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.

ITEM 7

COMISIYNYDD HEDDLU A THROSEDDU DYFED-POWYS POLICE AND CRIME COMMISSIONER

Heddlu•Police DYFED-POWYS

Diogelu ein Cymuned – Safeguarding our Community

JOINT AUDIT COMMITTEE REPORT

PURPOSE: JOINT AUDIT COMMITTEE SCRUTINY

Timing: Prior to start of 2015/16 financial year

Title: Treasury Management Strategy for 2015/16

Category of Decision / Business Area Impact: Finance

Executive Summary:

The Home Office Financial management Code of Practice states that the PCC is directly responsible for loans, investments and for borrowing money. The Chief Finance Officer of the PCC should decide what investments are to be made locally and approve any borrowing. Decisions on Capital Financing and Borrowing also form part of the PCC's responsibility.

Through locally agreed financial regulations and a Corporate Governance Framework the daily management of loans and investments in compliance with the approved polices are undertaken by the Police Force CFO's staff.

All loans and investments should be arranged in line with best practice as embodied in the CIPFA Code of Practice on Treasury Management and all borrowing undertaken should comply with the CIPFA prudential Code for Capital Finance in Local Authorities.

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

This document sets out the policies and procedures the PCC has in place for meeting these statutory requirements for the 2015/16 year.

Recommendation:

For consideration and comment by the JAC. For approval by the Commissioner.

COMISIYNYDD HEDDLU A THROSEDDU DYFED-POWYS POLICE AND CRIME COMMISSIONER

Heddlu•Police DYFED-POWYS
Diogelu ein Cymuned – Safeguarding our Community

Report of Chief Finance Officer of the PCC to the Joint Audit Committee

Treasury Management Strategy for 2015/16

1. Purpose of Report

The Chartered Institute of Public Finance ad Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) requires the Commissioner to approve a treasury management strategy before the start of each financial year.

In addition, the Welsh Government (WG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

This report fulfils the Commissioner's obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the WG Guidance.

2. Treasury Management

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 next table:

Treasury Management Risks	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	Limits will be set to over the number of longer-term investments that are placed
Interest rate risk	Risk that fluctuations in interest rates create an unexpected or unbudgeted burden on the organisations finances	The 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 PCC 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. They attend quarterly meetings to consider treasury management performance and strategy as well as providing weekly bulletins on key economic indicators and trends. Up to date information on counterparty risk and credit rating are also provided.

3. Credit outlook and Interest Rate Forecast

The continued global economic recovery has led to a general improvement in credit conditions since last year. This is evidenced by a fall in the credit default swap spreads of banks and companies around the world. However, due to legislative changes – the outlawing of bail-outs, the introduction of bail-ins and the preference being given to large numbers of depositors rather than large organisations means that the risks of making unsecured deposits have risen relative to other investment options. Our treasury management advisors Arlingclose therefore increasingly favour secured investment options or diversified alternatives such as covered bonds, repos, non-bank investments and pooled funds over unsecured bank and building society deposits.

Arlingclose forecasts the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%. Arlingclose believes the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%.

4. Treasury Management Policy Statement

The PCC acknowledges that effective treasury management supports the achievement of his business and service objectives. The PCC 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 organisation'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 PCC transparency and control over the debt.

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 TMPs form part of the PCC's policy and these are detailed in Appendix A.

5. Borrowing Strategy

The PCC currently holds £2.7m of external loans (all with the Public Works Loan Board), a decrease of £0.1m on the previous year, as a result of historic capital financing decisions. The PCC does not expect to borrow externally in 2015/16. The PCC may however, pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

The PCC's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans, should the PCC's long-term plans change, is a secondary objective.

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board;
- UK Local Authorities;

- Any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK.

Previously, all long-term borrowing has been raised from the Public Work Loans Board, but the PCC investigates other sources of finance, such as Local Authority loans and bank loans, that may be available at more favourable rates.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) while usable reserves and working capital are the underlying resources available for investment. The current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. All borrowing will need CFO PCC approval.

6. Investment Strategy

Under the Legislative Requirements, the PCC needs to 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.

Dyfed Powys holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held.

In accordance with investment guidance issued by the Welsh Government and best practice, the PCC's 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.

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.

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.

Following the advice of his treasury management advisors, the PCC intends to utilise the following specified and non-specified investments in 2015/16:

Table 1: Specified and Non-Specified Investments

	Investment type	Specified	Non-Specified	Maximum investment period	Counter-party investment limit
1	Banks and other organisation and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is A-	✔	✕	364 days	£4 million*
2	Term deposits with other UK local authorities (irrespective of credit rating)	✔	✕	364 days	£4 million
3	UK Central Government e.g Debt Management Office (irrespective of credit rating)	✔	✕	364 days	100% of overall investments
4	UK Central Government e.g. Government Bonds (irrespective of credit rating)	✕	✔	5 years	£10 million (CFO PCC Approval)
5	UK Building Societies without credit ratings – but assessed by Arlingclose	✔	✕	100 days	£1 million (CFO PCC Approval)**
6	Money market funds and other pooled funds	✕	✔	n/a	5% of total investment per MMF (CFO PCC Approval)
7	Any other organisation, subject to an external credit assessment and specific advice from the Treasury Management Advisor	✕	✔	364 days	£1 million (CFO PCC Approval)

*Counter-party investment limit was reduced in 2014/15 to minimise exposure to "bail-in" risk,

**Additional counterparty in 2014/15. Government support for failing banks was being removed hence the potential for default was more likely.

Investments in Building Societies are a way of increasing the number of counterparties. Our Treasury Management advisors have assessed the financial strength of these institutions through a balance sheet analysis and have identified fourteen unrated building societies. Investment should be limited to 20% in unrated societies.

Counterparty limits have been set based on the estimated cash-flow position at the 31st March 2015. Investment balances will be reviewed on a quarterly basis and the counterparty limit of investment types 1 and 2 will be amended to 10% of investment balances if necessary.

The above counterparty limits are maximum limits. Actual duration limits for individual counterparties may vary but will not exceed these limits. All investments made should be in line with relevant guidance received from our treasury management advisors.

Liquidity Management – Dyfed Powys completes an annual cash flow forecast which estimates the monthly cash flow position. This will be utilised to determine the maximum period for which funds may prudently be committed. This forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of being forced to borrow on unfavourable terms to meet its financial commitments. All investments of over a year will require CFO PCC approval in advance.

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. It is recommended that these are included in the strategy subject to the credit limits and limits outlined in the table above. Any lending to overseas banks must be approved in advance by the CFO PCC.

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 on a daily basis.

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.

7. Prudential Indicators

The PCC measures and manages its exposures to treasury management risks using the following indicators. Non-Treasury Indicators are also included in the treasury document.

Prudential Indicator for Interest Rate Exposures

The purpose of this limit is to control the exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures expressed in £m will be:

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Upper limit on fixed interest rate exposure	20.600	20.600	20.600	20.600
Upper limit on variable interest rate exposure	3.203	3.202	3.000	3.000

Maturity structures of Borrowing

This indicator is set to control the exposure to refinancing risk. The upper limits on the maturity structure of fixed rate borrowing will be:

	Upper (%)	Lower (%)
Under 12 months	10	0
12 months and within 24 months	10	0
24 months and within 5 years	50	0
5 years and within 10 years	50	0
10 years and above	100	0

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	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
	4	4	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. 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.

10. Balanced budget requirement

The PCC has complied with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

11. Resource Implications

Implication	Detail
Finance	As detailed above
Staff	N/A
Assets	N/A
Partners	N/A
Timescales	N/A
Leadership	N/A

12. Impact Considerations

Implication	Impact Considered (Yes/No)	Impact Identified
Legal	Yes	None
Contribution to Police and Crime Plan	Yes	Priority 6: Spending wisely – this includes good management of financial resources
Risk Analysis	Yes	None
Equality	Yes	None
Human Rights	Yes	None
Children & Young People	Yes	None
Environmental and Sustainability	Yes	None
National Park	Yes	None
Media	Yes	None

13. Appendices

Appendix A – Treasury Management Practices
Appendix B – Prudential Indicators and MRP Statement

14. Background / Supporting papers

15. Contact details

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16. Public Access to Information

Information in this form is subject to the Freedom of Information Act 2000 (FOI Act) including the exemptions set out within the Act and other relevant legislation. Where the exemptions or other restrictions are applicable, this form will be edited prior to being made available on the OPCC website within 5 working days of consideration by the Policing Board.

17. Officer Approval

Chief Finance Officer

I have been consulted about the proposal and confirm that financial and legal advice have been taken into account in the preparation of this report. I am satisfied that this an appropriate request to be submitted to the Policing Board

Date: 10/03/15

Signature:

APPENDIX A - Treasury Management Practices

A1. Risk Management

General statement

The Chief Financial Officer (CFO) of the PCC 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 *A6 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:-

A1.1 **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 which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in *A4 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.

A1.2 **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 the CFO (CC) through the treasury management Staff employed by the Chief Constable 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 Financial Regulations and Financial Control Procedures.

A1.3 **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 *A6 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. All investment of over 1 year will need prior approval by the CFO PCC.

A1.4 **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.

A1.5 **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 refinancing, 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."

A1.6 **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 *A1 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.

A1.7 **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. Internal Audit will regularly review Treasury Management function and report to the Joint Audit Committee.

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

A1.8 **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.

A2. 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 its 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

A3. 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.

A4. 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 *A1 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.

A5. 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.

If and when Dyfed Powys intends, as a result of lack of resources or other circumstances, to depart from these principles, the CFO CC will ensure that the reasons are properly reported to the CFO PCC in accordance with *A6 Reporting requirements and management information arrangements,* and the implications properly considered and evaluated.

The CFO CC 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 CC will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out and report any deviance from these to the CFO PCC.

The CFO CC will ensure that there is proper documentation for all deals and transactions and that procedures exist for the effective transmission of funds and provide evidence of this where required to the CFO PCC.

A6. 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 presented by the PCC CFO:-

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.

Mid-year reporting requirements

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

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

A7. Budgeting, accounting and audit arrangements

The Chief Financial Officer PCC 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 *A1 Risk Management, TMP2 Performance measurement and A4 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 *A6 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.

A8. 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 PCC and CFO CC will ensure that these are adequate for the purposes of monitoring compliance with *A1Liquidity risk management*.

A9. 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 PCC and CFO CC.

A10. 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 PCC will recommend and implement the necessary arrangements.

The CFO PCC 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.

A11. 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 PCC.

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.

A12. Corporate Governance

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 PCC and CFO CC 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 PCC has primacy over Treasury Management functions and will ensure that adequate separation of duties exist between staff charged with undertaking Treasury Management Functions.

Appendix B - Prudential Indicators and MRP Statement

The Local Government Act 2003 requires the PCC to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice.

To demonstrate that the PCC has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

B1. Estimates of Capital Expenditure

The PCC has approved capital expenditure and financing as summarised below:-

Capital Expenditure and Financing	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 estimate £m	2018/19 Estimate £m
Total Expenditure	**9.373**	**9.411**	**6.768**	**2.392**
Government Grants	-1.002	-0.679	-0.915	-0.789
Borrowing	-0.520	-0.520	-1.000	-1.000
Capital Receipts	-1.500	-0.500	-0.200	0
NPAS Capital Credit	-0.114	-0.114	-0.068	-0.023
Contribution from Revenue Reserves	-0.418	-0.422	-0.431	-0.439
Capital Reserve	-5.819	-7.176	-4.154	-0.141
Total Financing	**-9.373**	**-9.411**	**-6.768**	**-2.392**

B2. Estimates of Capital Financing Requirement

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) while usable reserves and working capital are the underlying resources available for investment. The current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

As at 1st April 2014 the PCC had an opening capital financing requirement of £10.153million (including PFI) against total long term assets recorded on the balance sheet of £78.683million.

In relation to the capital expenditure plans outlined in the capital strategy, the PCC will need to borrow £3.040 million over the period 2015/16 to 2018/19. The PCC must also make annual repayments from the revenue budget for interest and a repayment of principal in accordance with the MRP policy in Appendix B.

Capital Financing Requirement	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Opening Capital Financing Requirement (Excluding PFI)	7.614	7.829	8.036	8.715
Less: Annual Minimum repayment from revenue (4% op CFR)	-0.305	-0.313	-0.321	-0.349
Add: New Borrowing	0.520	0.520	1.000	1.000
Closing CFR	7.829	8.036	8.715	9.366
Add: PFI	2.463	2.415	2.359	2.295
Total	**10.292**	**10.451**	**11.074**	**11.661**

B3. Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term debt will only be for a capital purpose, the PCC will ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus an estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence. All borrowing decisions will be made by the PCC advised by the CFO PCC.

Debt	31.03.16 Estimate £m	31.03.17 Estimate £m	31.03.18 Estimate £m	31.03.19 Estimate £m
Borrowing	2.455	2.298	2.125	1.936
PFI liabilities	2.463	2.415	2.359	2.295
Total Debt	**4.918**	**4.713**	**4.484**	**4.231**

Total debt is expected to remain below the CFR during the forecast period.

B4. Operational Boundary for External Debt

The operational boundary is based on the PCC’s estimate of most likely i.e. prudent, not worst case, scenario for external debt. It links directly to the PCC’s estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring. Private Finance Initiative also forms part of the PCC’s debt. The limits set are shown in the Table below:

Operational Boundary	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Borrowing	1.000	1.000	1.000	1.000
Other long-term liabilities	19.637	19.637	19.637	19.637
Total Debt	**20.637**	**20.637**	**20.637**	**20.637**

B5. Authorised limit for External Debt

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the PCC can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements. The limits set are shown in the Table below:

Authorised Limit	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Borrowing	3.203	3.202	3.000	3.000
Other long-term liabilities	20.600	20.600	20.600	20.600
Total Debt	**23.803**	**23.802**	**23.600**	**23.600**

B6. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income. This indicator shows maximum financing costs (based on the authorised limit of long-term liabilities above) in the context of the entire budget. This is scheduled to reduce from 2016/17 onwards.

Authorised Limit	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Financing Cost	1.006	0.995	0.959	0.943
Net Budget	93.332	91.247	91.488	92.007
Total Debt	**1.08%**	**1.09%**	**1.05%**	**1.03%**

B7. Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the year on year difference between the financing cost of the authorised limit of long-term liabilities expressed as an increase (or decrease) in council tax payable. The change in the council tax is as measured against the average band D council tax payable of £200.07 in 2015/16.

Incremental Impact of Capital Investment Decisions	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**
Incremental Cost £m	-0.011	-0.036	-0.016
Council Tax Base	217,241	219,414	221,608
Band D increase £	-0.05	-0.16	-0.07

B8. Annual Minimum Revenue Provision Statement 2014/15

Where the PCC finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP) although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the PCC to have regard to the Welsh Government's Guidance on Minimum Revenue Provision.

The broad aim of the WG guidance is to ensure that debt is repaid that is either reasonably commensurate with that over which the capital expenditure provides benefits or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The WG guidance requires the PCC to approve an annual MRP statement each year, and recommends a number of options for calculating a prudent amount of MRP.

The following statement only incorporates options recommended in the guidance:

ANNUAL MINIMUM REVENUE PROVISION (MRP) STATEMENT

The following policy has been set by the Authority in relation to MRP for 2015/16.

Supported Borrowing - Capital Financing Requirement Method

MRP is equal to 4% of the supported Capital Financing Requirement (CFR) at the end of the preceding financial year. For 2014/15 this is estimated to be £305,000.

Prudential Borrowing - Depreciation Method

MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by prudential borrowing or unsupported credit arrangements.

(a) MRP will continue to be made annually until the cumulative amount of such provision is equal to the expenditure originally financed.

(b) On disposal of the asset, the amount of the capital receipt will not be taken to the revenue account and the authority will comply with the normal requirements of the 2003 Act on the use of capital receipts.

(c) Where the percentage of the expenditure on the asset financed by prudential borrowing or unsupported credit arrangements is less than 100%, MRP will be equal to the same percentage of the provision required under depreciation accounting.

Finance Leases and PFI

In the case of finance leases and on balance-sheet PFI contracts, the MRP requirement will be regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability.