CUMBRIA

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Treasury Management Practices 2022/23

Local Authorities (which include the Commissioner) invest their money for three broad purposes:

- because they have surplus cash as a result of their day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
- to support local public services by lending to or buying shares in other organisations (service investments), and
- to earn investment income (known as commercial investments where this is the main purpose).

Service investments and Commercial investments are classed as non- treasury investments.

The Commissioner does not currently have, and does not intend to invest in, non-treasury investments so the detailed Treasury Management Practices below relate to Treasury Investments only.

Treasury Management Practices – Treasury investments

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Finance staff have authority to undertake transactions on instruction from the Joint Chief Finance Officer as part of the arrangements for shared financial services.

Schedule 1

Summary Identifying Risks of Treasury Management

The “**Treasury Management in the Public Services: Code of Practice and cross sectoral guidance notes “**(the Code) identifies twelve areas where statements of Treasury Management practices (TMPs) should be developed to implement the full requirements of the Code.

TMP 1 Risk Management

The Joint Chief Finance Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk. They 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 organisation’s objectives in this respect, all in accordance with the procedures set out in TMP6 – Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule 2.

1. Credit and Counterparty Risk Management

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.

The Commissioner 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 counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 ‘approved instruments methods and techniques’ and listed in schedule 2 of this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financial or derivative arrangements.

To ensure this it will maintain a defined list of authorised counterparties and the group deposit limits. In conjunction with The Commissioner’s treasury advisors (Link Treasury Services Limited) the credit worthiness of counterparties is reviewed on an ongoing basis. Where such monitoring results in significant changes to the approved counterparty list, this will be reported to the Commissioner and the Joint Audit Committee through the quarterly treasury management activities report. The treasury advisory service provided by Link Treasury Services Limited gives daily updates on credit worthiness which allows immediate action where necessary. Any amendments are subsequently put to the Commissioner for ratification. A weekly statement will be presented to the Deputy Chief Finance Officer for approval detailing all the week's investment activity and a summary of all amounts deposited at any one time by counterparty and category together with details of any borrowings undertaken or repaid in the week and the total outstanding at close of business for the week. Copies of this information are also provided to the Joint Chief Finance Officer and the Director of Corporate Support. Where exceptional circumstances make it necessary to deviate from the approved lending list limits this will be approved by the Joint Chief Finance Officer (or in his/her absence by the Deputy Chief Finance Officer) in advance of the transaction being undertaken and will be reported to the Commissioner at the earliest opportunity.

2. Liquidity Risk Management

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.

The Commissioner considers that the prospect of ongoing liquidity problems is remote due to the nature and timing of its main income sources and the substance of major items of expenditure. However, it will ensure that the Policing Body 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. This will be achieved through the use of a proven cash flow forecasting model. This is updated annually to include all known major income streams (e.g. Home Office Grant, precepts, pension grant etc.) and all major payments (e.g. payroll, HMRC, weekly payment run estimates, etc.).

The Commissioner will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities. There are currently no plans to borrow in advance of need.

3. Interest Rate Risk Management

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

The Commissioner will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

The Commissioner will achieve this 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. This should be the subject to consideration and, if required, approval of any policy or budgetary implications.

The Commissioner will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy. There are currently no plans to utilise such instruments.

Revised interest forecasts for both the current and forward years are incorporated within the Commissioner's budget and medium term financial forecasts on a regular basis. An appropriate limit will also be defined in the annual strategy setting out the maximum amount of variable rate debt to be incurred. However, security of principal will always take precedence over interest returns in decisions over investment of our cash.

4. Exchange Rate Risk Management

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

The Commissioner will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels. However, this is not considered to be an issue for the Commissioner at the moment, as all treasury transactions are currently undertaken in pounds sterling.

5. Refinancing Risk Management

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

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

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

6. Legal and Regulatory Risk Management

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

The Commissioner 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 counterparty policy under TMP1(1) credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

An Investment Strategy, as required in Section 15 of the Local Government Act 2003 will be put to the Commissioner annually for ratification as part of the treasury management strategy statement.

The Commissioner 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.

Regular scanning of the internal and external regulatory framework will be undertaken by the Deputy Chief Finance Officer to aid the above.

7. Fraud, Error and Corruption and Contingency Management

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

The Commissioner 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.

8. Market Risk Management

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

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

Only very secure instruments and institutions are chosen with strict limits placed on the value of deposit that can be made with each institution (including group limits) thus limiting its exposure.

TMP 2 Performance Measurement

The Commissioner is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the 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 using the criteria set out in schedule 2.

TMP 3 Decision Making and Analysis

The Commissioner 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 the processes and practices to be pursued in reaching decisions are detailed in Schedule 2.

TMP 4 Approved Instruments, Methods and Techniques

The Commissioner will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in Schedule 2 and within the limits and parameters defined in TMP1 Risk Management.

Where the Commissioner intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The Commissioner will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products. There are currently no plans to utilise such instruments.

TMP 5 Organisation, Clarity, Segregation of Responsibilities and Dealing Arrangements

The Commissioner 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 clarity of treasury management responsibilities. A separate statement of responsibilities exists to facilitate this and is set out in Schedule 2.

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

The Joint Chief Financial Officer has overall responsibility for the treasury management activities but delegate's day-to-day management of the function to the Deputy Chief Finance Officer.

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

On behalf of the Joint Chief Finance Officer, the Deputy Chief Finance Officer will ensure that:

- there are clear written statements of the responsibilities for each post engaged in treasury management.
- there are appropriate arrangements for absence cover.
- that at all times, those engaged in treasury management will follow the policies and procedures set out.
- there is proper documentation for all deals and transactions.
- that procedures exist for the effective transmission of funds.

The present arrangements are detailed in schedule 2.

The delegations to the Deputy Chief Finance Officer in respect of treasury management are set out within schedule 2 of this document. The Deputy Chief Finance Officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the "Standard of Professional Practice on Treasury Management".

TMP 6 Reporting Requirements and Management Information Arrangements

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

As a minimum the Commissioner, will receive:

- an annual report on the strategy and plan to be pursued in the coming year (before 31 March).
- A rolling three year statement of treasury Indicators, combining those required by the prudential code and by the treasury management code.

- A mid-year review
- A quarterly summary of treasury management activity.
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Commissioner's treasury management policy statement and TMPs. (Reported to both the Commissioner's Public Accountability Conference and the Joint Audit Committee).

In addition to the above, the **Joint Audit Committee** will receive:

- regular (no less than quarterly) monitoring reports on treasury management activities and risks. In addition, where ongoing monitoring of the credit worthiness of approved counterparties has revealed a significant change, this will also be reported to the Joint Audit Committee.
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Constabulary's treasury management policy statement and TMPs. (Reported to both the Commissioner's Public Accountability Conference and the Joint Audit Committee).

The Joint Audit Committee will have responsibility for the scrutiny of treasury management strategy, policies and practices.

The present arrangements and the form of these reports are detailed in schedule 2.

TMP 7 Budgeting, Accounting and Audit Arrangements

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

The Commissioner 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 at that time.

The Commissioner 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. The Commissioner will also ensure that such information and papers demonstrate compliance with external and internal policies and approved practices.

TMP 8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Commissioner will be under the control of the Joint Chief Finance Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Joint Chief Finance Officer will ensure that these are adequate for the purposes of monitoring compliance with TMP 1 liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in Schedule 2.

TMP 9 Money Laundering

The Commissioner 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 for reporting suspicions, and will ensure that staff involved in this is are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in schedule 2.

TMP 10 Training and Qualifications

The Commissioner 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 Commissioner will therefore seek to appoint individuals who are both capable and experienced and will also provide training to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Deputy Chief Finance Officer will on behalf of the Joint Chief Financial Officer recommend and implement the necessary arrangements.

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

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

The present arrangements are detailed in schedule 2.

TMP 11 Use of External Service Providers

The Commissioner recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be 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 have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and 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 overreliance 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 as consistent with the Joint Procurement Regulations. The monitoring of such arrangements rests with the Joint Chief Finance Officer, and details of the current arrangements are set out in schedule 2.
The Commissioner has a formal contract with Link Treasury Services Limited, to provide a range of technical advice and information covering the treasury business.

TMP 12 Corporate Governance

The Commissioner 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.

The Commissioner has adopted and implemented the key principles of the CIPFA Code of Practice on Treasury Management. This, together with the other arrangements detailed in Schedule 2, are considered vital to the achievement of proper corporate governance in treasury management, and the Joint Chief Finance Officer will monitor, and if and when necessary, report upon effectiveness of these arrangements.

Treasury Management Practices

TMP 1 Risk Management

Liquidity Risk

In its day to day operations the Commissioner experiences wide fluctuations in its receipts and payments, although, the majority of its cash streams are known at least 3 days in advance. The policy will be to maintain the minimum cash balance hence make best use of potential income streams.

A minimum investment balance of £250k should be held to cover unforeseen expenditure; this should be placed on treasury deposit overnight, within the liquidity select account or within instantly accessible money market funds.

Standby Facilities

- The Deputy Chief Finance Officer will ensure that the daily investment function has adequate cover. On a day to day basis treasury management tasks are performed on rotation by two Financial Services Officers, under the guidance of the Financial Services Manager (Treasury) in the event of their absence, there is a clear order of personnel designated for cover and that order is communicated to all involved (see below).

    1) Financial Services Manager (Treasury)
    2) Deputy Chief Finance Officer

- All programs and systems are held within the main body of the Commissioner's IT systems and are therefore backed up daily. A record of the daily transactions will be kept at least until External Audit has reviewed the statutory accounts.
- In the event that the Bankline system is not operational balances and transaction details can be obtained from the Nat West Corporate Office.
- Temporary borrowings / overdrafts will only be used in exceptional cases to manage day to day movements in cash balances

Interest Rate Risk

Details of approved interest rate exposure limits / Minimum / Maximum proportions of variable rate debt / interest

Previously the Commissioner is required to approve a series of Prudential Indicators, which includes recommended setting limits for upper limits on exposure to fixed and variable interest rates. The 2021 code encourages Authorities to define their own 'Liability Benchmark' which will provide a basis for developing a strategy for managing interest rate risk. On the basis the commissioners advisors are not forecasting significant interest rate movements in the short term and that the Commissioner has no plans to make any long term external borrowing decisions over the next financial year, because of the 'cost of carry', development of a liability benchmark at this point would not provide added value. However, the Commissioner will actively develop indicators to manage interest rate risk in due course once there is more clarity over borrowing intentions.

Policies concerning the use of financial derivatives and other instruments for interest rate management.

Forward Dealing – forward dealing will not normally form part of the day to day activities other than arranging deposits to cover periods when signatory cover is limited and will be subject to approval by the Deputy Chief Finance Officer on behalf of the Joint Chief Finance Officer.

Forward Borrowing – would be considered as part of the long-term debt authorisation process and in each case will be looked at on its own merits. The Commissioner will only progress when prudent to do so.

It should be noted that the current strategy does not approve the use of such derivatives.

Exchange Rate Risk

This is currently not a concern to the Commissioner as all receipts are presently in sterling.

Credit and Counterparty Risk

Criteria to be used for creating / managing approved Counterparty lists / limits – the Joint Chief Finance Officer and the Deputy Chief Finance Officer will formulate suitable criteria for assessing and monitoring investment counterparties and shall construct a lending list comprising time, type, and specific Counterparty limits. An Investment strategy will be submitted to the Commissioner detailing selection procedures. Compliance with these limits and any significant changes to the approved counterparty list as a result of the ongoing review of the creditworthiness of counterparties will be included in the regular monitoring reports provided to the Commissioner and the Joint Audit Committee.

Refinancing Risk; Debt / Other Capital Financing Maturity Profiling, Policies and Practices.

The Prudential Code requires that:

“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Commissioner should ensure that net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next three financial years”.

To that end the Commissioner will set annual prudential indicators and then proceed to operate within those boundaries, thus showing that all decisions taken adhere to the above.

Fraud, Error, Corruption and Contingency Management

Policy on Delegated Powers – members of staff undertaking day to day management of cash are identified in TMP 5. There will always be complete segregation of duties between staff involved in carrying out transactions in the Money Market and those authorised to transfer cash (any amendments to these policies will be reviewed by Management/Internal Audit prior to implementation).

Policy on the use of Internet Systems – The Bankline system operated by NatWest for obtaining balances and making payments is an internet based system. In addition to this counterparties are increasingly providing services via the internet from checking rates to viewing details of investments. Prior to using such facilities, an assessment will be made of the security of such arrangements and, when satisfied, approval will be obtained from the Joint Chief Finance Officer.

Emergency and Business Continuity Arrangements – the following standby facilities will be maintained.

- All staff involved in the treasury management function will have designated absence cover (see Policy)
- All local programmes and systems will be backed up on a daily basis and also printed weekly records are maintained.
- Bank balances can be manually obtained from the bank in the event of a Bankline Systems failure.
- Evidence of any error or discrepancy will be notified to the Joint Chief Finance Officer and the Deputy Chief Finance Officer as soon as identified.
- Computer Systems are backed up on a daily basis by the IT department.
- Business Continuity Planning is actively managed, and includes all areas of finance and treasury.

- All staff involved in Treasury Management have mobile tablets which allow access to the treasury management records from another location if they are unable to operate from HQ (provided HQ systems are in operation).
- The Bankline system is internet based and as such bank account information can be accessed by appropriate staff from any location with internet access.

Treasury management is recognised as high priority for Financial Services and as such arrangements in the event of a business continuity event are detailed in the Financial Services Business Continuity Plan.

Insurance Cover Details – Fidelity Guarantee insurance is held for staff involved in treasury management processes at a suitable level and is reviewed annually.

Market Value of Investments

The investment strategy, whilst principally centred around investments with a fixed value such as cash fixed term deposits and AAA rated Money Market Funds has been extended to include AAA rated Money Market Funds with a variable net asset value (VNAV). The use of VNAV funds will be limited to longer term investments to minimise the risk of incurring a loss in value as a result of adverse market conditions funds and will be subject to advice and closely monitoring in conjunction with the Commissioner’s treasury advisors Link Treasury Services Limited.

TMP 2 Performance Measurement

Frequency and Processes for Tendering

Banking Services. Arrangements for banking services will be reviewed every 5 years to ensure that the level of prices and service delivery reflect efficiency savings achieved by the supplier and current pricing trends.

Money Broking Services In the main, the Commissioner deals directly with financial institutions although, from time to time investments are placed with institutions facilitated by a broker. Usage of Brokers is monitored to ensure that investments placed through brokers are proportional and that overreliance on any one broker is avoided. There are currently two brokers approved for use by the Commissioner:

- RP Martin, Edinburgh
- King and Shaxson, London

Consultants/Advisors The Commissioner has appointed Link Treasury Services Limited as its treasury advisors for the financial year 01 April 2022 to 31 March 2023.

Methods to be Employed for Measuring the Performance of The Commissioner treasury management activities – Benchmarks will be used to assess the performance of the Treasury Management function in the following areas:

- Investments – the yield on investments for over 3 months in duration will be measured against the average Bank of England base interest rate over the period of the investment.
- Long term borrowing against budget.
- Temporary borrowing against budget.
- Annual investment performance against budget.

These statistics will be reported to the Commissioner and the Joint Audit Committee on an appropriate basis.

Benchmarking and Calculating Methodology – The Commissioner will continue to search for appropriate benchmarks which effectively compare investment performance.

TMP 3 Decision Making and Analysis

Funding, Borrowing, Lending and New Instruments & Techniques

In respect of every decision made the Commissioner will:

- Above all, be clear about the nature and extent of the risks to which it may be exposed.
- Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained.
- Be content that the documentation is adequate both to deliver its objectives and protect its interests, and to deliver good housekeeping.
- Ensure that counterparties are judged satisfactory in the context of the organisation's credit worthiness policies, and that limits have not been exceeded.
- Be content that the terms of any transactions have been benchmarked against the market, and have been found to be competitive.

In respect of borrowing and other funding decisions, the Commissioner, in consultation with the Joint Chief Finance Officer, will:

- Consider the ongoing revenue liabilities created, and the implications for the Commissioner's future plans and indicative budgets.
- Evaluate the economic and market factors that might influence the manner and timing of any decisions to fund.
- Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing, and private partnerships.
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding.

In respect of investment decisions, the Commissioner will:

- Consider the optimum period, in light of cash flow availability and prevailing market conditions.
- Consider alternative investment products and techniques available, especially the implications of using any which may expose the Commissioner to changes in the value of its capital.
- Ensure that asset security is always considered paramount in any investment.

TMP 4 Approved Instruments, Methods and Techniques

Approved Activities of the Treasury Management Function

- Borrowing.
- Lending.
- Debt repayment and rescheduling.
- Consideration, approval and use of new financial instruments and treasury management techniques.
- Managing the underlying risk associated with the capital financing and surplus funds.
- Managing cashflow.
- Banking activities.
- Leasing.
- Forecasting interest receipts and payments arising as a result of treasury activities.

Approved Instruments for Investment

- Deposits with banks and building Societies or local authorities up to 365 days.
- Non-specified deposits with banks and building societies or local authorities up to 5 years.
- Pooled Funds (including Triple A rated Money Market Funds both with a constant and variable net asset value).
- Registered Providers (including providers of social housing).
- Deposits with Government (including HM Treasury, Debt Management Office and Local Authorities).

Investment in any new instrument can only be undertaken following consultation with and approval by the Joint Chief Finance Officer.

Approved Methods and Sources of Raising Capital Finance

Borrowing will only be undertaken in keeping with the contents of the Prudential Code and within the limits determined through the approved Prudential Indicators and Treasury Management Strategy and, in respect of any long term borrowings, following consultation with the Joint Chief Finance Officer.

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

Policy on Delegation, Review and Reporting Arrangements

The Commissioner will receive and review reports on its treasury management strategy, policies and practices, including as a minimum, an annual strategy and plan in advance of the year and an annual report after its close. They will also:

- Approve amendments to the treasury management policy statement and treasury management practices.
- Approve the division of responsibilities and delegation within the treasury management function.
- Endorse relevant Codes of Practice on treasury business.
- Receive a quarterly summary of treasury management activities.

Assurance with regards to monitoring of treasury management policies and practices is a function of the Joint Audit Committee. The Commissioner delegates overall arrangements for the treasury management function including determining appropriate strategy and procedures to the Joint Chief Finance Officer. The Joint Chief Finance Officer delegates to the Deputy Chief Finance Officer the undertaking of day to day treasury management activities in accordance with the strategies and procedures. All officers undertaking treasury management activity will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

The Commissioner nominates the Joint Audit Committee to be responsible for assurance in respect of effective scrutiny of the treasury management strategy and policies.

The **Joint Audit Committee** will:

- Receive and review regular monitoring reports in relation to treasury management activities which will include any significant changes to the approved counterparty list as a result of the ongoing review of the creditworthiness of counterparties.
- Review the treasury management policy and procedures and make recommendations to the Commissioner.
- Receive and review external and internal audit reports in relation to treasury management.

The **Joint Chief Finance Officer** will:

- Review the policy statement and annual strategy statement and present to the Commissioner.
- Review periodic treasury management reports and present to the Commissioner.
- Review the annual treasury management report and present to the Commissioner.
- Review compliance with relevant treasury Codes of Practice.
- Ensure that there is a written statement of responsibilities covering the complete treasury management function.
- Delegate the operation of the treasury management function to the Deputy Chief Finance Officer.
- Ensure the adequacy of internal audit, and liaising with external audit.
- Approve any long or short term borrowings.

The **Deputy Chief Finance Officer** will:

- Ensure arrangements are in place for the preparation of periodic treasury management policy statements and an annual strategy statement.
- Hold the Financial Services Manager (Treasury) to account for the day to day management of the treasury function.
- Review the periodic reports on treasury management activities.
- Review the annual report on treasury management as soon as possible after the end of a financial year.
- Review compliance with relevant treasury codes of practice.
- Ensure that all staff who deal in treasury matters understand and have access to the Non Investments Product Code and the CIPFA Code of Practice.
- Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Oversee and approve investments made for periods greater than three months.
- Review the performance of the treasury function at least twice each financial year.
- Ensure adequate separation of duties.
- Institute a range of performance measures for treasury management.
- Recommend the appointment of external service providers.
- Prepare an annual report on Treasury Management as soon as possible after the end of a financial year.
- Ensure compliance with relevant Treasury Codes of Practice
- Document and maintain ‘Treasury Management Practices’ as set out in the Code of Practice
- Review alternative methods of investment
- Provide advice to the Joint Chief Finance Officer in respect of any borrowings

The **Financial Services Manager (Treasury)** will:

- Have overall responsibility for the daily treasury management activities.
- Prepare periodic reports on treasury management activities.
- Review treasury systems documentation.
- Prepare and keep up to date cash flow projections for a 12 month rolling period.
- Liaise with the Deputy Chief Finance Officer for any investment over three months.
- Deal with counterparties and make a record of such.
- Comply with the Non Investments Product Code and the CIPFA Code of Treasury Management.
- Ensure credit worthiness and maintain lending list.
- Ensure the training of those listed for absence cover is kept up to date.
- Monitor performance of brokers and ensure a spread of brokers are used.
- Supply the Deputy Chief Finance Officer with a weekly report on treasury activities for authorisation and supply an electronic copy to the Joint Chief Finance Officer and the Director of Corporate Support.

Absence Cover for Daily Dealing Arrangements

In the absence of the two designated Financial Services Officers the absence cover is to cascade thus:

1) Financial Services Manager (Treasury)
2) Deputy Chief Finance Officer

Each treasury deal transacted via the Bankline system requires a second individual to authorise the deal. The following posts will have responsibility for authorising Bankline deals:

1) Financial Services Officer – (5.3 FTE used subject to availability)

Before any planned absence all staff will be notified of their required responsibilities.

The **Financial Services Trainee/Apprentice** will:

- Reconcile treasury deals in the Commissioner cash book.
- Receive and verify confirmation of treasury deals.
- Reconcile general ledger entries in relation to treasury activity.
- Produce management information for reporting treasury activities.

Internal/Management Audit will:

- Complete periodic checks on the treasury management function and make recommendations where appropriate.
- Review compliance with agreed policies, procedures and Codes of Practice and make recommendations for improvement where appropriate.

Principles and Practices Concerning Segregation of Duties

The activities of the Treasury function will be carried out in accordance with the duties and responsibilities detailed above. In particular, day to day duties will be split to ensure that no one person can both initiate and then authorise payment.

Other than in the event of a technical failure all deposits will be initiated through the Bankline software – complete segregation of duties. It will be a disciplinary offence for individuals to release their personal operator cards or passwords. If a card is lost or stolen then the system administrator (Financial Services Manager (systems) or Financial Services Assistant) must be immediately informed - who will then immediately change all relevant computer access codes.

Dealing Limits

Approved dealers have the delegated power to enact transactions on a day to day basis within the constraints of the treasury management practice schedules and the procedure manual. They can, in particular operate within the limits laid down within the Counterparty Selection Criteria and Approved Counterparty List.

Policy on Broker's Services

In the main, the Commissioner deals directly with financial institutions, from time to time investments are placed with institutions facilitated by a broker. Usage of Brokers is monitored to ensure that investments placed through brokers are proportional and that overreliance on any one broker is avoided. There are currently two brokers approved for use by the Commissioner:

- RP Martin, Edinburgh
- King and Shaxson, London

Policy on Taping of Conversations

The Commissioner's does not tape conversations with brokers.

Direct Dealing Practices

Direct deals will if appropriate be undertaken with anyone on the agreed counterparty list. Approved dealers have the delegated power to enact transactions and all transactions require independent authorisation by an approver before funds are transferred via Bankline.

Settlement Transmission Procedures

Once a deal has been agreed, either with a broker or direct with a third party, funds will be transferred in accordance with Bankline procedures.

Documentation Requirements

All transactions will be recorded on a daily basis on the Investments spreadsheet.

Arrangements Concerning the Management of Counterparty Funds

The Commissioner will not undertake transactions on behalf of other organisations.

TMP 6 Reporting Requirements and Management Information Arrangements

Annual Treasury Management Strategy Statement

The treasury management strategy will set out the broad parameters of the treasury function for the forthcoming financial year. The strategy will be submitted to the Commissioner for approval, alongside the budget, capital strategy, capital programme and prudential indicators before commencement of each financial year.

The treasury management strategy will cover the following elements:

- The prospects for interest rates, long and short term.
- An investment strategy as set out in the Local Government Act 2003.
- The expectations for debt rescheduling.
- The treasury approach to risk management.
- Any extraordinary treasury issue.
- Any borrowing requirement under the Prudential Code.
- Annual statement on MRP.

Policy on Interest Rate Exposure

The Joint Chief Finance Officer is responsible for incorporating the authorised borrowing limit determined as part of the Commissioner's Prudential Indicators into the annual treasury management strategy, and for ensuring compliance with the limit. Should it prove necessary to amend this limit, a report will be submitted for approval to the Commissioner.

Annual Report on Treasury Management Activities

An annual report will be presented to both the Commissioner and the Joint Audit Committee at the earliest practicable meeting after the end of the financial year. This report will include the following:

- A comprehensive picture for the financial year of all treasury policies, plans, activities and results.
- Transactions executed and their revenue (current) effects.
- Monitoring of compliance with approved policy, practices and statutory / regulatory requirements.
- Monitoring of compliance with delegated powers.
- Indication of performance especially for returns against budget, and performance against other like Authorities.
- Comment on CIPFA Code requirements.

In addition, a mid-year review will be presented to the Commissioner and regular updates on Treasury Management activities will be presented to the Joint Audit Committee throughout the year.

Management Information Reports

Management information reports will be prepared weekly by the Financial Services Manager (Treasury), and will be presented to the Deputy Chief Finance Officer, Joint Chief Finance Officer and the Director of Corporate Support.

These reports will contain the following:

- An analysis of all investment decisions made during the week and by whom these decisions were made.
- An analysis of all investments currently placed by category.
- The current month's earned interest report, this will also show year to date and forecast budget.
- The current quarter's cashflow analysis.
- Any new borrowings or repayments in the week.
- The amount of outstanding borrowings.

Control reconciliation reports will be prepared monthly by the Financial Services Trainee/Apprentice, which will be presented to the Financial Services Manager (Treasury).

These reports will contain:

- Balance per the financial systems – this will be obtained after the monthly reconciliation of the bank.
- Balance per the investment analysis as above.
- Explanation of any variance.

If for any reason any member of the treasury management team has reason to suspect any type of fraud or misappropriation he or she will this report directly to the Joint Chief Finance Officer or in his/her absence to the Deputy Chief Finance Officer or the Internal Auditor.

TMP 7 Budgeting, Accounting and Audit Arrangements

Accounts

The cost of the treasury management function amounts, in the main, to the salaries of those involved. If any external costs are to be incurred these will be reported separately during the budget monitoring process.

External Auditors

All records will be made available to both internal and external audit as and when required. As a minimum annual check external audit will gain third party confirmation of all year end balances on deposit.

TMP 8 Cash and Cash Flow Management

Cashflow Statements

A cashflow statement will be prepared before the beginning of each financial year to include all known elements of income from the revenue budget. The cash flow forecasts during the year will be maintained for a rolling 12 month period. Spending profiles will also be set out based on payroll projections and estimates of other payments. The cashflow statement will also be updated during the year on a daily basis to include major variations as or when they become known. The weekly activity report will also show the current quarter's cashflow projections.

TMP 9 Money Laundering

Policy for Establishing Identity/Authenticity of Lenders

No borrowing is currently undertaken other than with the Public Works Loan Board (PWLB), which is part of the UK Debt Management Office, an executive agency of HM Treasury. PWLB loans were taken out to replace equivalent debt transferred from Cumbria County Council upon the creation of freestanding police forces in 1995. The Prudential Code now provides a framework for additional borrowing, subject to that borrowing being prudent, sustainable and affordable. Any additional borrowing will properly recognise the potential for money laundering and will only be undertaken from lending instructions of the highest repute.

Methodology for Identifying Sources of Deposit

The Commissioner only lends to organisations that appear on the Financial Services Authority's (FSA's) list of authorised banks and financial institutions, other local authorities and the Governments through treasury bills or the Debt Management Office (DMO).

The Commissioner's Financial Regulations require the Joint Chief Finance Officer to be responsible for ensuring compliance with the Money Laundering Regulations 2007.

The Joint Chief Finance Officer will:

- Implement internal reporting procedures
- Ensure relevant staff receive appropriate training in the subject
- Establish internal procedures with respect to money laundering
- Obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken
- Report their suspicions.

TMP 10 Training and Qualifications

Statement of Professional Practice (SOPP)

The Joint Chief Financial Officer is a member of CIPFA, and has a professional responsibility through both personal compliance and by ensuring that relevant staff are appropriately trained.

The Deputy Chief Finance Officer is also a member of CIPFA and as such has the same duty of care in the provision of any financial information. Other staff employed in the treasury management function will be qualified to the level that is appropriate to their post (as per the job description). All staff are required to undertake basic training prior to undertaking day to day treasury business and will, in addition, be expected to undertake continuous training as appropriate to enable them to keep up to date with all aspects of treasury management within their responsibility.

All CIPFA members are required to abide by CIPFA's Ethics Standard on Professional Practice (SOPP) which includes a section in relation to treasury management.

Training courses run by CIPFA and other training providers will form the major basis of ongoing staff training. Records will be kept of all courses and seminars attended by staff in their personal training records file.

The Joint Chief Finance Officer will ensure that members charged with governance in relation to treasury management will receive appropriate training and that records of such training received will be maintained. Training may be provided internally or externally.

TMP 11 Use of External Service Providers

The Commissioner recognises that responsibility for treasury management decisions remains with the organisation at all times.

The use of any external service providers will, at all times, be subject to the Procurement Regulations / Financial Regulations of the Commissioner. The use of external services is currently restricted to banking services and treasury advice (investments and borrowing).

Advisers - The Commissioner has a formal contract with Link Treasury Services Limited, to provide a range of technical advice and information covering the treasury business. The contract is awarded following consultation with the Joint Chief Finance Officer.

Banking – Banking services will be reviewed every 5 years to ensure that the level of prices and service delivery reflect efficiency savings achieved by the supplier and current pricing trends.

Brokers - In the main, the Constabulary deals directly with financial institutions, from time to time investments are placed with institutions facilitated by a broker. Usage of Brokers is monitored to ensure that investments placed through brokers are proportional and that overreliance on any one broker is avoided. There are currently two brokers approved for use by the Commissioner:

- RP Martin, Edinburgh
- King and Shaxson, London

TMP 12 Corporate Governance

The Commissioner is fully committed to the CIPFA Code of Practice in Treasury Management and believes he has secured a framework for demonstrating openness and transparency of his treasury management function.

Free access to all information on our treasury management function will be given to all relevant interested parties.

Clear policies have been devised which outline the separation of roles in the treasury management function and the proper management of relationships both within and outside the Office of the Police and Crime Commissioner. All staff are fully appraised of their individual role and where the segregation of duty lies. Clear reporting lines also exist to report any breaches in procedure. This is further supported by well-defined treasury management responsibilities and job specifications.

The Commissioner seeks to ensure a fair distribution of business between brokers. The Joint Chief Finance Officer receives a weekly report to evidence this.

On an annual basis, a treasury strategy is approved prior to the year, by the Commissioner and a year-end summary of treasury activities is reported to the Joint Audit Committee.

Regular treasury management activity updates are submitted to the Commissioner and the Joint Audit Committee during the year.

The Annual Governance Statements which are published each year and accompany the Statutory Statement of Accounts outlines details of the Commissioner's and Constabulary's governance and risk management processes which are applicable to treasury management activities.

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