Comisiynydd Heddlu a Throseddu
Dyfed-Powys
Police and Crime Commissioner

Mae'r ddogfen hon ar gael yn Gymraeg yn ogystal â Saesneg.

This document is available in Welsh as well as English.

Comisiynydd Heddlu a Throseddu

DYFED-POWYS

Police & Crime Commissioner

REPORT / SUMMARY DECISION SHEET

PURPOSE: COMMISSIONER DECISION

Timing: Urgent (Required for financial year 2013/14)

Title: Investment Strategy and Policy 2013/14

Category of Decision / Business Area Impact: Finance – Financial Services

Executive Summary:

The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") requires the determination of the Treasury Management Strategy Statement (TMSS) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the Welsh Government's Investment Guidance.

Recommendation:

The Police and Crime Commissioner is asked to consider and approve the attached "Investment Strategy and Policy 2013/14".

Police and Crime Commissioner for Dyfed-Powys

I confirm I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with the Nolan Principles for Conduct in Public Life.

The above has my approval / does not have my approval.

Signature: C R Salmon

Date: 24/5/2013

Police and Crime Commissioner for Dyfed-Powys

Investment Strategy and Policy 2013/14

Contents

1. Definitions

- ***Bonds*** - A bond is a formal certificate of indebtedness issued in writing in return for loans. It bears interest and promises to pay a certain sum of money to the holder after a definite period.
- ***Commercial Paper*** - Commercial paper is a money-market security issued (sold) by large corporations to get money to meet short term debt obligations (for example, payroll), and is only backed by an issuing bank or corporation's promise to pay the face amount on the maturity date specified on the note.
- ***Corporate Bonds*** – A corporate bond is a bond issue that a corporation issues to raise money effectively in order to expand its business. Corporate bonds are considered higher risk than government bonds. As a result, interest rates are almost always higher, even for top-flight credit quality companies.
- ***Credit Default Swaps (CDS)*** - is a financial swap agreement that the seller of the CDS will compensate the buyer in the event of a loan default or other credit event. A CDS is considered insurance against non-payment.
- ***Credit Ratings*** – This represents the credit rating agency's evaluation of qualitative and quantitative information for a company or government of their ability to repay a debt.
- ***Debt management Account Deposit Facility*** - With the Debt Management Account Deposit Facility (DMADF), as the money is held by the Treasury, the scheme implicitly carries the Government's own sovereign AAA credit rating, thus providing the highest available security.
- ***Financial Derivatives*** - Financial derivatives enable parties to trade specific financial risks (such as interest rate risk, currency, equity and commodity price risk, and credit risk, etc.) to other entities who are more willing, or better suited, to take or manage these risks—typically, but not always, without trading in a primary asset or commodity.
- ***Inflation*** - Inflation is an increase in the general price of goods and services that is representative of the economy as a whole. When the general price level rises, each unit of currency buys fewer goods and services.
- ***Liquidity*** - Liquidity refers to how quickly and cheaply an asset can be converted into cash. Money (in the form of cash) is the most liquid asset.
- ***Local Authority Bills*** - Local authority bills are usually used to raise capital for improvements in infrastructure or other aspects of the Local Authority.
- ***Money Market Funds*** - Money Market Funds (MMFs) are pooled funds which invest in a range of short term assets providing high credit quality and high liquidity. MMFs have as their primary objective the preservation of capital and the provision of liquidity. They provide the benefits of pooled investment, as investors can participate in a more diverse and high-quality portfolio than they otherwise could individually.
- ***Quantitative Easing*** - is an unconventional monetary policy used by central banks to stimulate the national economy when conventional monetary policy has become ineffective. A central bank implements quantitative easing by buying financial assets

from commercial banks and other private institutions, thus creating money and injecting a pre-determined *quantity* of money into the economy.

- ***Structural Deficit*** - A structural deficit occurs when a country posts a deficit even when the economy is operating at its full potential.
- ***Term Deposits*** - A deposit held at a financial institution that has a fixed term.
- ***Treasury Bills*** - Treasury Bills (T-Bills) are short term Government debt instruments and are a means to manage cash flow.
- ***Treasury Management*** – The management of the organisation's investments and cash flows, it's 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.
- ***UK Government Gilts*** - A gilt is a UK Government liability in sterling, issued by HM Treasury and listed on the London Stock Exchange. The term "gilt" or "gilt-edged security" is a reference to the primary characteristic of gilts as an investment: their security. This is a reflection of the fact that the British Government has never failed to make interest or principal payments on gilts as they fall due.

2. Introduction

Points salient to Dyfed-Powys are highlighted within the document.

The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") requires the determination of the Treasury Management Strategy Statement (TMSS) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the Welsh Government's Investment Guidance.

CIPFA have defined Treasury Management as "the management of the organisation's investments and cash flows, it's 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; however the management of those risks is the key driver that the organisation utilises in determining investment decisions.

The main risks to the organisation's treasury activities are set out in the below table:-

Type of risk	Description	Risk mitigation
Credit and Counter-party	The risk that an investment will not be repaid	Investing in institutions that have good credit ratings
Liquidity risk	The risk that cash will not be available to meet creditor and other payment requirements	Frequent analysis of organisations future cashflow requirements prior to investment decisions being made
Inflation risk	The possibility that the value of investments will decrease as inflation shrinks the purchasing power of a currency	A limit is made of the number of long-term investments that are placed
Interest rate risk	Risk that fluctuations in interest rates create an unexpected or unbudgeted burden on the organisations finances	Budget set for investment income is a realistic estimate of likely receipts during the year based on advice received on future interest rates
Market risk	Risk that value of investments may decline over a given time period which would adversely affect the organisations ability to invest monies	Sufficient scope is included within the strategy to ensure that alternative investment tools are available

The investment policy and strategy has been prepared with due regards to:-

- The Local Government Act 2003;
- Regulations made under the Local Government Act 2003;
- Guidance issued by the Welsh Government;
- CIPFA Treasury Management in the Public Services: Code of practice and Cross-Sectoral Guidance Notes;

The force currently receives advice on Treasury Management from "Arlingclose Ltd." Their clients come from all tiers of UK local authority and from other public sector bodies. Their service includes comprehensive advice in relation to debt restructuring and long term capital finance decisions, utilising proven systems, effective dialogue and an understanding of individual requirements.

3. Interest Rate Forecast

The economic and interest rate forecast provided by our Treasury Management Advisors, Arlingclose is as follows:-

- UK growth is unlikely to return to above trend for the foreseeable future. Further contraction in the Eurozone including Germany's powerful economy, and slower forecast growth in the emerging countries (Brazil/Mexico/India) are exacerbating the weakness.
- The fiscal outlook for bringing down the structural deficit and stabilise debt levels remains very challenging. Weakened credibility of the UK reining its levels of debt poses a risk to the AAA status, but recent history (US, France) suggests this may not automatically result in a sell-off in gilts.
- In the absence of large, unexpected decline in growth, Quantitative Easing is likely to remain on hold at £375bn for now. The availability of cheaper bank borrowing and subsequently for corporates through the Funding for Lending Scheme (FLS) is a supporting factor.
- Our Treasury Advisors do not believe that there will be an increase in official UK interest rates until 2016.

The sustained level of low Bank of England Interest rates has had an impact on the budget of the organisation as income receipts have declined through lower interest rates received on investments. This is likely to continue for the foreseeable future based on the above advice.

4. Treasury Management Policy Statement

Dyfed Powys 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.

Dyfed Powys' 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 PCC transparency and control over the debt.

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

This policy will be reviewed on an annual basis.

The code has identified twelve areas where statements of treasury management practices (TMP's) should be developed to implement the full requirements of the Code. These TMP's are detailed in **Appendix A.**

5. Investment Policy

The scheme of governance states that the Police & Crime Commissioner (PCC) should approve the Treasury Management Policy & Annual Investment Strategy and the PCC's Chief Financial Officer (CFO) should implement and monitor treasury management policies and procedures in line with the CIPFA code and other professional guidance.

In accordance with Investment Guidance issued by the Welsh Government and best practice, the organisations objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the organisation's investments followed by the yields earned on interest is important but are secondary considerations.

The organisation and its advisors remain on a heightened state of alert for signs of credit or market distress that might adversely affect the organisation.

Credit markets remain in a state of distress as a result of poor performing debt within the financial markets. In some instances Greece and Italy being the most notable examples, the extent and implications of the debt it has built up has led to a sovereign debt crisis with the outcome still largely unknown. It is against this backdrop of uncertainty that the organisations strategy is framed.

Investments are categorised as "specified" or "non-specified" within the investment guidance issued by the Welsh Government. Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the PCC and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else.

The types of investments that will be used by the PCC and whether they are specified or non-specified are as follows:

Table 1: Specified and Non-Specified Investments

Investment	Specified	Non-Specified	Maximum investment period	Counter-party investment limit
Term deposits and Certificates of deposit with UK banks and building societies, with minimum long term rating of A- or equivalent	✔	✘	364 days	£6m
Term deposits with other UK local authorities	✔	✘	364 days	£6m
Term deposits and Certificates of deposit with non UK banks and building societies, with minimum long term rating of A+ or equivalent	✔	✘	364 days	£3m
UK Government Gilts	✔	✘	364 days	100% of overall investment
Treasury Bills (usually issued for 1,3 and 6 month maturities)	✔	✘	364 days	No limit
Local Authority Bills	✔	✘	364 days	£6m

Investment	Specified	Non-Specified	Maximum investment period	Counter-party investment limit
AAA-Rated Money Market Funds (MMF)	✔	✕	364 days	10% of total investments per MMF
Debt Management Account Deposit Facility (current limit of 6 months on deposits)	✔	✕	6 months	No Limit
Investments with other organisations	✕	✔	364 days	£6m

Investments should be spread over a number of institutions on the organisation's lending list in order to minimise risk and to secure capital investment. The investment limits have been set bearing in mind the organisation's estimated cashflow requirements during the year.

It should be noted that Dyfed Powys does not currently utilise all of these types of investments. Our Treasury Advisors advise us that it is important to have a variety of investment tools available as the credit ratings of the current institutions that are approved for investment may change due to credit developments (for example if a counterparty is downgraded). A monthly strategy will be approved by the CFO based on advice and judgement on current economic conditions and no investments are made without this prior approval.

The minimum credit rating for non-UK sovereigns is AA+ (or equivalent). For specified investments the minimum long term rating for counterparties is A- (or equivalent). The CFO will have discretion to make investments with counterparties that do not meet the specified criteria on advice from Arlingclose.

The other credit characteristics, in addition to credit ratings that the PCC monitors are listed in the Prudential Indicator on Credit risk **(page 10).**

Any institution will be suspended or removed should any of the factors identified above give rise to concern. Specifically credit ratings are monitored by the organisation on a weekly basis. Arlingclose advises the organisation on ratings changes and appropriate action to be taken.

Organisation's Banker – the organisation banks with Barclays Bank PLC. At the current time, it does meet the organisation's minimum credit criteria. Even if the credit rating falls below the Organisation's minimum criteria Barclays Bank PLC will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

6. Dyfed Powys Investment Strategy

With short term investment rates low for some time, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.

In order to diversify a portfolio largely invested in cash, investments will be placed with approved counterparties over a range of maturity periods. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

As stated previously a monthly strategy is approved by the CFO prior to investments being made within the month. The current investment strategy allows the investment in UK institutions with a credit rating greater than A- and investment with the Debt management Office.

Only investment types approved within the policy will be included within the current strategy being utilised.

A safe custodian account is currently in the process of being set up. This will allow the organisation to have the increased flexibility to deal in treasury bills and certificates of deposit.

7. Prudential Indicators

(a) Prudential Indicator for credit and counter-party risk management

The organisation considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk. But they are not a sole feature in the organisation's assessment of counterparty credit risk.

The organisation also considers alternative assessments of credit strength, and information on corporate developments of and marked sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+or equivalent for non-UK sovereigns);
- Sovereign support mechanisms,
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of it's GDP);
- Corporate Developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

In order to diversify the counterparty list, Arlingclose consider the use of comparable non-UK banks to be appropriate. These include banks within the following sovereign states, Australia, Canada, Finland, France, Germany, Netherlands, Norway, Sweden, USA.

Any institution will be suspended or removed should any of the factors identified above give rise to concern. Specifically credit ratings are monitored by the organisation on a weekly basis. Arlingclose provides advice on ratings changes and appropriate action to be taken.

(b) Prudential Indicator for total principal sums invested over 364 days:

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Organisation having to seek early repayment of the sums invested.

Where the organisation invests or plans to invest for periods longer than 364 days, an upper limit will be set for each forward financial year period for the maturing of such investments.

Upper limit for total principal sums invested over 364 days	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
	10	10	10	10	10

8. Policy on use of Financial Derivatives

The CIPFA code requires organisations to clearly detail their policy on the use of derivatives in the annual strategy.

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

9. Icelandic Banks Update

Early in October 2008, the Icelandic Banks Landsbanki and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander (KSF) went into administration.

The Authority had £2m deposited across two of these institutions in accordance with the Annual Investment Strategy, with varying maturity dates and interest rates.

Dividends continue to be received in respect to each investment and the current outlook is as follows:

Kaupthing, Singer and Friedlander (KSF)- It is estimated that a total of £861k cash will be received against this investment resulting in an estimated cash loss of £139k.

Heritable Bank - It is estimated that a total of £912k cash will be received against this investment resulting in an estimated cash loss of £88k.

Further information can be found in the annual Statement of Accounts.

10. Training

CIPFA's Code of Practice requires the Chief Financial Officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Further details of these are included within the Treasury Management Practices.

11. Balanced budget requirement

The PCC complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balance budget.

12. Impact Consideration

Implication	Impact Considered (Yes/No)	Impact Identified (paragraph reference)
Legal	Yes	Section 2
Financial	Yes	Report
Race and Equality	Yes	N/A
Human Rights	Yes	N/A
Environmental and Sustainability	Yes	N/A
Risk Analysis	Yes	TMP 1
National Park Implications	Yes	N/A

13. Appendices

None applicable

14. Background papers

- The Local Government Act 2003;
- Regulations made under the Local Government Act 2003;
- Guidance issued by The Welsh Government,
- CIPFA Treasury Management in the Public Service: Code of Practice and Cross-Sectoral Guidance Notes;
- Dyfed Powys Scheme of Governance.

15. Contact details

Author: Andrew Bevan – Director of Finance & Resources/CFO

Email: Andrew.bevan@dyfed-powys.pnn.police.uk

Telephone: Internal 23800, External 01267 226317

APPENDIX A - Treasury Management Practices

1. **TMP 1 Risk Management**

   General statement

   The Chief Financial Officer (CFO) 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 PCC'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 below:-

   1.1 **Credit and Counterparty Risk Management**

   Definition of Credit and Counterparty 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.*

   Action

   "Dyfed-Powys 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."

   Counterparties are detailed within the Treasury Management Strategy and Policy.

   1.2 **Liquidity Risk Management**

   Definition of 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.

   Action

   It will be the function of Treasury Management Staff to ensure that 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.

   They will ensure that at all times there will be a surplus of cash available which can be called upon (£3m) through its investments in cash on call accounts, which would be available at any time.

   Robust weekly, monthly and annual cash flow forecasting processes are in place in line with The Financial Regulations and Financial Control Procedures.

1.3 **Interest Rate Risk Management**

Definition of 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.

Action

Dyfed-Powys 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.

The PCC will only undertake borrowing from approved sources such as the PWLB, organisations such as the European Investment Bank and from commercial banks who are on the PCC's list of authorised institutions, thereby minimising legal and regulatory risk.

1.4 **Exchange rate risk management**

Definition of Exchange Rate Risk – The risk that fluctuations in foreign exchange rates create and unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

Action

Currently Dyfed Powys only invest in sterling products, hence there is no exchange rate risk.

1.5 **Refinancing Risk Management**

Definition of 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.

Action

Dyfed-Powys 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 PCC 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."

1.6 **Legal and Regulatory Risk**

Definition of 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 organisations suffers losses accordingly.

Action

Dyfed-Powys 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 PCC, particularly with regard to duty of care and fees charged.

Dyfed Powys 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 PCC.

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

Definition of Fraud, error and corruption contingency management – The risk that an organisation fails to identify the circumstances in which it may be exposes 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 an operational risk.

Action

Dyfed-Powys 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.

A clear, well defined reporting structure for fraud etc. is in place in the event of a systems breakdown.

The insurance policy will incorporate cover for fraud, error and corruption.

This is documented within the Anti-fraud and Corruption policy and included within Financial Control Procedure A7.2 "Dealing with Suspected Fraud and / or Corruption."

1.8 **Market Risk Management**

Definition of Market risk – The risk that through adverse 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.

Action

Dyfed-Powys 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.

It will only place investments with institutions that are included on the most recent counter-party lending list approved by Arlingclose.

2. **TMP2 – Performance Measurement**

Dyfed Powys 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 it's treasury management policy statement.

Accordingly, the treasury management function will be the subject of on-going analysis of the value it adds in support of the organisation'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 below:-

The performance measures / benchmarks for treasury management will include the following: -

	Performance Measure
1	Achieving the budgeted investment income
2	Ensuring cash balance cover of 31 days
3	Ensuring that investments are only placed with institutions which comply with the annual Treasury Management Strategy.
4	Ensuring approved counter-party limits are adhered to (refer to TMP's 1/ 5)
5	Expected levels of Investments per month compared to actual level of investment
6	Average rate of return of investments per month compared to target rate

3. **TMP3 – Decision Making and analysis**

Dyfed Powys 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.

Decisions regarding funding, borrowing, lending and new instruments and techniques will only be made if they comply with the Treasury Management Policy and Strategy. All decisions will be open to independent scrutiny.

Reporting of decisions made in respect of quarterly/annual reports detailed in TMP6 will be recorded to the Police & Crime Commissioner.

4. **TMP 4 – Approved instruments, methods and techniques**

Dyfed Powys will undertake its treasury management activities by employing only those instruments, methods and techniques specified in the Financial Regulations and Financial Control Procedures and within the limits and parameters defined in TMP 1 Risk Management.

The Financial Regulations Section 3.6 gives instruction on Treasury Management and Banking arrangements and the Financial Control Procedures detailed below specify instruments, methods and techniques approved.

Procedure Number	Procedure Title
A3.1	Barclays Business master II
A3.2	Cash Flow Forecasting
A3.3	Borrowing
A3.4	Bank Reconciliation

Both regulations and procedures are available on the force intranet.

5. **TMP 5 – Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements**

Dyfed-Powys 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. The CFO will set a monthly investment strategy.

If and when Dyfed Powys intends, as a result of lack of resources or other circumstances, to depart from these principles, the CFO 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 CFO 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 CFO will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.

The CFO will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

6. **TMP6 – Reporting Requirements and Management Information Arrangements**

Dyfed-Powys 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.

It is suggested that the following reporting process be agreed by the PCC:-

6.1 Annual Reporting Requirements before the start of the year:

- Review of the Treasury Management policy statement and strategy,
- Review of the Treasury Management Practices,
- Prudential Indicators.

6.2 Mid-year reporting requirements

- Treasury Management Activities undertaken,
- Variations (if any) from agreed policies / practices,
- Performance report,
- Performance against Treasury Management and Prudential Indicators.

6.3 Annual reporting requirements after year end:

- Performance of Treasury Management Function,
- Report on risk implications of decisions taken and transactions executed,
- Report on any circumstances of non-compliance with the Treasury management Police Statement and TMP's

7. **TMP7 - Budgeting, accounting and audit arrangements**

The Chief Financial Officer will prepare and the PCC will approve and if necessary from time to time will amend the annual budget for the Treasury Management function, together with associated income. The matters to be included in the budget will be at minimum 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 CFO 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 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 in particular the CIPFA Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in Public Services issued in 2011. The CFO, being a CIPFA member, will act in accordance with the PCC's policy statement and TMPs and the *CIPFA: Standard of Professional Practice on Treasury Management.*

The PCC will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

Treasury Management procedures and processes will be audited in accordance with the internal audit risk based audit strategy.

Auditors will as part of their responsibilities in auditing the Statement of Accounts, obtain independent verification from counterparties of investments held by the PCC.

8. **TMP8 - Cash and Cash Flow Management**

Unless statutory or regulatory requirements demand otherwise, all monies in the hand of Dyfed Powys will be under the control of the PCC, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular basis, and the CFO will ensure that these are adequate for the purposes of monitoring compliance with TMP1 liquidity risk management.

9. **TMP9 - Money laundering**

Dyfed Powys 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 identify of counter-parties and reporting suspicions, and will ensure that staff involved in this are fully trained.

Only counterparties approved by the Treasury Management consultants will be utilised. Terms and conditions are agreed between the counterparty and the PCC prior to the transfer of funds.

The Proceeds of Crime Act 2020 (POCA) and the related Money Laundering Regulations 2007 have also extended the Wales Audit Office auditors responsibilities. The Auditor General and his staff and contractors are required to report to the Serious and Organised Crime Agency (SOCA) where they suspect, as a result of information gained during the course of their work, that there may have been criminal acts that involve financial gain.

If any staff involved in Treasury Management have suspicions of money laundering then this should be brought to the attention of the CFO.

10. **TMP10 – Training and Qualifications**

Dyfed Powys 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 PCC will therefore seek to appoint individuals who are both capable and experience and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The CFO will recommend and implement the necessary arrangements.

The CFO will ensure that all staff 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.

Staff who undertake Treasury management duties attend relevant training events provided by Arlingclose and attend a quarterly strategy meeting. Staff also attend any relevant training events that are held by CIPFA.

Weekly bulletin e-mails are sent out by Arlingclose which provide advice on any economic developments and suggested revisions to counterparty limits.

11. **TMP11 – Use of External Service Providers**

Dyfed-Powys recognises that responsibility for treasury management decisions remains with the PCC at all times. Dyfed-Powys Powys 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 CFO.

Dyfed Powys has a contract with Arlingclose for the provision of advice/assistance as follows:

- Strategic advice
- Capital finance advice
- Treasury Management Policy and Strategy
- Interest Rate Forecasting ad Economic Advice
- Investment Policy Advice
- Debt Advice
- Counterparty Assistance
- Seminars and training
- Website and client meetings.

The initial contract was for the period 1st July 2008 to 30th June 2010. This is now subject to review annually.

12. <u>TMP12 – Corporate Governance</u>

Dyfed-Powys has adopted and has implemented the key recommendations of the CIPFA Code of Practice. This is considered vital to the achievement of proper corporate governance in treasury management, and the CFO will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

The Code recommends that public service organisations state their commitment to embracing the principles of corporate governance in their Treasury Management activities, notably openness and transparency.

Dyfed Powys 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. Therefore, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability reflected in Dyfed Powys's standing Orders, Financial Regulations and Financial Control Procedures.

The organisation's Treasury Management policies and practices will be published on the internet.

The CFO will ensure that adequate separation of duties exist between staff charged with undertaking Treasury Management Functions.