Treasury Management Policy Statement and Strategy

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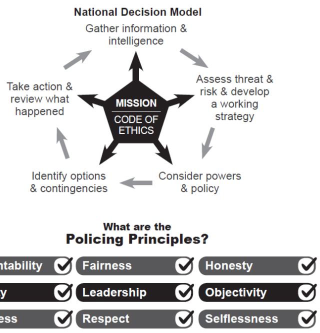
AUTHOR:	
Name:	Kelvin Menon
Job Title:	PCC Treasurer
Telephone number:	01483 638724
Email address:	Kelvin.Menon@surrey.pnn.police.uk



1. Purpose of Report

This report presents the updated Treasury Management Strategy Statement 2021/22 which replaces the previous strategy.

1. Terms of Reference

The Joint Audit Committee (JAC) provides independent assurance to the Police and Crime Commissioner (PCC) and Chief Constable and helps to ensure efficient, effective and adequate assurance arrangements are in place for good governance and financial standards.

As set out in the Joint Audit Committee's terms of reference, the JAC will provide advice and recommendations to the PCC in relation to the following area of Financial Reporting:

> *13. Ensure that an effective system of scrutiny is in place in respect of Treasury Management, strategy, policies and practices.*

2. Summary

The Police and Crime Commissioner (PCC) approves an annual Treasury Management Strategy in accordance with CIPFA's Code of Practice for Treasury Management and Prudential Code.

The attached strategy is updated to reflect working practices for the PCC and any changes in legislation. There have been no significant changes since the previous strategy was approved.

In accordance with the CIPFA Code and MHCLG Guidance, a revised Treasury Management Strategy Statement can be approved by the PCC and implemented at any time during the financial year.

3. Covid-19 Pandemic

Although impacts of Covid-19 are widespread, reducing investment returns whilst increasing pressures on costs, reserves and cash flow monitoring, it does not fundamentally change the treasury management function included within this strategy. We have not therefore revised the Treasury Management Strategy but will include further details of any impact on returns within the next Treasury Management Report.

4. Recommendations

The Joint Audit Committee are invited to review and comment on the 2021/22 Treasury Management Strategy Statement prior to approval by the Police and Crime Commissioner.

The Police and Crime Commissioner for Surrey

Treasury Management Strategy Statement 2021/22

1. Introduction

1.1 This strategy document has been prepared with due regard to the CIPFA Prudential Code 2018, the CIPFA Code of Practice on Treasury Management 2018 derived from regulations issued under the Local Government Act 2003.

1.2 The requirements of the Ministry of Housing, Communities and Local Government (MHCLG, 2018) have been considered in the Investment Strategy. The Statutory Guidance on Local Authority Investments in England (MHCLG 2018) makes it clear that borrowing should never be done for the explicit purpose of making an investment return and that borrowing in advance of need purely in order to profit from the investment of the extra sums borrowed is against the principles of the statutory framework and the Prudential Code.

1.3 The MHCLG Statutory Guidance on Local Government Investments (MHCLG, 2018) stresses the prudent investment strategy order of security, liquidity and yield.

- First and foremost, ensure the security of principal sums invested, i.e. ensure we get back the full investment.
- Then ensure the liquidity needed i.e. funds are available when needed by considering the length of an investment.
- Only when the above two conditions are satisfied should the yield or return on investment be considered.

The PCC will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the PCC's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs.

1.4 The Local Government Finance Act 1992 sets a 'balanced budget requirement' whereby the budget for the financial year is calculated and council tax charges are set to meet the expenditure after taking into account other sources of income. A key part of the treasury management function is to ensure that cash flow supporting the budget is adequately planned, with cash being available to meet commitments when it is needed. Surplus monies are invested at low risk, with due consideration to security of capital, liquidity and rate of return.

1.5 The second main function of treasury management is the funding of the PCC's capital plans. These capital plans provide a guide to the borrowing need, monitoring longer term cash flow to ensure that the PCC can meet capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet PCC risk or cost objectives.

1.6 The contribution the treasury management function makes to the group is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance

1.7 This strategy for investment of surplus funds and borrowing activities for the PCC identifies the risks and opportunities encompassed in those activities and, provides guidance for day to day decision making in these areas. In practice, these functions are carried out by SCC and therefore this document mirrors their strategy.

1.8 The PCC's Chief Financial Officer is the financial adviser to the PCC as required under the Police Reform and Social Responsibility Act 2011 and has statutory responsibility to manage his/her financial affairs as set out in sections 112 and 114 of the Local Government Finance Act 1988, and the Accounts and Audit Regulations 2015.

For Treasury Management this includes:

- ensuring regularity, propriety and Value for Money (VfM) in the use of public funds;
- advising the PCC on the robustness of the estimates and the adequacy of financial reserves;
- securing the treasury management function, including loans and investments;

- advising, in consultation with the Chief Executive on the safeguarding of assets, including risk management and insurance

2 Reporting Requirements

2.1 Capital Strategy

The CIPFA Prudential and Treasury Management Codes (2018 editions) require all local authorities to prepare a capital strategy report, which will provide the following:

- A high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
- An overview of how the associated risk is managed.
- The implications for future sustainability.

The aim of the capital strategy is to ensure that the PCC fully understands the overall long term-term policy objectives and resulting capital strategy requirements, governance and procedures and risk appetite. This document is separate to the Treasury Management Strategy and is included as **Appendix B**.

The PCC has not engaged in any commercial investments and has no non-treasury investments.

2.2 Treasury Management reporting

The PCC is currently required to receive and approve, as a minimum, three reports each year, which incorporate a variety of policies, estimates and actuals.

- An annual **Treasury Management Strategy Statement** (TMSS) before the start of the year
- An annual **Capital Strategy**
- An **Annual Report** on Treasury Management Activities, Performance and Non-Compliance
- A **Mid-Year Report** on Treasury Management Activities, Performance and Non-Compliance
- Treasury Management **Prudential Indicators** including borrowing limits

Together these reports cover:

- the treasury management strategy which shows how the investments and borrowings are to be organised, including treasury indicators;
- an investment strategy stating the parameters on how investments are to be managed;
- the capital plans, borrowing limits and other indicators;
- the minimum revenue provision (MRP) policy showing how residual capital expenditure is charged to revenue over time;
- an annual report looking at actuals over the previous year and providing details of a selection of actual prudential and treasury indicators and performance of treasury operations compared to estimates for the year;
- a mid-year report to indicate progress and update on performance of the Treasury Management function

Scrutiny

The above reports are required to be scrutinised before being recommended to the PCC. This role is undertaken by the Joint Audit Committee.

3 Treasury Management Policy Statement

The Office of the Police and Crime Commissioner defines its treasury management activities as:

- The management of borrowing, investments and cash flows, banking, money market and capital market transactions.
- The effective control of the risks associated with those activities.

- The pursuit of optimum performance consistent with those risks.

3.1 Risk appetite

The appetite for risk is low. A premium is placed on the security of capital in terms of investment and on the maintenance of financial stability in terms of the costs of borrowing.

3.2 Risk management

The monitoring and control of risk is considered to be the prime criteria by which the effectiveness of treasury management activities will be measured.

As a result of the change in accounting standards for 2020/21 under IFRS 9, the PCC will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. [In November 2018 the MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023.] We do not expect this will have an impact on the PCC for Surrey's Treasury activities due to simple the nature of daily transactions.

3.3 Value for money

The PCC is committed to the principle of achieving best value in treasury management. Although returns on investment remain low, this is offset by the competitive cost of the treasury management service provided by Surrey County Council (SCC).

3.4 Borrowing

The PCC holds a loan with PWLB in support of the Building the Future project along with funding the proposed capital programme.

The PCC has various options for financing borrowing, this is likely to be achieved through a mixed of internal and Public Work Lending Board (PWLB) borrowing. The main 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.

3.5 Policy on borrowing in advance of need

The PCC will not borrow more than or in advance of needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the PCC can ensure the security of such funds.

3.6 Debt rescheduling

As short term borrowing rates may be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in light of the current treasury position and the size of cost of debt repayment (premiums incurred).

Reasons for rescheduling would include:

- Generation of cash savings and/or discounted cash flow savings
- To fulfil the treasury strategy
- To enhance the balance of the portfolio maturity profile and/or the balance of volatility

All rescheduling will be reported to the PCC at the earliest meeting following its action.

Rescheduling of current borrowing in our debt portfolio is unlikely to occur based on current rates and conditions.

4 Current Arrangements

4.1 The PCC has a Service Level Agreement (SLA) with SCC to perform the treasury management function on behalf of the PCC therefore the treasury management strategy mirrors their strategy (see 5 below).

4.2 Since 1 January 2019, Orbis took over the Treasury Management function. Orbis provide a shared services partnership with Brighton and Hove City Council, East Sussex County Council and Surrey County Council, perform the day to day treasury management operations within the SLA agreement whereby cash balances are monitored on the PCC's behalf and they aggregate any PCC surpluses with their own for investment in the money market and pay interest to the PCC based on the higher of their quarterly investment rate, 7 Day LIBID or Bank of England Base Rate.

4.3 SCC's appetite for risk in terms of its treasury management activities is low/medium. A premium is placed on the security of capital in terms of investment. A major external influence on the Authority's treasury management strategy is the impact on the UK from coronavirus, lockdown measures, the rollout of vaccines, as well as the new trading arrangements with the European Union (EU).

4.4 SCC use specific credit ratings to determine which institutions can be used for investments.

- Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's, other relevant factors including external advice are also taken into account.
- SCC does not expect to make any investments denominated in foreign currencies, nor any that are defined as capital by legislation, such as

company shares. Non-specified investments are therefore limited to long-term investments (those that are due to mature 12 months or longer from date of arrangement).

The relevant points from the SCC Strategy for the PCC are:

4.5 The primary consideration governing the Council's investment strategy is to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking optimal rate of return or yield. SCC's objective which investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the aim is to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

5 Surrey County Council Investment Strategy 2021/22

5.1 The Council's cash balances are expected to remain low during 2021/22. The majority of cash balances continue to be invested in money market funds and short-term unsecured bank deposits. Money Market Funds offer same-day liquidity, very low or no volatility and also ensure diversification to reduce the security risk of holding the majority of cash deposits with a limited number of UK banks.

5.2 The Council has a cash limit of £25m per counterparty/fund and a maximum of £20m to be invested with any one organisation (other than the UK Government) and a limit of £25m for any one pooled fund.

5.3 The Council's treasury management advisors Arlingclose is forecasting that the Bank Rate would remain at 0.1% until at least the first quarter of 2024. The risks to this forecast are judged to be to the downside as the Bank of England (BoE) and UK government continue to react to the coronavirus pandemic and the new EU trading arrangements. The BoE extended its asset purchase programme to £895 billion in November while keeping the Bank Rate on hold and maintained this position in December. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

The full SCC Treasury management Strategy Statement can be viewed at:

https://mycouncil.surreycc.gov.uk/documents/s75817/Item%205%20-%20Annex%20H%20-%20Treasury%20Management%20Strategy.pdf

6 Treasury Management Scheme of Delegation

6.1 Police and Crime Commissioner for Surrey.

- Reviewing reports on treasury management policies, practices and activities;
- Approval of annual treasury management strategy statement (TMSS);
- Approval of MRP statement;
- Approval of the annual treasury report;
- Approval of the mid-year treasury management report;
- Approve of any mid-year amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- Approval of the annual budgets; and
- Responsible for the legal contracting body who owns all the assets and liabilities, with the responsibility for the financial administration of their office and the Force, including all borrowing limits.

6.2 Chief Finance Officer

- Securing the treasury management function, including loans and investments
- Approval of division of responsibilities
- Reviewing regular monitoring reports and acting on recommendations
- Approving the selection of external service providers and agreeing terms of appointment

6.3 Joint Audit Committee responsibility for scrutiny

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body
- Ensure that an effective system of scrutiny is in place in respect of Treasury Management policy, strategy, policies and practices.

7 The treasury management role of the section 151 officer (Chief Finance Officer)

7.1 The s151 (responsible) officer represented by the Chief Finance Officer to the PCC for Surrey responsibilities are:

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- Submitting regular treasury management policy reports;

- Submitting budgets and budget variations;
- Reviewing management information reports;
- Reviewing performance of the treasury management function;
- Ensuring adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- Ensuring adequacy of internal audit, and liaising with external audit;
- Recommending the appointment of external service providers.

7.2 The above list of specific responsibilities of the s151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the most recent changes in both the Treasury Management and Prudential codes, is a major extension of the functions of this role, especially in respect of non-financial investments as follows:

- Ensuring the preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe;
- Ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- Ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- Ensure that the PCC has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- Ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- Ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
- Providing a list to the PCC and JAC stakeholders of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- Ensuring that members are adequately informed and understand the risk exposures taken on by the PCC;
- Ensuring that the PCC has adequate expertise, either in house or externally provided, to carry out the above;
- Creation of Treasury Management Practices including risk management and criteria for any material non-treasury investment portfolios.

8 Regulatory Changes

7.1 There are no significant changes to regulations on local authority treasury management to note for 2021/22.

7.2 The PCC for Surrey surplus funds are pooled overnight with Surrey County Council and as the PCC is able to access those funds immediately upon request, they are treated as Cash and Cash Equivalents. There is minimal risk attached to these funds therefore no impairment assessment is carried out.

Background papers:

CIPFA: The Prudential Code

CIPFA: The Prudential Code, Guidance Notes – 2018 Edition

CIPFA Treasury Management Code – 2018 Edition

Local Government Act 2003

Surrey County Council: Treasury Management Strategy

Contact details:

Sue Eaton

Financial Accountant

E-mail: Susan.Eaton@surrey.pnn.police.uk

Appendix A

Police and Crime Commissioner for Surrey

Treasury Management Practices (TMP)

2021 to 2025

Introduction

The objectives set out in the policy statement can be achieved through the adoption of CIPFA's 12 treasury management practices (TMPs), which deal in some detail with the following issues:

- TMP1 Risk management
- TMP2 Performance management
- TMP3 Decision making and analysis
- TMP4 Approved instruments, methods and techniques
- TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements
- TMP6 Reporting requirements and management information arrangements
- TMP7 Budgeting, accounting and audit arrangements
- TMP8 Cash and cash flow management
- TMP9 Money laundering
- TMP10 Training and qualification
- TMP11 Use of external service providers
- TMP12 Corporate governance

1.1 Risk Management (TMP1)

1.1.1 Liquidity

Purpose: To avoid the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the PCC's police and crime plan will be compromised.

Current arrangements

Approved minimum cash balances	£0
Approved minimum short-term investments	£0

Bank overdraft arrangements:

Net overdraft, in case of need	£20k
Government Procurement Cards, issue of cards	£500k
BACS (payment of salaries) (1 day credit arrangement)	£10m

Currently, day-to-day cash balances are monitored on our behalf under a service level agreement with Surrey County Council (SCC). They aggregate any PCC surpluses with their own for investment in the money market and pay interest to the PCC based on the highest rate from the following options:

- SCC weighted average quarterly investment rate
- 7 Day LIBID
- Bank of England Base Rate

1.1.2 Interest rate

Purpose: To avoid the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the PCC's finances, against which it has failed to protect itself adequately.

Current arrangements: The Prudential Code requires the PCC to fix each year the proportions of interest on borrowing and investment which may be subject to either fixed or variable rates. Since the investment activity is undertaken by Surrey County Council, it is important to ensure that any limits set by the PCC do not conflict with the County Council's prevailing limits. In order to achieve this both fixed and variable rate exposure the upper and lower limits for the PCC have been set at 0% and 100% respectively.

Surrey County Council employs a treasury consultant (Arlingclose) to advise on treasury strategy, provide economic data and interest rate forecasts.

1.1.3 Exchange rate

Purpose: To avoid the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the PCC's finances, against which it has failed to protect itself adequately.

Current arrangements: The PCC's investments with Surrey County Council are not at any exchange rate risk as monies are not invested in foreign currencies.

1.1.4 Inflation

Purpose: To avoid the risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the PCC's finances, against which it has failed to protect itself adequately.

Current arrangements: Inflation has been included in the 2021/22 budget at the following rates:

	Employees	Non-pay
2021/22	2%	2% on contractual commitments

1.1.5 Credit and counterparty

Purpose: To avoid the risk of failure by a third party to meet its contractual obligations under an investment, borrowing, capital, project or partnership financing arrangement, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the PCC's capital or revenue resources.

Current arrangements: The PCC's only direct counterparty in relation to treasury management is Surrey County Council. All investments made by Surrey County

Council are made in accordance with their investment policies and prevailing legislation and regulations.

1.1.6 Legal and regulatory

Purpose: To avoid the risk that the PCC, or a third party, fails to act in accordance with its legal powers or regulatory requirements, and to ensure that the PCC suffers no losses accordingly.

Current arrangements: It is a requirement of the service level agreement with Surrey County Council that they obtain satisfactory documented evidence that any counterparties are acting within their powers and that they have met the requirements of the Data Protection Act, the Money Laundering Regulations, and any other relevant legislation.

1.1.7 Fraud, error and corruption, and contingency management

Purpose: To minimise the risk that the PCC fails to identify the circumstances in which he might be exposed to losses through fraud, corruption and other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. This includes the area of risk commonly referred to as operational risk.

Current arrangements: Surrey County Council has adopted the CIPFA treasury management practices and will accordingly look to minimise risk in this area. Whilst much reliance is placed upon Surrey County Council, the OPCC monitors the cash balances and interest payments on a regular basis as part of the budget monitoring function, this in turn minimises risk in this area.

1.1.8 Market value of investments

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

Current arrangements: Interest on investments with Surrey County Council is based on the average interest on investments, the 7 day LIBID and the Bank of England Base Rate. SCC has embraced the spirit of the CIPFA Code for Treasury Management to invest 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 is to strike a balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. SCC currently uses only those instruments for investment that have minimal impact on the market value of principal sums. The SCC's treasury strategy would also permit the use of:

- Banks (Unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds.
- Banks (Secured): Covered Bonds, reverse purchase agreements and other collateralised arrangements

- Government: Loans bonds and bills issued or guaranteed by national governments, regional or Local Authorities
- Pooled Funds: Shares or units in diversified investment vehicles such as Bond, equity and property funds

Their proposed use would be subject to due diligence and approval of the County's S151 Officer.

1.2 Performance management (TMP2)

1.2.1 The following methods, policies and benchmarks will be applied for evaluating the impact of treasury management decisions:

- Value for money

The PCC is committed to the principle of achieving best value in treasury management. Although returns on investment are low, this is offset by the competitive cost of the treasury management service provided by Surrey County Council (SCC). It is considered that SCC continue to provide value for money.

- Banking Services

The PCC currently uses the services of the HSBC.

1.3 Decision-making and analysis (TMP3)

1.3.1 Day-to-day investment decisions are taken on behalf of the PCC by Surrey County Council.

1.3.2 A quarterly record is provided by Surrey County showing the daily balances that have been invested and the average internal rate of return applied.

1.4 Approved instruments, methods and techniques (TMP4)

The PCC has adopted the approved instruments, methods and techniques recommended by Surrey County Council, as follows:

1.4.1. Investment

The following instruments are available to use for investment:

- Treasury Bills
- Deposits with banks, building societies and local organisations (and certain other bodies)
- Certificates of Deposits with banks or building societies
- Sterling Money Market Funds
- Government Debt Management Agency Deposit Facility
- Corporate Bonds
- Covered Bonds

Surrey County Council will lend to the following organisations on a short-term basis although their current strategy is to minimise cash balances to reduce interest costs; no lending is done to any organisation on a long-term basis:

- Banks and Building societies meeting the lending criteria
- Local Authorities as set out in the Local Government Act 2003
- Enhanced Cash/Corporate Bonds pooled funds

1.4.2 Approved Methods of Raising Finance

The following list specifies the borrowing instruments which may be utilised in seeking to achieve the Treasury Management objectives.

Short-term: All instruments repayable within one year.

Long-term: Loans from Public Works Loan Board (PWLB), Bonds and Mortgages.

Overdraft: The PCC may borrow by overdraft, i.e. short-term, from authorised banks or the Bank of England.

Leasing: Operating leases fall outside of the capital controls, therefore this form of finance should be considered where possible for the purchase of equipment and vehicles (the PCC's current policy is to purchase vehicles outright under the Joint Transport Service led by Sussex Police).

1.5 Organisation, clarity and segregation of responsibilities, and dealing arrangements (TMP5)

1.5.1 The overall responsibility for treasury management lies with the PCC, who has plenary powers in relation to all borrowing and investment matters.

1.5.2 The Treasurer (PCC's Chief Finance Officer) takes overall responsibility for implementing the treasury management policy.

1.5.3 The Treasurer is responsible, under Section 151 of the Local Government Act 1972, for ensuring that the treasury management operation complies with the needs of the PCC and that its financial affairs are properly administered.

1.5.4 Day to day responsibility for treasury management rests with the Treasurer.

1.5.5 The day-to-day administration of treasury management is carried out by staff of Surrey County Council under the terms of a service level agreement. The approved activities of the Treasury Management Providers are as follows:

- Cash flow management (daily balances and longer term forecasting)
- Investing surplus funds in approved investments
- Interest rate exposure management

- Dealing with brokers and other external finance specialists

Surrey County Council currently use the following brokers:

- RP Martin/BGC
- Tullet Prebon
- Tradition

1.6 Reporting requirements and management information arrangements (TMP6)

1.6.1 The Treasurer will:

- prepare an annual Treasury Management Policy Statement and Strategy for the PCC to approve.

- recommend borrowing limits and other Prudential Indicators to be considered by the PCC as part of the budget setting process.

- report every six months (at the end of year and mid-year) to the PCC on the activities and performance of the Treasury Management function.

1.7 Budgeting, accounting and audit arrangements (TMP7)

1.7.1 Annual revenue budgets will include estimates of expected earnings on investment based on cash flow predictions for the forthcoming year and an examination of economic conditions and forecasts considered jointly with the PCC's treasury management provider at an annual review meeting.

1.7.2 Annual revenue budgets also include the expected cost of the provision of treasury management services and any direct overheads. This estimate is for an annual fee for the work carried out by Surrey County Council, under the terms of a service level agreement. The payment to Surrey County Council is based on 17% of the gross salary costs of their appointed Senior Finance Officer for treasury, 8.5% of the annual gross salary of a SCC Strategic Finance Manager plus 20% on top of those costs to cover the costs of administrative expenses. The total cost for 2020/21 was £20.7k.

1.8 Cash and cash flow management (TMP8)

1.8.1 Under the terms of the current arrangement with Surrey County Council, daily cash flow monitoring is carried out by the treasury management provider supported by information supplied by the Office of the Police and Crime Commissioner relating to:

- Precept and grant income flows
- Cheque and BACS payment runs
- Payroll payment runs
- Other known receipts and payments in excess of £100,000 per transaction

1.8.2 In reviewing the effectiveness of treasury management services, the Office of the Police and Crime Commissioner maintains a historic record of actual cash flow, daily balances, returns on investment from Surrey County Council and a variety of benchmark interest rates including*:*

- LIBID 7 day rates
- SCC weighted average quarterly investment rate
- Base Rate

1.9 Money laundering (TMP9)

1.9.1 Surrey County Council is required to comply with the Money Laundering Regulations as are all UK professionals when they engage in financial and investment activities.

1.10 Training and qualifications (TMP10)

1.10.1 The PCC is aware of the growing complexity of treasury management in general, and its application to the public sector in particular. Modern treasury management demands appropriate skills, including*:*

- A knowledge of money and capital market operations
- An awareness of available sources of funds and investment opportunities
- An ability to assess and control risk, and
- An appreciation of the implications of legal and regulatory requirements

1.10.2 The PCC has a personal development system that should identify staff requiring training and support in treasury management functions. This is balanced with the service provided by SCC.

1.11 Use of external service providers (TMP11)

1.11.1 Treasury management functions are provided by Surrey County Council under a service level agreement***.***

1.12 Corporate governance (TMP12)

1.12.1 This document should be read in conjunction with the scheme of Governance documents which includes financial regulations and a scheme of delegation.

1.12.2 It is considered that this document taken as a whole with the service level agreement with Surrey County Council for the provision of treasury management activities, demonstrates a robust, rigorous and disciplined set of processes that are designed to balance prudence and sound risk management with the pursuit of the optimum return on investment.

1.12.3 Reporting arrangements have been designed to demonstrate openness and clarity whilst maintaining an appropriate split of duties and responsibilities.

1.12.4 In respect of the organisation's dealings with counterparties, external service providers and other interested parties, clear procedures have been developed to enable the PCC, as far as is practicable, to monitor their adherence to the legal or regulatory regimes under which they operate***.***