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DYFED-POWYS
POLICE AND CRIME
COMMISSIONER

REPORT / SUMMARY DECISION SHEET

PURPOSE: COMMISSIONER DECISION

Timing: Urgent – before the start of the 2016/17 financial year

Title: Treasury Management Strategy for 2016/17

Category of Decision / Business Area Impact: Finance

Executive Summary:

The Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services; Code of Practice 2011 edition* requires the PCC to approve a Treasury Management Strategy before the start of each financial year.

The Welsh Government in its *Guidance on Local Authority Investments* requires the PCC to approve an investment strategy before the start of each financial year.

The PCC approves the attached Treasury Management Strategy and Investment Strategy subject to the approval of Wales Audit Office on the treatment of the Capital Financing Requirement (CFR) in 2015/16.

Once Wales Audit Office have provided an opinion on the proposed treatment reduction of the CRF, the relevant sections in the body of the report will be updated, if necessary, and Appendix D (Prudential Indicators and Minimum Revenue Policy) will be completed.

Police and Crime Commissioner for Dyfed-Powys

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

The above request has my approval.

Signature:

Date:

14/3/16



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PURPOSE: JOINT AUDIT COMMITTEE SCRUTINY

Timing: Prior to start of 2016/17 Financial Year

Title: Treasury Management Strategy Statement for 2016/17

Category of Decision / Business Area Impact: Finance

Executive Summary:

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

Through locally agreed financial regulations and a Corporate Governance Framework the daily management of Loans and Investments in compliance with the approved polices could be undertaken by the Police Force CFOs staff.

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

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

This document sets out the policies and procedures the PCC has in place for meeting these statutory requirements for the 2016/17 year.

Recommendation:

For consideration and comment by the Joint Audit Committee.



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Report of Chief Financial Officer of the PCC

Treasury Management Strategy and Investment Policy

1. Purpose of Report

The Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services; Code of Practice 2011 edition* (the CIPFA code) requires the PCC to approve a treasury management strategy before the start of each financial year.

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

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

The PCC has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the PCC's treasury management strategy.

The PCC's Chief Financial Officer (CFO) should implement and monitor the treasury management policies and procedures in line with the CIPFA code and other professional guidance.

2. Credit Outlook and Interest Rate Forecast

2.1 Credit outlook

The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the PCC; returns from cash deposits however remain stubbornly low.

2.2 Interest rate forecast

The PCC's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 1.2% with an assumed average reserve balance of £33.365m for the year.

2.3 Local Context

As of the end of December 2015 the PCC had £2.5m of borrowing and £41m of investments. This is set out in further detail at **Appendix A**. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.15 Actual £m	31.3.16 Estimate £m	31.3.17 Forecast £m	31.3.18 Forecast £m	31.3.19 Forecast £m
Total CFR *	7.6	0	0	0	0
Less: External borrowing **	2.5	2.4	2.3	2.2	4.2
Internal (over) borrowing	5.1	-2.4	-2.3	-2.2	-4.2
Less: Usable reserves	45.5	30.1	21.7	12.2	6.5
Less: Working capital	0.6	0.6	0.6	0.6	0.6
Investments (or New borrowing)	41.0	33.1	24.6	15.0	1.3

* assumed that reserves will be used to reduce the CFR to zero within 2015/16 as recommended by Arlingclose. However, this is subject to the approval of Wales Audit Office

** shows only loans to which the PCC is committed and excludes optional refinancing

3. Borrowing Strategy

The PCC currently holds £2.5 million of loans, a decrease of £0.1 million on the previous year, as part of its strategy for funding previous years' capital programmes. The PCC does not expect to need to borrow in 2016/17. The PCC may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

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

The PCC may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

3.1 Sources

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

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Dyfed-Powys Pension Fund)

- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- sale and leaseback

Previously all long-term borrowing has been raised from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

All borrowing will need the approval of the CFO PCC or the CFO CC (only in circumstances where the CFO PCC is unavailable).

The PCC's capital expenditure plans imply that there will be a need to borrow in financial years 2018/19 and 2019/20. Reserve levels are forecast to fall to £6.018m in 2019/20 as capital reserves / receipts are used to finance capital expenditure and reserves are used to finance the revenue budget.

4. Investment Strategy

The PCC holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the PCC's investment balance has ranged between £31 and £43 million.

Both the CIPFA Code and the WG Guidance require The PCC to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

Given the increasing risk and continued low returns from short-term unsecured bank investments, the PCC aims to further diversify into more secure and/or higher yielding asset classes during 2016/17. This is especially the case for the estimated £5m that is available for longer-term investment. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, and certificates of deposit. This diversification will represent a continuation of the new strategy adopted in 2015/16.

4.1 Approved Counterparties

The PCC may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Counterparty limits will be reviewed on a quarterly basis and will be amended if necessary dependent on investment balances.

Definitions of types of investment are included in Appendix B.

Table 2: Approved Investment Counterparties and Limits

Credit Rating	Banks /Building Societies Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3m 5 years	£4m 20 years	£5m 50 years	£3m 20 years	£3m 20 years
AA+	£3m 5 years	£4m 10 years	£5m 25 years	£3m 10 years	£3m 10 years
AA	£3m 4 years	£4m 5 years	£5m 15 years	£3m 5 years	£3m 10 years
AA-	£3m 3 years	£4m 4 years	£5m 10 years	£3m 4 years	£3m 10 years
A+	£3m 2 years	£4m 3 years	£2m 5 years	£2m 3 years	£2m 5 years
A	£3m 13 months	£4m 2 years	£2m 5 years	£2m 2 years	£2m 5 years
A-	£3m 6 months	£4m 13 months	£2m 5 years	£2m 13 months	£2m 5 years
*BBB+	£3m 6 months	£4m 13 months	£2m 5 years	£2m 13 months	£2m 5 years
*BBB	£3m 6 months	£4m 13 months	£2m 5 years	£2m 13 months	£2m 5 years
None	£1m 6 months	n/a	£2m	None	None

* No new investments to be made with banks of these ratings

4.2 Specified Investments

The WG Guidance defines specified investments as those:

- denominated in pound sterling,

- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of “high credit quality”.

Dyfed Powys defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher

4.3 Non-specified Investments

Any investment not meeting the definition of a specified investment is classed as non-specified. The Dyfed Powys does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore comprise long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£20m
Total shares in Money Market Funds	£5m
Total shares in other pooled funds	£5m
Total investments without credit ratings or rated below [A-]	£10m
Total investments with institutions domiciled in foreign countries rated below [AA+]	£10m
Maximum amount to be invested in non-specified investments	£30m

4.4 Investment Limits

The PCC’s revenue reserves available to cover investment losses are forecast to be £4.5 million on 31st March 2016. In order that no more than 10% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £4 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as below. Investments in multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£4m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£4m per group
Negotiable instruments held in a broker's nominee account	£25m per broker
Foreign countries	£6m per country
Registered Providers	£5m in total
Unsecured investments with Building Societies	£6m in total

4.5 Risk assessment and credit ratings

Credit ratings are obtained and monitored by the PCC's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

4.6 Other Information on the Security of Investments

The PCC understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, Dyfed Powys will restrict its investments to those organisations of higher credit quality and

reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the PCC's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

4.7 Liquidity Management

Dyfed Powys completes an annual cash flow forecast which estimated the monthly cash flow position. This will be utilised to determine the maximum period for which funds may prudently be committed. This forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of being forced to borrow on unfavourable terms to meet its financial commitments.

Dyfed Powys will aim to have a minimum of £2 million in call-accounts for short term liquidity purposes.

All investments of over 13 months will require CFO PCC approval in advance.

5. Treasury Management Indicators

Dyfed Powys measures and manages its exposures to treasury management risks using the following indicators.

5.1 Security

The PCC has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating / *credit score* of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	Target
Portfolio average credit rating / score	A / 6

5.2 Liquidity

The PCC has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target
Total cash available within 3 months	£4m

5.3 Interest Rate Exposures

This indicator is set to control the PCC's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the account of net principal borrowed. (Investments count as negative borrowing.):

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposure	£40m	£40m	£40m
Upper limit on variable interest rate exposure	£20m	£20m	£20m

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

5.4 Maturity Structure of Borrowing

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

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

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

5.5 Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the PCC's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2016/17	2017/18	2018/19
Limit on principal invested beyond year end	£20m	£16m	£6m

6. Other Items

There are a number of additional items that Dyfed Powys is obliged by CIPFA or WG to include in its Treasury Management Strategy.

6.1 Policy on Use of Financial Derivatives

In the absence of any legal power to do so, the PCC will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

6.2 Investment Training

CIPFA's Code of Practice requires the Chief Finance Officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

Staff who undertake Treasury management duties attend relevant training events provided by Arlingclose and attend a quarterly strategy meeting. Staff also attend other relevant training events.

6.3 Investment Advisers

The PCC has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues from them.

6.4 Investment of Money Borrowed in Advance of Need

The PCC may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the PCC is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the PCC's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £[X] million. The maximum period between borrowing and expenditure is expected to be two years, although Dyfed Powys is not required to link particular loans with particular items of expenditure.

6.5 Financial Implications

The budget for investment income in 2016/17 is £0.4 million, based on an average investment portfolio of £ 33.4 million at an interest rate of 1.2%. If actual levels of investments and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

6.6 Other Options Considered

The WG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer (PCC), believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Investment & Debt Portfolio Position

	29/02/2016 Actual Portfolio £m	29/02/2016 Average Rate %
External Borrowing:		
PWLB – Fixed Rate	3	5.48
Total Gross External Debt	3	5.48
Investments:		
<i>Managed in-house</i>		
Short-term investments	33	0.52
Total Investments	33	0.52

Appendix B – Investment Definitions

Credit Rating

Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

Banks Unsecure

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the PCC's current account bank.

Banks Secured

Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government

Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates

Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered Providers

Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

Pooled Funds

Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the PCC to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the PCC's investment objectives will be monitored regularly.

Appendix C – Treasury Management Practices (TMP)

TMP1 Risk Management

The Chief Finance Officer (CFO) of the PCC will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the PCC's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting requirements and management information arrangements*.

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out below:-

Credit and Counterparty Risk

Definition

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

Action

"Dyfed-Powys regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its 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*. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those institutions from which it may borrow, or with whom it may enter into other financing arrangements."

Counterparties are detailed within the Treasury Management Strategy and Policy.

Liquidity Risk

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 organisation's business / service objectives will be thereby compromised.

Action

It will be the function of the CFO (Chief Constable) through the treasury management staff employed by the Chief Constable to ensure that it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business / service objectives.

They will ensure that at all times there will be a surplus of cash available which can be called upon (£2m) through its investments in cash on call accounts, which would be available at any time.

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

Interest Rate Risk

Definition

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

Action

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

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

The PCC will only undertake borrowing from approved sources such as the PWLB, organisations such as the European Investment Bank and from commercial banks who are on the PCC's list of authorised institutions, thereby minimising legal and regulatory risk. All investment of over 13 months will need prior approval by the CFO PCC.

Exchange Rate Risk

Definition

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.

Action

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

Refinancing Risk

Definition

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

Action

Dyfed-Powys will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or

refinancing if required, which are competitive and as favourable to the PCC as can reasonably be achieved in the light of market conditions prevailing at the time.

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

Legal and Regulatory Risk

Definition

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

Action

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

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

Fraud, Error and Corruption Contingency

Definition

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

Action

Dyfed-Powys will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements to these ends. Internal Audit will regularly review Treasury Management function and report to the Joint Audit Committee.

A clear, well defined reporting structure for fraud etc. is in place in the event of a systems breakdown. The insurance policy incorporates cover for fraud, error and corruption. This is documented within the Anti-fraud and Corruption policy and included within Financial Control Procedure 4.7 “Dealing with Suspected Fraud and deception.”

Market Risk

Definition

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

Action

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

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

TMP2 Performance Measurement

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

Accordingly, the treasury management function will be the subject of on-going analysis of the value it adds in support of the organisation’s stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured by using the criteria set out below:-

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

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

TMP3 Decision Making and Analysis

Dyfed Powys will maintain full records of its treasury management decisions and of the processes and practices applied in reaching those decisions, both for the purposes of

learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

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

TMP4 Approved Instruments, Methods and Techniques

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

The Corporate Governance Framework section 7.8F gives instruction on Treasury Management and Banking arrangements and the Financial Control Procedure 2.1 *Treasury Management and Banking arrangements* specify instruments, methods and techniques approved.

TMP5 Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements

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

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

If and when Dyfed Powys intends, as a result of lack of resources or other circumstances, to depart from these principles, the CFO CC will ensure that the reasons are properly reported to the CFO PCC in accordance with TMP6 *Reporting Requirements and Management Information Arrangements*, and the implications properly considered and evaluated.

The CFO CC will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The CFO CC will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out and report any deviance from these to the CFO PCC.

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

TMP6 Reporting Requirements and Management Information Arrangements

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

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

Annual reporting requirements before the start of the year:

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

Mid-year reporting requirements:

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

Annual reporting requirements after year end:

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

TMP7 Budgeting, Accounting and Audit Arrangements

The CFO PCC will prepare and the PCC will approve and if necessary from time to time will amend the annual budget for the Treasury Management function, together with associated income. The matters to be included in the budget will be at minimum those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk Management*, TMP2 *Performance Measurement* and TMP4 *Approved Instruments, Methods and Techniques*. The CFO will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP6 *Reporting Requirements and Management Information Arrangements*.

Dyfed-Powys will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being and in particular the CIPFA Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in Public Services issued in 2011. The CFO will act in accordance with the PCC's policy statement and TMPs and the *CIPFA: Standard of Professional Practice on Treasury Management*.

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

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

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

TMP8 Cash and Cash Flow Management

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

TMP9 Money laundering

Dyfed Powys is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counter-parties and reporting suspicions, and will ensure that staff involved in this are fully trained.

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

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

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

TMP10 Training and Qualifications

Dyfed Powys recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. The PCC will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The CFO PCC will recommend and implement the necessary arrangements.

The CFO PCC will ensure that all staff tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

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

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

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

TMP11 Use of External Service Providers

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

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

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

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

TMP12 Corporate Governance

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

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

Dyfed Powys is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Therefore, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability reflected in Dyfed Powys's Corporate Governance Framework and Financial Control Procedures.

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

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