](#)”

## **TMP4 - Approved instruments, methods and techniques**

“Dyfed-Powys Police Authority will undertake its treasury management activities by employing only those instruments, methods and techniques specified in the Authority’s Financial Regulations and Financial Control Procedures and within the limits and parameters defined in TMP 1 *Risk management*. Both regulations and procedures are available on the force Intranet, or hard copies are retained in the Finance Department details of which are included in [Appendix D](#).”

## **TMP5 - Organisation, clarity and segregation of responsibilities, and dealing arrangements**

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

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

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

The Chief Financial Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Chief Financial Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are referred to in [Appendix E](#).

The Chief Financial Officer will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are referred to in [Appendix E](#).

The delegations to the Chief Constable in respect of treasury management are set out in [Appendix E](#). The Chief Financial Officer on behalf of the Chief Constable will fulfil all such responsibilities in accordance with the authority's policy statement and TMP's and the *Standard of Professional Practice on Treasury Management*."

## **TMP6 - Reporting requirements and management information arrangements**

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

As a minimum, the Authority will receive:

- an annual report on the strategy and plan to be pursued in the coming year
- a mid year review
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the authority's treasury management policy statement and TMP's.

The Authority will receive regular monitoring reports on treasury management activities and risks.

The Finance and General Purposes Committee will have responsibility for the scrutiny of treasury management activities policies and practices.

The Authority should report the treasury management indicators as detailed in the sector specific guidance notes.

The present arrangements and the form of these reports are referred to in [Appendix F.](#)

### **TMP7 - Budgeting, accounting and audit arrangements**

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

Dyfed-Powys Police Authority will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being and detailed in [Appendix G.](#)

### **TMP8 - Cash and cash flow management**

"Unless statutory or regulatory requirements demand otherwise, all monies in the hands of Dyfed-Powys Police Authority will be under the control of the Chief Constable, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Chief Financial Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 *liquidity risk management*. The present arrangements for preparing cash flow projections, and their form, are referred to in [Appendix H.](#)"

### **TMP9 - Money laundering**

"Dyfed-Powys Police Authority is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counter-parties and reporting suspicions, and will ensure that staff involved in this are fully trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in [Appendix I.](#)"

### **TMP10 - Staff training and qualifications**

"Dyfed-Powys Police Authority recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. The Authority will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an

appropriate level of expertise, knowledge and skills. The Chief Financial Officer will recommend and implement the necessary arrangements.

The Chief Financial Officer will ensure that Authority members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

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

The present arrangements are referred to in [Appendix J](#).”

### **TMP11 - Use of external service providers**

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

### **TMP12 - Corporate Governance**

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

Dyfed-Powys Police Authority has adopted and has implemented the key recommendations of the CIPFA Code of Practice. This, together with the other arrangements referred to in [Appendix L](#), are considered vital to the achievement of proper corporate governance in treasury management, and the Finance and General Purposes Committee will monitor and, if and when necessary, report upon the effectiveness of these arrangements.”

## **5. Policy Flexibility**

The Chief Financial Officer, in consultation with the Chair of the Finance and General Purposes Committee, will agree, if necessary, any variation required from this Treasury Management Policy.

Any variations from the policy will be reported to the next available Finance and General Purposes Committee.

## 6. Legal Comment

The Authority fully complies with the CIPFA Code of Practice on Treasury Management in the Public Services and Cross Sectoral Guidance Notes.

## 7. Risk Analysis

Although economic and market risk are outside the control of the Authority, risk will be managed and mitigated in accordance with the policies set out in the Treasury Management Practices and Schedules.

## 8. Financial Implications

As included in the detailed section of this report.

## 9. Publication

This Treasury Management Policy, along with the Investment Strategy, Prudential Borrowing Limits Report and Capital Programme will be made available online via the Authority website.

## 10. Considerations

Implication	Impact Considered (Yes/No)	Impact Identified (paragraph reference)
Legal	Yes	Paragraph 6
Financial	Yes	Paragraph 8
Race and Equality	Yes	None
Human Rights	Yes	None
Environmental and Sustainability	Yes	None
Risk Analysis	Yes	Paragraph 7
National Park Implications	Yes	None

## 11. Appendices

Appendix A	TMP 1 Risk management
Appendix B	TMP 2 Best value and Performance measurement
Appendix C	TMP 3 Decision-making and analysis
Appendix D	TMP 4 Approved instruments, methods and techniques
Appendix E	TMP 5 Organisation, clarity and segregation of responsibilities and dealing arrangements
Appendix F	TMP 6 Reporting requirements and management information arrangements
Appendix G	TMP 7 Budgeting, accounting and audit arrangements
Appendix H	TMP 8 Cash and cash flow management
Appendix I	TMP 9 Money Laundering
Appendix J	TMP 10 Staff training and qualifications
Appendix K	TMP 11 Use of external service providers
Appendix L	TMP 12 Corporate Governance

## **12. Background papers**

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes;

Dyfed Powys Police Investment Strategy 2012-13

Dyfed Powys Police Financial Regulations;

Dyfed Powys Police Financial Control Procedures.

Guidance issued by Welsh Government

## **13. Contact details**

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