

## FINANCIAL REGULATIONS FOR TREASURY MANAGEMENT AND BANKING ARRANGEMENTS

The Police Authority has adopted CIPFA's Treasury Management in the Public Services: Code of Practice (the Code).

*The Police Authority will create and maintain, as the cornerstones for effective treasury management:*

- *a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities*
- *suitable treasury management practices (TMPs), setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.*

*The content of the policy statement and the TMPs will follow the recommendations contained in section 6 and 7 of the code, subject only to amendment where necessary to reflect the particular circumstances of the Police Authority. Such amendments will not result in the Authority materially deviating from the Codes key principles.*

The Treasurer shall prepare regular reports for the Police Authority on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, *a mid year review\**, and an annual report after its close, in the form prescribed in its Treasury Management Practices.

The Police Authority delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Resources Committee, and for the execution and administration of treasury management decisions to the Treasurer, who will act in accordance with the Authority's policy statement and Treasury Management Practices and CIPFA's Standard of Professional Practice on Treasury Management.

*The Police Authority nominates the Corporate Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.*

The Treasurer shall have overall responsibility for banking arrangements. The Treasurer, in consultation with the Chief Constable, shall determine a policy for the secure operation of bank accounts. All bank accounts shall be in the name of the Police Authority unless authorised by the Treasurer and Chief Executive. The Chief Constable has authority to open or close imprest accounts in the name of the Police Authority. The opening and closing of other bank accounts requires the authorisation of the Treasurer.

*\* This will be achieved by forwarding the November Treasury Management Report to the Resources Committee to the Police Authority.*

# TREASURY MANAGEMENT POLICIES AND PRACTICES

## Policy Statement

1. The Police Authority defines its treasury management activities as:

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

2. The Police Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

3. The Police Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

4. The Treasury Management Practices (TMPs) will be applied to ensure that this Policy is delivered. The Authority will through the use of these practices ensure that security and liquidity are prioritised ahead of yield within the defined risk framework.

## Treasury Management Practices

Treasury Management Practices (TMPs) set out the manner in which the Authority will seek to achieve its treasury management policies and objectives and how it will manage and control those activities.

### TMP1 Treasury Risk Management

The Treasurer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report to the Police Authority 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 Authority's objectives in this respect, all in accordance with the procedures set out in *TMP6 Reporting requirements and management information arrangements*.

#### (i) Credit and Counterparty Risk Management

The Authority 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*. 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 financing arrangements.

## **(ii) Liquidity Risk Management**

The Authority will ensure 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.

The Authority 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 financial year's capital programme or to finance future debt maturities.

## **(iii) Interest Rate Risk Management**

The Authority 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 will be the subject to the consideration and, if required, approval of any policy or budgetary implications.

## **(iv) Exchange Rate Risk Management**

The Police Authority will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

## **(v) Refinancing Risk Management**

The Authority 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 Authority as can reasonably be 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 over reliance on any one source of funding if this might jeopardise achievement of the above.

## **(vi) Legal and Regulatory Risk Management**

The Authority 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.

The Authority 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 Authority.

## **(vii) Fraud, Error and Corruption, and Contingency Management**

The Authority 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.

## **(vii) Market Risk Management**

The Authority 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 principle sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

## **TMP2 Performance Measurement**

The Authority 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. Performance is reported to the Resources Committee on a regular basis.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Authority'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.

## **TMP3 Decision-making and analysis**

The Authority 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.

## **TMP4 Approved Instruments, Methods and Techniques**

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

The following are approved activities performed by Devon and Cornwall Police Authority

- Borrowing
- Lending
- Debt repayment and rescheduling
- Consideration, approval and use of new financial instruments and treasury management techniques
- Managing the underlying risk associated with capital financing and surplus funds
- Managing cash flow

## **TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements**

The Authority 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, error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

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

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

The Treasurer will fulfil all responsibilities in accordance with the Police Authority's Policy statement, Treasury Management Practices (TMPs) and, CIPFA's Standard of Professional Practice on Treasury Management. He will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and that all agreements with outside providers comply with the policy statement and TMPs.

The Treasurer, through the exercise of agreements with outside providers will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

There are a number of bodies and individuals with responsibilities in this area.

### **Police Authority**

The Police Authority will receive reports on treasury management policies, practices and activities, including audit reports. The minimum reporting requirements are more fully explained in TMP 6 'Reporting Arrangements'.

The Police Authority is required to approve any amendments to the Authority's adopted Treasury Management Policy Statement, and the selection of external service providers, including agreeing terms of appointment.

### **Resources Committee**

The Resources Committee has responsibility for monitoring the performance of the Annual Treasury Management Strategy. Decisions taken by the Treasurer that significantly affect the overall level of treasury management risk will be reported to the Resources Committee (see TMP 6).

### **Corporate Governance Committee**

The Corporate Governance Committee has responsibility for ensuring effective scrutiny of the treasury management strategy and policies. The Corporate Governance Committee's main focus will be to

review the arrangements for the effective identification, monitoring and control of the risks associated with Treasury Management. This will include annual review of the Treasury Practices and the detailed schedules that underpin the practices. The Corporate Governance Committee will bring any matters of concern to the attention of the Police Authority.

### **The Police Authority Treasurer**

The Treasurer is responsible for recommending (changes to) Treasury Management Policies to Members for approval, and for ensuring they receive as a minimum, the three annual reports referred to above. The Treasurer will ensure that Treasury Policies are adhered to, and if not will bring the matter to the attention of Police Authority members as soon as possible.

The Treasurer will approve in year additions to the counterparty list after consultation with the Chair of the Resources Committee and the Chair of Corporate Governance Committee.

The Treasurer will receive updates from the Devon County Council Investment Team and the external fund manager, both Internal and External Audit, and from other sources regarding performance. It is the responsibility of the Treasurer to consider such reports, and any recommendations arising from them.

Prior to entering into any long term borrowing, lending or investment transaction, it is the responsibility of the Treasurer to be satisfied that the proposed transaction does not breach any statute, external regulation or the Police Authority's Financial Regulations.

The Treasurer has delegated powers to take the most appropriate form of borrowing from the approved sources, and to take the most appropriate form of investments in approved instruments.

In the absence of the Treasurer the Force Head of Technical Accounting will:

- receive reports from the Devon County Council Investment Team and the external fund manager with regard to the downgrading or other relevant changes to any counterparty and take action to remove the counterparty from the Police Authority's lending list as a temporary measure pending confirmation by the Treasurer.
- Report any breaches of Treasury Management Policies to the Police Authority members as a matter of urgency

### **Force Finance Staff**

The Head of Technical Accounting will maintain a detailed cashflow model and provide the Treasurer and the Devon County Council Investment team with cashflow forecasts. The Head of Technical Accounting will monitor interest rates and provide the Treasurer with appropriate monitoring information. The Head of Technical Accounting and other members of the Force Finance Department are authorised to arrange loans with the Public Works Loan Board on behalf of the Treasurer.

### **The Police Authority Internal Auditor**

The responsibilities of the Internal Auditor include ensuring compliance with approved policy and procedures, reviewing division of duties and operational practice, assessing value for money from treasury activities, and undertaking probity audit of the treasury function.

## **TMP6 Reporting Requirements and Management Information Arrangements**

The Authority 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.

As a minimum the Authority will receive:

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

The Resources Committee will receive regular monitoring reports on treasury management activities and risks. These report will include:

- reports of all new borrowing and any lending of more than 3 month duration
- any changes to the counterparty list and the implications of such changes

The Corporate Governance Committee will receive an annual report of the operation of Treasury Management Practices.

## **TMP7 Budgeting, Accounting and Audit Arrangements**

The Treasurer will prepare, and the Police Authority 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 a minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The Treasurer 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*.

The Authority 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.

## **TMP8 Cash and Cash Flow Management**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Police Authority will be under the control of the Treasurer, 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 Treasurer will ensure that these are adequate for the purposes of monitoring compliance with TMP1(1) *liquidity risk management*. The present arrangement for preparing cash flow projections, and their form, are set out in the schedule to this document.

## **TMP9 Money Laundering**

The Authority is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. Reports on attempted money laundering (via the Police Authority's own banks accounts or bank accounts held on its behalf) will be considered by the Treasurer and reported to the Corporate Governance Committee.

## **TMP10 Training and Qualifications**

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

The Treasurer will ensure that Authority 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 that they have the necessary skills to complete their role effectively.

## **TMP11 Use of External Service Providers**

The Authority recognises that responsibility for treasury management decisions remains with the Authority at all times. It recognises that there may be potential value in 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 the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Treasurer.

The Police Authority employs the following external advisers:

### Devon County Council

The Police Authority has a Service Level Agreement (SLA) with Devon County Council to provide Treasury Management Services. Under the SLA Devon County Council's Investment Team undertakes the day to day cash flow management on behalf of the Authority, provides advice to the Treasurer on investment of the Devon and Cornwall Police Investment Fund and arranges any transactions that are agreed by the Treasurer.

The performance of the Devon County Council Investment Team is regularly monitored and reported to the Resources Committee. In addition compliance with the criteria laid down within the Annual Treasury

Management Strategy is reviewed on a weekly basis. All investments of more than three months duration will be approved by the Treasurer and reported retrospectively to the Resources Committee.

### Investec Asset Management

The Authority employs Investec Asset Management to invest surplus funds. The agreement with the fund manager makes clear that the security of the Fund is of paramount importance and the Manager's priority will be to minimise risk to capital values.

The performance of Investec Asset Management is regularly monitored and reported to the Resources Committee. In addition compliance with the criteria laid down within the Annual Treasury Management Strategy is reviewed on a monthly basis.

### **TMP12 Corporate Governance**

The Authority is committed to the pursuit of proper corporate governance throughout its business 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 Authority has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Treasurer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.