Annex 2

POLICE AND CRIME COMMISSIONER FOR HUMBERSIDE

Treasury Management Practices Statement

NOVEMBER 2012

CONTENTS

1. Background

1.1. Treasury management is defined as:

> "The management of investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

1.2. The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the PCC's capital investment plans are affordable, prudent and sustainable.

1.3. The Act therefore requires the PCC to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as paragraph 9 of this report); that set out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.4. The Department of Communities and Local Government has issued revised investment guidance which came into effect from 1 April 2010. There were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009.

1.5. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management has been adopted by the PCC on 22 November 2012.

1.6. The primary requirements of the Code include the creation and maintenance of Treasury Management Practices which set out the manner in which the PCC will seek to achieve those policies and objectives.

1.7. This document updates the Treasury Management Practices approved in March 2010, principally to reflect the appointment of Sector as treasury management advisers and to adopt their approach to creditworthiness.

1.8. The document should be read in conjunction with the PCC's Treasury Management Policy Statement.

1.9. It also supports the annual Treasury Management Strategy Statement.

2. Treasury Management Practices

2.1 CIPFA recommend that the PCC identifies and specifies the Treasury Management Practices (TMPS) that are relevant to its treasury management powers and the scope of its treasury management activities within which the treasury management function can be operated.

2.2 The following TMPs comprise the treasury management systems document, defining the operation and highlighting specific details of systems, routines employed and records kept:

TMP1 - Risk management

TMP2 - Performance measurement

TMP3 - Decision-making and analysis

TMP4 - Approved instruments, methods and techniques

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

TMP6 - Reporting requirements and management information

TMP7 - Budgeting, accounting and audit arrangements

TMP8 - Cash and cash flow management

TMP9 - Money laundering

TMP10 - Training and qualifications

TMP11 - Use of external service providers

TMP12 - Corporate governance

Note:- Several TMPs are followed by a schedule containing additional detail regarding working practices adopted by the PCC.

TMP 1

RISK MANAGEMENT

1.1. Risk

1.1.1 The Deputy Chief Executive and Treasurer and Chief Constable 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 organisations 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 that seek to ensure compliance with these objectives are set out in the schedule to this document

1.2. Credit Risk Management

1.2.1 The PCC regards the prime objective of its treasury management activities to be the security of the principal sum it invests. Accordingly, it will ensure that its counterparty 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 TMP4 *Approved instruments, methods and techniques* and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of organisations from which it may borrow, or with whom it may enter into other financing arrangements.

1.3. Liquidity Risk Management

1.3.1 The PCC will ensure that adequate though not excessive cash resources and borrowing arrangements are in place, and that standby facilities are available so that at all times funds are available for the achievement of his business and service objectives.

1.3.2 The PCC will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

1.4. Interest Rate, Exchange Rate and Inflation Risk Management

1.4.1 The PCC will manage the exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP 6 *Reporting requirements and management information arrangements.*

1.4.2 The PCC will achieve these objectives by the prudent use of 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, exchange rates or inflation. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

1.5. Exchange Rate Risk

1.5.1 Exposure to fluctuations in exchange rates will be carefully managed so as to minimise any detrimental impact on its budgeted income and expenditure levels.

1.6. Refinancing Risk Management

1.6.1 The PCC will ensure that borrowing, private finance and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable as can reasonably be achieved in the light of market conditions prevailing at the time.

1.6.2 Relationships with counterparties in these transactions will be actively managed 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.

1.7. Legal and Regulatory Risk Management

1.7.1 The PCC will ensure that all treasury activities comply with statutory powers and regulatory requirements. If required to do so, the PCC will demonstrate that the OPCC and Force Finance Unit have complied. In framing the credit and counterparty policy under TMP1 *Credit and Counterparty* and compliance in respect of the transactions they may effect with the PCC, particularly with regard to duty of care and fees charged.

1.7.2The PCC recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

1.8. Frauds, Error and Corruption, and Contingency Management

1.8.1 The PCC will ensure that it has identified the circumstances that 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.

1.9. Market Risk Management

1.9.1 The PCC will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse fluctuations in the value of the principal sums it invests, and will accordingly seek to protect it from the effects of such fluctuations.

SCHEDULE TO TMP 1

RISK MANAGEMENT

1.1 General

1.1.1 The PCC has been elected and has the mandate of the people. He has clear statutory duties. He has a key duty is to secure the maintenance of an efficient and effective police force for the Humberside Police area. He sets the budget and local objectives for the Force and monitors its performance against targets set in consultation with the Chief Constable and National Policing Objectives set by the Home Secretary. As such, few financial instruments are used by way of commercial business. However, the funding mechanism means that, during the year, the PCC may hold substantial assets and liabilities. The PCC uses financial instruments to manage the risks arising from holding assets and liabilities; financial instruments for trading or speculative purposes are not used.

1.1.2 Instruments commonly used to hedge financial and treasury type risks include derivative securities, such as an option, future or swap, of which the criteria and value are determined by those of an underlying asset. The PCC does not use derivative financial instruments as they are not permitted under current legislation.

1.1.3 The PCC has adopted the CIPFA Code of Practice for Treasury Management in Public Services. It maintains and operates a Treasury Management Policy Statement comprising an overview of the principles and practices to which the activity will comply. Annually, the PCC must approve a Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Police - for the year ahead, a Mid-year Review report and an Annual report (stewardship report) covering the activities during the previous year. Taken together, these documents form the structure for managing risk.

1.1.4 The main financial risks arising from the PCC’s activities are credit risk, liquidity risk and interest rate risk. Other risks include insurance risk, price risk and foreign exchange risk, although the PCC has little or no exposure to those instruments. The way these risks are managed is summarised below.

1.1.5 In respect of each of the risks detailed in TMP1, the arrangements, which seek to manage risk to a reasonable level rather than to eliminate all risk of failure, are set out below.

1.2 Credit Risk

1.2.1 *Definition:* The risk of failure by a counterparty to meet its contractual obligations to the PCC under an investment, borrowing, capital project or partnership financing, particularly as a result of the third party’s diminished creditworthiness, and the resulting detrimental effect on the PCC’s capital or revenue resources.

1.2.2 The DCLG issued guidance, under section 15(1)(a) of the Local Government Act 2003, to which local authorities must have regard. In line with the Prudential Code, the guidance provides for each PCC to determine its own controls within the given framework.

1.2.3 The guidance defines two types of investment - Specified and Non-specified. Specified investments are those investments denominated in sterling, which are due or may be required to be repaid within 12 months of the date the transaction was made and the organisation or scheme the investment is made with have been awarded a high credit rating. Non-specified investments are all other investments.

1.2.4 The guidance leaves it to each local PCC to determine what it considers a high credit rating. The PCC demands security of capital as a prime objective.

1.2.5 The PCC will only use approved UK counterparties and will apply the creditworthiness service provided by Sector. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

1.2.6 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties*. These colour codes are used by the PCC to determine the duration for investments. The PCC will therefore use counterparties within the following durational bands:

- Blue 1 year (only applies to nationalised or semi-nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used

**The methodology is set out in the Sector Guide to Establishing Credit Policies :*

1.2.7 The Sector creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

1.2.8 Typically the minimum credit ratings criteria the PCC use will be a short term rating (Fitch or equivalents) of Short Term rating F1, Long Term rating A-, Viability ratings of BB+, and a Support rating of 3. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

1.2.9 All credit ratings will be monitored monthly at Investment Review meetings. The PCC is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the PCC's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the PCC will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the PCC's approved lending list.

1.2.10 Sole reliance will not be placed on the use of this external service. In addition this PCC will also use market data and market information, information on government support for banks and the credit ratings of that government support.

1.2.15 The spread of investments on a Sector basis between banks, building societies and other institutions will be determined at monthly Investment Review meetings involving the Deputy Chief Executive and Treasurer and the Force Finance Unit's Treasury Management Team to ensure that the concentration of investments with individual counterparties takes into account safeguards already built into this creditworthiness service together with the overall level of monies invested.

1.2.16 The PCC believes that similar counterparty creditworthiness does not apply to organisations from which it borrows – the risk is with the lender.

1.2.17 However, where borrowing facilities need to be in place and failure of those facilities might jeopardise a project, the PCC will use credit judgements including, where appropriate, reference agencies in order to be satisfied as to the counterparty's creditworthiness and therefore the future availability of those facilities.

1.3 Liquidity Risk

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

1.3.2 The PCC maintains a cash flow calculation to establish detailed cash requirements and ensures its loan portfolio closely matches that requirement. Where deficits arise, liquidity may be obtained through the money market. The PCC is confident in its cash flow forecasting arrangements and has not used its overdraft facility for several years and will maintain liquid working cash balances of £5m. The overdraft facility will not be renewed and the PCC's bankers will notify the PCC of any adverse balance so that corrective action can be taken.

1.3.3 The prudential code requires, as a specific treasury management indicator, upper and lower limits for the maturity structure of the PCC's debt. This essentially is normal commercial practice and ensures that no single year will cause refinancing problems.

1.4 Interest Rate Risk

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

1.4.2 Fixed rate loan instruments are principally used and as such this locks into known interest rates, thus protecting against fluctuations in rates. Where floating rate instruments are used, these are continuously monitored against expected and actual market rates.

1.4.3 The Prudential Code requires, as a specific treasury management indicator, limits to be placed on fixed and variable interest rate exposure.

1.5 Exchange Rate Risk

1.5.1 Definition: The risk that fluctuations in the levels of foreign exchange rates create an unexpected or unbudgeted burden on the PCC's finances against which the organisation has failed to protect itself adequately.

1.5.2 Local authorities are statutorily barred from holding foreign currency of transacting loans other than in sterling other than with Government approval.

1.6 Refinancing Risk

1.6.1 Definition: The risk that maturing borrowings, capital, project or partnership financing cannot be refinanced on terms that reflect the provisions made by the organisation for that refinancing, capital and revenue, and / or that the terms are inconsistent with prevailing market conditions at the time.

1.6.2 The PCC aims to ensure that, over the medium term, no single year is subject to an excessive repayment of debt. This is achieved by setting an indicator to limit the proportion of debt to be repaid in any year.

1.6.3 The Authority's Debt Profile at 31 March 2012 was as follows

31 March.2011		31 March.2012
£0.593m	Under 12 months	£1.428m
£0,581m	12 months and within 24 months	£1.181m
£1.732m	24 months and within 5 years	£5.224m
£2.726m	5 years and within 10 years	£7.611m
£2.555m	10 years and above	£2.097m

1.6.4 The total debt was significantly below the Prudential Borrowing Code's Authorised Limit.

1.6.5 The Annual Treasury Management Strategy and Prudential Indicators will be drawn up, combining the agreed capital demands of the PCC and the resulting funding strategy. The approved limits will be monitored as the year progresses and will be reassessed as part of the mid-year review.

1.7 Legal and Regulatory Risk

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

1.7.2The PCC operates within a well established framework in relation to money market activity that applies to all local authorities and by using known counterparties and limited instruments he can be assured that legal powers and regulatory requirements are met.

1.8 Frauds, Error and Corruption, and Contingency Management

1.8.1Definition: The risk that the PCC fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

1.8.2The PCC operates robust systems in all its treasury management activities. Audit review is conducted, by both internal and external audit, on all systems and procedures within the operation. Internal control and internal check are exercised through a segregation of duties involving a restricted number of senior finance staff.

1.8.3 Regular assurance information is provided to the Deputy Chief Executive and Treasurer in respect if treasury management and banking activity

1.8.4The Anti Fraud and Corruption Policy is detailed in the Financial Regulations. It sets out the zero tolerance approach to fraud and corruption and in the event that fraud or corruption is identified, the Fraud response Plan would be activated.

1.8.5Staff involved in treasury management activity are covered by fidelity guarantee insurance.

1.9 Market Risk Management

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

1.9.2 Permitted instruments include, in addition to time deposits, Certificates of Deposit (CD's), Treasury bills, gilt edged securities and certain other securities listed on the UK Stock Exchange.

1.9.3 With the exception of time deposits, the instruments are all “tradable” on the open market and, therefore, subject to fluctuations in capital value. Whilst this may be an acceptable risk, at the present time, the PCC does not use those instruments. This position will be kept under review and may be extended to these instruments subject to staff being suitably trained and/or on the engagement of external advisers or fund managers.

1.10 Risk Management and Review

1.10.1 This policy statement and TMP’s allows for normal market and economic conditions and represents the maximum latitude permitted under delegation to the Chief Constable’s CFO.

1.10.2 It is for the Deputy Chief Executive and Treasurer and Chief Constable’s CFP to determine tighter controls or limits as they see fit in light of unusual market conditions. This may include such things as reduced counterparty or duration limits.

1.10.3 Normally such decisions will be agreed at regular investment review meetings which will be suitably minuted by the Deputy Chief Executive and Treasurer who may request a specific meeting of practitioners referred to in TMP5 if required.

1.10.4 If necessary, such temporary changes or restrictions will be reported to the PCC in accordance with TMP6 Reporting Requirements and Management Information Arrangements.

TMP 2

BEST VALUE AND PERFORMANCE MEASUREMENT

1.1 The PCC is committed to the pursuit of best value 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.

1.2 Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the PCC'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 using the criteria set out in the schedule to this document.

SCHEDULE TO TMP 2

PERFORMANCE MEASUREMENT

1.1 Performance measurement techniques are kept continuously under review.

1.2 Where necessary, third party contracts such as banking, leasing brokerage and lessors are tendered, either for a contracted period or for a single contract. For example, the bank contract is awarded by open tender complying with EU rules, the leasing broker is renewed annually by informal review on the basis of cost and number of market participants and lessors are appointed by tender for specific drawdowns.

1.3 The PCC will use of a variety of information sources in its pursuit of optimum performance, such as brokers, advisors, research, internet etc.

1.4 In the context of best value, the PCC and the Chief Constable strive to meet their obligations by:

- complying with this code, which has been widely consulted throughout government, industry, local government and other interested users
- making use of brokers, in order to ensure maximum competition in the marketplace
- regularly challenging the instruments and counterparties used and considering whether to extend or consolidate arrangements
- comparing performance against others by membership of benchmarking clubs.

1.5 Performance is measured against agreed targets within the context of the policy statement – performance is subordinate to security of capital and the effective control of risk – Police and other local authorities by means of benchmarking clubs. The treasury management activity is not a profit centre.

1.6 Whilst not a performance measure, the Prudential Code requires a specific indicator of “Capital costs as a percentage of Net Revenue Stream.” This indicator demonstrates the proportion of the PCC’s budget being used to finance debt as opposed to service delivery.

1.7 The treasury management function is assessed as part of the Audit Commission’s value for money work with the PCC and the Force.

TMP 3

DECISION-MAKING AND ANALYSIS

1.1 The PCC will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

SCHEDULE TO TMP3

DECISION-MAKING AND ANALYSIS

1.1 For investment, a daily record is kept of prevailing interest rates, cash requirements and subsequent action. More generally, a cash flow is maintained to indicate likely demand over time. For non-specified investments, decisions are considered on an individual basis with reasons clearly recorded.

1.2 Borrowing decisions are considered on an individual basis, with reasons for the decision clearly recorded, including details of capital financing requirement and other funding matters.

1.3 Leasing of assets is subjected to competition, on the PCC's behalf, by a leasing broker who submits a detailed report that compares bids and recommends a lessor. The recommendation is made after considering return conditions, knowledge of the lessor and whole of life costs in addition to headline price. A full option appraisal is carried out to determine whether leasing (operating or finance) or borrowing is the appropriate method of acquisition.

1.4 Monthly and minuted Investment Review Meeting involving the Deputy Chief Executive and Treasurer and Force's Finance Unit's Treasury Management Team review of previous and proposed practice.

TMP 4

APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

1.1 The PCC will undertake treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 *Risk Management.*

SCHEDULE TO TMP 4

APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

1.1 Whenever it is considered necessary to raise finance (i.e. to cover short-term cash flow positions and / or to raise capital finance) only money market loans, bank overdraft and / or loans from the Public Works Loans Board will be used.

1.2 There is no statutory restriction on the sources of local PCC borrowing other than the requirement that the loan must be denominated in sterling.

The main sources include:

Long Term (Over one year)	Short Term (Up to one year)
Public Works Loan Board European Investment Bank Money Markets (including Banks and Building Societies) Leasing	Money Markets (including Banks, Building Societies and local authorities) Bank Overdraft Public Works Loan Board

1.3 The PCC will only invest surplus funds in accordance with the current Approved Investment Regulations, i.e.

- Institutions authorised under the Banking Act 1987 by the Bank of England
- Building Societies
- Local Authorities
- Guilt Edged Securities.
- UK National Banks
- Money Market Funds
- Debt Management Account (run by P.W.L.B.)

1.4 The PCC will not engage in any borrowing or lending activities other than those set out in this formal statement.

TMP 5

ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

1.1 The PCC considers it essential, for the purposes of 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.

1.2 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.

1.3 If and when the PCC intends, as a result of lack of resources or other circumstances, to depart from these principles, the Chief Constable's 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.

1.4 The Chief Constable's 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 Chief Constable's CFO will also ensure that at all times those engaged in treasury management will follow the principles and procedures set out. The present arrangements are detailed in the schedule to this document.

1.5 The Chief Constable's CFO will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

1.6 The delegations to the Chief Constable's CFO in respect of treasury management are set out in the schedule to this document. The Head of Finance will fulfil all such responsibilities in accordance with the PCC's policy statement and TMPs and, if a CIPFA member*, the Standard of Professional Practice on Treasury Management*.

SCHEDULE TO TMP 5

ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

1.1 The PCC 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.

1.2 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.

1.3 If and when the PCC intends, as a result of lack of resources or other circumstances, to depart from these principles, the Chief Constable's 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.

1.4 The Chief Constable's 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.

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

1.6 The PCC will undertake treasury management activities by allocating responsibilities as outlined below;

PCC:

- Approval to the Treasury Management Policy Statement and subsequent changes to it
- Approval of the Annual Treasury Management Strategy
- Approval to Prudential and Treasury management Indicators
- Receiving and reviewing reports on treasury management policies, practices and activities.
- Scrutiny of compliance with the PCC's Treasury Management Policy Statement and Treasury Management practices.

Deputy Chief Executive and Treasurer (PCCCFO):

- Responsible for ensuring the implementation of the agreed Treasury Management Policy.

Joint Responsibility of the Deputy Chief Executive and Treasurer (PCCCFO) and the Chief Constable's CFO

- Recommending clauses, treasury management policies/practices for approval, reviewing the same regularly and monitoring compliance.
- Submitting regular treasury management policy reports.
- Reviewing the performance of the treasury management function and promoting best value reviews.
- Making arrangements for training of members engaged in treasury management activity
- Ensuring the adequacy of internal audit.
- Liaising with external audit.
- Recommending the appointment of external service providers.
- Identifying and recommending opportunities for improved practices.

Chief Constable

- Receiving and reviewing management information reports.
- Ensuring the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function.
- Execution of transactions.
- Adherence to agreed policies and practices on a day-to-day basis.
- Maintaining relationships with third parties and external service providers.
- Supervising treasury management staff.
- Making arrangements for training of staff engaged in treasury management activity
- Monitoring performance on a day-to-day basis.
- Submitting management information reports to the responsible officer.

TMP 6

REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

1.1 The PCC will ensure that regular reports are prepared and considered on the implementation of its treasury management polices; 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.

1.2 As a minimum, the PCC will receive:

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

1.3 The PCC will receive regular reports on treasury management activity, risk and treasury management indicators

1.4 The annual treasury management strategy and mid year reviews will be reported to the PCC

1.5 The PCC will ensure that its auditors, and those charged with regulatory review, have access to all information.

TMP 7

BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

1.1 The Chief Constable's CFO will prepare, and the PCC will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with the associated income. The matters to be included in the budget will at a minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The Chief Constable's 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.*

1.2 The PCC 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.

1.3 The PCC will ensure that its auditors, and those charged with regulatory review, have access to all information.

TMP 8

CASH AND CASH FLOW MANAGEMENT

1.1 Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the PCC will be under the control of the Chief Constable's CFO, and will be aggregated for cash flow and investment management purposes in accordance with the Financial Management Code of Practice. Cash flow projections will be prepared on a regular and timely basis, and the Chief Constable will ensure that these are adequate for the purposes of monitoring compliance with TMP1 *liquidity risk management.* The present arrangements for preparing cash flow projections are set out in the attached schedule.

SCHEDULE TO TMP 8

CASH AND CASH FLOW MANAGEMENT

1.1 The PCC's cash flow is relatively consistent throughout the year. Two cash flow forecasts are maintained: a five year forecast at a high level based on the Medium Term Financial Strategy and a more detailed rolling 24 month cash flow.

1.2 On the income side, Government Grants are received on a monthly or quarterly basis. Precepts are received from the four Unitary Authorities by BACS on a monthly basis. Further monies are received from various organisations in the form of grants and contributions towards various policing initiatives on an ad hoc basis. The majority was received on a daily basis.

1.3 On the expenditure side, significant payments are salaries which are paid 4 weekly. Police pension related payments are made on a monthly basis to retired Police Officers as well as commutation payments made on an ad hoc basis to Police Officers on retirement. The remainder was paid out on a regular, daily basis usually with no significant peaks or troughs.

1.4 A short cash flow forecast, highlighting the significant numbers referred to above, is kept by the dealer. This provides a quick reference guide to specific cash needs.

TMP 9

MONEY LAUNDERING

1.1 The PCC is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions to the Deputy Chief Executive and Treasurer or other contacts identified in the Anti Fraud and Corruption Policy and will ensure that the staff involved are properly trained.

TMP 10

TRAINING AND QUALIFICATIONS

1.1 The PCC 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. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Head of Finance will recommend and implement the necessary arrangements for training of staff. The present arrangements are detailed in the schedule to this document.

1.2 The Deputy Chief Executive and Treasurer will ensure that members tasked with treasury management responsibilities, including those responsible for scrutiny will have access to training relevant to their needs and those responsibilities

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

SCHEDULE TO TMP10

TRAINING AND QUALIFICATIONS

1.1 The PCC is committed to employing appropriately qualified and experienced staff.

1.2 Those involved in day-to-day treasury management operations will be expected to hold, as a minimum, Association of Accounting Technicians qualification or be part qualified members of one of the main CCAB accountancy bodies.

1.3 Suitable resources will be made available to enable staff to fully understand the operation. This may include appropriate external training courses such as the newly introduced CIPFA qualification – Certificate in International Treasury Management – Public Finance. On-going skills and experience updates are now readily available through recent membership of the CIPFA initiative 'Treasury Management Forum' which is supplemented by training provided by Sector.

TMP 11

USE OF EXTERNAL SERVICE PROVIDERS

1.1 The PCC recognises that the responsibility for treasury management decisions remains with the PCC but acknowledges that there is potential value of employing external providers of treasury management services, in order to acquire specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons that 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 Chief Constable’s CFO and details of the current arrangements are set out in the schedule to this document.

SCHEDULE TO TMP 11

USE OF EXTERNAL SERVICE PROVIDERS

1.1 A number of services to aid the treasury management function are available to the PCC and include banking, brokerage, consultancy and advisory.

1.2 The PCC's main banker is Lloyds TSB. The latest contract was an open tender for the period 1 April 2008 to 31 March 2013 will be extended for 12 months to 31 March 2014.

1.3 To promote competition and as far as possible ensure the best available terms, the PCC uses a number of money market brokers whose role is to match bids and offers. Any fee is payable by the borrower.

1.4 External advisors are available to provide advice on such things as treasury policy, strategy and counterparty risk, together with debt restructuring opportunities. Where such appointments are made they will by open tender. Sector were appointed as treasury management advisers following a tender exercise in 2010. Their contract ends on 31 March 2013.

1.5 Where advisers are used, it is recognised that responsibility for decisions rests with the PCC. Any external advice commissioned will therefore be additional information to aid that decision making. Other sources of information are available and are regularly used by the PCC and the Force Finance Unit staff.

1.6 External managers may be appointed to manage such part of the PCC's surplus monies as may be agreed by PCC from time to time. Where such appointments are made, the managers must act within this treasury management policy statement and in accordance with a lending arrangements approved by the PCC.

1.7 Leasing is a complex area. Whilst the process can be managed in-house, the detailed knowledge of a broker means that the ultimate lessor is likely to be known in terms of past performance and non-financial competitiveness.

TMP 12

CORPORATE GOVERNANCE

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

1.2 The PCC has adopted and has implemented the key recommendations of the code which it considers vital to the achievement of proper corporate governance in treasury management. The Deputy Chief Executive and Treasurer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

SCHEDULE TO TMP 12

CORPORATE GOVERNANCE

1.1 The PCC is committed to embracing the principles of corporate governance in its treasury management activities, notably openness and transparency. This treasury management policy, together with the adoption of the treasury management in the public services code of practice, provides a clear framework for demonstrating the integrity of the operation.

2.1 Reports to the PCC are public documents. The robust treasury management organisational structure together with its well-defined responsibilities and separation of duties and arrangements for audit enhance the accountability of the activity.