

1. INTRODUCTION

- 1.1 In 1992 and 1996 CIPFA issued Codes of Practice on Treasury Management in Local Authorities. These were due to increased attention being given to cash management and the Institute felt there was a need for expertise and caution in money market transactions. Following changes of emphasis being placed on Local Authorities around Corporate Governance and Risk Management and changes in the market, the Code was revised in December 2001.
- 1.2 As Bolton Council has always adopted a prudent approach to Treasury Management and has worked within the framework of CIPFA recommendations, the new Code of Practice has now been adopted.
- 1.3 As recommended by CIPFA, this document includes a Treasury Policy Statement, Treasury Management Practices (TMPs), Schedules to the TMPs and various control systems and documentation that relate to Treasury Management in this Authority.

2. CODE OF PRACTICE FOR TREASURY MANAGEMENT IN LOCAL AUTHORITIES

- 2.1 The Code of Practice for Treasury Management in Local Authorities issued by CIPFA in 2001 sets out a Policy and 12 Treasury Management Practices which Local Authorities are urged to formally adopt.
- 2.2 The Code recommends the formal adoption of the following clauses, which were approved by Council on the 15th October 2003.
- 2.3 The Council adopts the 4 key recommendations of CIPFA's "Treasury Management in the Public Services: Code of Practice" (the Code) as described in Section 4 of that Code.
 - (a) The Council should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management of its Treasury Management activities.
 - (b) Policies and practices should make it clear that the effective management and control of risk are prime objectives of the Treasury Management activities.
 - (c) The Council should acknowledge that the pursuit of best value in Treasury Management and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives and that within the context of effective risk management, their Treasury Management policies and practices should reflect this.
 - (d) In order to achieve the above, the Council should adopt a Treasury Management Policy Statement and follow the recommendations contained in the Code concerning the creation of Treasury Management Procedures.

- 2.4 Accordingly, the Council will create and maintain, as the cornerstones for effective Treasury Management:
- (a) A Treasury Management Policy Statement stating the policies and objectives of its Treasury Management activities.
 - (b) Suitable Treasury Management practices, setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- 2.5 The Council will receive reports on its Treasury Management Policies, practices and activities, including, as a minimum, an annual Strategy Plan in advance of the year and an annual report after its close, in the form described in its Treasury Management Procedures.
- 2.6 The Council delegates responsibility for the implementation and monitoring of its Treasury Management Policies and Practices to the Executive Member for Corporate Resources and the execution and administration of Treasury Management decisions to the Director of Corporate Resources, who will act in accordance with the organisation's Policy Statement and Treasury Management Practices and being a CIPFA member, CIPFA's Standard Professional Practice on Treasury Management.

3. TREASURY MANAGEMENT POLICY STATEMENT

- 3.1 The Council defines its Treasury Management activities as:

"The management of the Council's 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".

- 3.2 This organisation 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.
- 3.3 This organisation acknowledges that effective Treasury Management will provide support towards the achievement of its business and services objectives. It is therefore committed to the principles of achieving best value in Treasury Management and to employing suitable performance measurement techniques within the context of effective risk management.

4. TREASURY MANAGEMENT PRACTICES

TMP 1 – Risk Management

General Statement

The Director of Corporate Resources 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 organisation's objectives in this respect, all in accordance with the procedures set out in *TMP6 Reporting requirements and management information arrangements*. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

(1) Liquidity Risk Management

Bolton Council 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.

(2) Interest Rate Risk Management

(3) Exchange Rate Risk Management

(4) Inflation Risk Management

Bolton Council 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 manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

The effects of varying levels of inflation, in so far as they can be identified as impacting directly on its Treasury Management activities, will be controlled by the organisation as an integral part of its strategy for managing its overall exposure to inflation.

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

(5) Credit and Counterparty Risk Management

Bolton Council regards a prime objective of its Treasury Management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited and will limit its investment activities to the instruments, methods and techniques referred to in *TMP4 Approved instruments, methods and techniques* and listed in the schedule to this document. It also recognises the need to have and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

(6) Refinancing Risk Management

Bolton Council 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 organisation 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.

(7) Legal and Regulatory Risk Management

Bolton Council will ensure that all its Treasury Management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1(5) *credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

Bolton Council 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 Council.

(8) Fraud, Error and Corruption and Contingency Management

Bolton Council 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.

(9) Market Risk Management

Bolton Council 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.

TMP 2 - BEST VALUE AND PERFORMANCE MEASUREMENT

Bolton Council is committed to the pursuit of best value in its Treasury Management activities and to the use of performance methodology in support of that aim within the framework set out in its Treasury Management Policy Statement.

Accordingly, the Treasury Management function will be the subject of ongoing analysis of the value it adds in support of Bolton Council's stated business or service objectives. The performance of the Treasury Management function will be measured using the criteria set out in the schedule to this document.

TMP 3 - DECISION-MAKING AND ANALYSIS

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

This Treasury Management Practice is reinforced by the Dealing Procedures set out in TMP5.

TMP 4 - APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

Bolton Council will undertake its Treasury Management activities by employing only those instruments, methods and techniques detailed in the schedule to this document and within the limits and parameters defined in TMP1 *Risk Management*.

TMP 5 - ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS

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

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 the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Director of Corporate Resources 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 responsible officer 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 present arrangements are detailed in the Schedule to this document.

The responsible officer will ensure there is proper documentation for all deals and transactions and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the Schedule to this document.

The delegations to the responsible officer in respect of Treasury Management are set out in the Schedule to this document. The responsible officer will fulfil all such responsibilities in accordance with the organisation's Policy Statement and TMPs and if a CIPFA member, the *Standard of Professional Practice on Treasury Management*

TMP 6 - REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

Bolton Council 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 Executive will receive:-

- An Annual Report on the Strategy and Plan to be pursued in the coming year.
- 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 organisation's Treasury Management Policy Statement and TMPs.

Review and Reporting Arrangements

The Treasury Management Practices will be reviewed each year as part of the reporting procedures and form part of the annual Strategy report taken to Executive before the start of each financial year.

TMP 7 - BUDGETTING, ACCOUNTING AND AUDIT ARRANGEMENTS

The responsible officer will prepare and Bolton Council will approve and, if necessary, from time to time will amend, an annual budget for Treasury Management which will bring together all of the costs involved in running the Treasury Management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk Management*, TMP2 *Best Value and Performance Measurement* and TMP4 *Approved Instruments, Methods and Techniques*. The form Bolton Council's budget will take is set out in the Schedule to this document. The responsible officer 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*.

Bolton Council 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. The present form of Bolton Council's accounts is set out in the Schedule to this document.

Bolton Council 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. The information made available under present arrangements is detailed in the Schedule attached to this document.

TMP 8 - CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Authority will be under the control of the Director of Corporate Resources 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 responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 (1) *Liquidity Risk Management*. The present arrangements for preparing cash flow projections and their form, are set out in the Schedule to this document.

TMP 9 - MONEY LAUNDERING

Bolton Council 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. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the Schedule to this document.

TMP 10 - STAFF TRAINING AND QUALIFICATIONS

Bolton Council 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 responsible officer will recommend and implement the necessary arrangements. The present arrangements are detailed in the Schedule to this document.

TMP 11 - USE OF EXTERNAL SERVICE PROVIDERS

Bolton Council 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 subjected to regular review. 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 Director of Corporate Resources and details of the current arrangements are set out in the Schedule to this document.

TMP 12 - CORPORATE GOVERNANCE

Bolton Council 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.

Bolton Council has adopted and has implemented the key recommendations 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 responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

5. SCHEDULE TO THE TREASURY MANAGEMENT PRACTICES

In order to deliver the above range of principles, it is essential that adequate Treasury systems are in place. The Code of Practice recommends that these systems should be included in a Schedule to the Treasury Management Practices. The aim is the production of a day to day reference document which, good practice would suggest, would support the Practices.

5.1 Risk Management

The Council will manage the risk associated with counterparties by constantly reviewing their credit worthiness, its lending limits and maximum sector exposure. Similarly it will ensure that all lenders are duly recognised and legitimate organisations for the Council to deal with and will be vigilant in ensuring money laundering is not perpetrated.

5.1.1 Limits on time exposure applicable to individual counterparties

Investments are made for various periods to optimise return and provide adequate cash flow management. The maximum period used is 3 years. With the list of counterparties available to the Authority, it is deemed to be flexible with regard to period. Therefore, no one sector or counterparty is restricted to a given period at this particular time.

5.1.2 Investment Limits applicable to Specific Sectors

The Authority adopts a flexible approach to investment limits applied to specific sectors. With the Authority's approved lending list, the Building Society Sector is usually most common. However, a limit of 80% of total investment is deemed prudent and adhered to whenever possible. As with investment limits, the Authority deem a spread of business as desirable.

5.1.3 Limits on exposure to particular Investment Instruments

The Authority's policy on investments is restricted to Time Deposits (Banks, Building Societies) or notice money lent to other Local Authorities. Other Instruments such as Government Gilts or Certificate of Deposits are not used, mainly due to the level of investment business conducted and the accepted cash flow management in place at the present time.

5.1.4 Maturity Profile of Borrowings

The maturity profile of the Authority's debt is reviewed on a regular basis, both within the Treasury Management Team and with the Authority's Consultants. Where it is felt that the Authority might be exposed to interest

rate fluctuations on longer term debt, and that a particular year has a high maturity profile, the option of re-scheduling is considered. Re-scheduling is also considered to counteract, wherever prudently possible, the changes in interest rates that occur over time. This is done when it is in the Council's financial interests to do so and when the new loans fit the needs for an even spread of maturing debt. Whilst no determined figure or percentage is used, it is deemed prudent to monitor the maturity profile. The level of maturing debt will also influence any future long term borrowing so as to maintain an even spread of debt.

5.1.5 Interest Rate and Inflation Risk Management

The Borrowing Limits Report presented to Council each year sets the maximum level of variable rate debt that the Authority will be exposed to. A balance between certainty of cost, with fixed rate funding, and the option to take advantage of falling interest rates, is always sought. Recent experience has provided long term funding at historically low interest rates but the Authority maintain a flexible approach and will take advice from Consultants if deemed necessary. Similarly, the levels of inflation and the effect on investment portfolios will be monitored in the Strategy.

5.1.6 Exchange Rate Risk

The Authority will not invest or borrow in non-sterling denominations.

5.2 Best Value and Performance Measurement

5.2.1 To assist in Performance Measurement, monthly "Key Indicators" are produced for the Deputy Director of Corporate Resources, which essentially provide performance measures on the overall Treasury Management operation. These Key Indicators include:-

- (a) Effective Interest Rate earned on Investments
- (b) Effective Interest Rate paid on Temporary Borrowing
- (c) Borrowing Structure
- (d) Movement in effective Interest Rate
- (e) Principal Outstanding against Investment income earned
- (f) Monthly "actual" cash flow forecast
- (g) Daily balances performance measure
- (h) Investment portfolio/counterpart exposure

5.2.2 In addition, annual statistics and reports are submitted to the CIPFA Treasury Management Bench-Marking Club for comparison and consultation (as required for Treasury Management Key Indicators).

5.2.3 The Council also compares its overall Treasury Management Performance nationally with that of other Local Authorities as detailed in CIPFA's Treasury Management Facts, Figures and Finance and uses external advisors to comment and make recommendations on the Council's performance. Examples of the Key Indicators (a) to (h) are attached at Appendix A.

5.3 **Decision-Making and Analysis**

5.3.1 **Formulation of Treasury Management Strategy**

- i) The formulation of a Strategy to deal with all matters relating to Treasury Management shall be delegated to the Director of Corporate Resources who will report to the Executive at least twice a year. One report shall deal with the proposed Strategy for the coming financial year and the second, to be submitted by 30th September following the financial year end, shall deal with a review of the previous years activities.
- ii) It should be accepted that often the money market reacts violently and that interest rates can move swiftly either upwards or downwards and that decisions which may seem contrary to the original Strategy may occur. Whilst the Strategy report will attempt to cover the action that needs to be taken in such eventualities, this may not always be possible where the Strategy significantly changes through the year and the Director of Corporate Resources should report that fact to the next appropriate meeting of the Executive.
- iii) The Director of Corporate Resources shall make appropriate arrangements within the Department to monitor and review the Strategy through the year which in the normal course of events would be on a quarterly basis or such shorter periods as is deemed appropriate to the overall Strategy and volatility of the market. To meet this end regular consultation takes place between the day to day staff and the Deputy Director responsible for Treasury Management. Reports of loans outstanding and investment limits are produced. Cash flow figures are extracted on a regular basis indicating estimated and actual levels and the effect it has on the debt portfolio. Further reports to assist the Deputy Director of Corporate Resources in Budget estimates required for Committee reporting are also produced.

5.4 **Approved Instruments, Methods and Techniques**

5.4.1 **Approved Methods of Raising Finance**

The Authority will use all legal forms of raising finance to meet its requirements. Briefly, these are as follows:-

- i) Short term borrowing from Banks, Building Societies and other authorised institutions including Local Authorities and other Public Bodies by way of a Temporary Loan Receipt. (Short term is defined as repayable within one year of the date of borrowing).
- ii) Longer term borrowing from the Public Works Loan Board.
- iii) By way of "Loan Instrument". (Basically this involves issuing a document to Banks, Building Societies, Corporate Bodies or individuals or by way of stock issues).
- iv) Leases, for example, the acquisition of equipment and vehicles.

5.4.2 Approved Sources of Borrowings

The Authority will adopt an “unlimited market” approach to raising Capital finance; that is to say, there will be no restriction on the source of borrowing. Subject to the counterparty being recognised under the Non Investments Product Code (NIPS), by the FSA and it being satisfied that money laundering is not in use.

5.4.3 Approved Instruments for Investments

Under the current Strategy, the Authority restricts Investment Instruments to Time Deposits. Any proposed change in this policy and the inclusion of trading in Gilts and Certificates of Deposit (CD) for example, will be reported to the Executive.

5.4.4 Approved Organisations for Investment and Lending Policy

Bolton Council operates a Lending Policy approved by the Executive. This Policy states with which organisations the Authority will invest short and long term surplus cash balances, the maximum exposure limits with any one borrower and the latest approved credit ratings applied to such organisations.

This policy is as follows:-

Approved Organisations

i)	Clearing Banks)	
	Public Bodies)	Up to £6M
	Money Market Funds)	
ii)	Co-operative Bank PLC)	Up to £4M
	Approved Building Societies)	
	(within Top 25))	
iii)	Foreign Banks incorporated in UK)	Up to £4M
iv)	Remainder of Top 25 Building Societies)	Up to £2M

Where monies cannot be invested according to the above list it will be placed on deposit with the Co-operative Bank PLC sterling money market.

The Approved Lending List and criteria is set out in Appendix B, along with the Credit Ratings and their definitions.

If circumstances arise where these limits are breached the facts shall be reported in writing to the Deputy Director of Corporate Resources as soon as practicable.

5.4.5 Credit Ratings Advice

Regular advice and amendment, where necessary, is given by the Treasury Management Consultants appointed by the Authority (Butlers). A close examination of credit ratings and intelligence in the markets is provided on a regular basis. Within the Policy a spread of business is deemed essential in the Investment Portfolio.

5.5 Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements

5.5.1 Policy on Delegation

- i) The 2003/04 Scheme of Delegation authorises the Director of Corporate Resources to carry out all loan and investment transactions on the Council's behalf.
- ii) Within the Corporate Resources Department the ability to decide on all borrowings and investments is further delegated to the Deputy Director of Corporate Resources. However, decisions on long term borrowing (over 364 days in length) of £1M or less in amount in any one transaction are also delegated to the Corporate Accountancy & Treasury Principal Group Accountant and the two Principal Accountants for Banking, provided that borrowing is consistent with the overall objectives of the Treasury Strategy.
- iii) Borrowing in excess of the above must be ratified in advance with the Deputy Director of Corporate Resources who is required to report at least twice yearly to the Director of Corporate Resources on the overall Lending and Borrowing Strategy.
- iv) Holiday cover is provided by the co-ordination of leave by the Principal Group Accountant.

5.5.2 Dealing Procedures

All dealing procedures at Bolton Council are carried out within the framework and guidance of the "Non-Investment Products Code (NIPS): for principals and broking firms in the wholesale markets" (see Appendix E).

Only authorised officers can enter into money market deals on behalf of the Authority. To reinforce this fact, Bank instructions and transmissions are controlled by password and security procedures, in conjunction with Audit approval. The following table lists these authorised officers.

Director of Corporate Resources
Deputy Director of Corporate Resources
Principal Accountant–Corporate Accountancy & Treasury
Principal Accountant – Corporate Accountancy & Treasury
Principal Group Accountant – Corporate Accountancy & Treasury

The Authority uses a range of money market brokers and money market "deals" are allocated to these brokers. This dealing policy avoids

developing reliance on any one broker and therefore enhances the objectivity in “deals”. Although advice on third parties is sought, Brokers are not relied upon for checks on credit worthiness. For this function, advice is taken from the Authority’s Treasury Management advisers, Butlers.

5.6 Reporting Requirements/Management Information Arrangements

5.6.1 As detailed in the Treasury Management Practices (TMP 6) the Director of Corporate Resources will submit an Annual Report to the Executive on Treasury Management Strategy at least once per year before the start of the Financial Year. Additionally a report detailing the outcome of that Strategy shall also be submitted before the 30th September each year. Should major changes to the Policy be required because of changing economic, market or other factors then further reports shall be submitted as deemed necessary. The Director of Corporate Resources will also report to the full Council before the start of the financial year and make recommendations on the Borrowing Limits to be adopted in accordance with the 1989 Local Government Housing Act. To enable these reports to be produced and the Strategy developed and monitored, the following documentation and management information will be maintained. Furthermore, the CIPFA Treasury Management Panel are to introduce a ‘tool kit’ in 2009 to regulate the Treasury Management activities within this Code of Practice.

5.6.2 The CIPFA Publication Treasury Management in Local Authorities (1996) gives guidance on the recordings and documentation of borrowings and investments conducted by Local Authorities. With regard to the taping of conversations between Principals and Brokers, it is noted that the Bank of England within their publication “The London Code of Conduct (1995)” recommend the taping of all deals with a view to the speedy resolution of differences on the details of loan transactions. (See Guide for Chief Finance Officers 8.1.7). CIPFA’s view is that it is for the individual Local Authority to decide whether the volume of business justifies the recording of dealing telephone conversations and the stance taken by Bolton Council is that the current volume of business does not warrant the taping of loan deals. However, all deals are documented and details are given below of the procedure adopted.

5.6.3 Temporary Loans Borrowing

Details of all borrowings are initially recorded on a Dealing Slip (White – Fixed, Lilac – Variable, Green – Overnight) at the time of the telephone conversation with the Broker. This information is then entered on a Temporary Loan Register Sheet, with the following information recorded:

- (a) Name and address of Lender
- (b) Temporary Loan Receipt Number
- (c) Date borrowed
- (d) Amount of loan
- (e) Rate of Interest
- (f) Terms (i.e. fixed, variable, margins, interest dates etc)
- (g) Bank details for payment of Interest and repayment of Capital
- (h) Name of Broker

A Temporary Loan receipt, which is stored on disc by the typing section, is issued and the top copy acts as an acknowledgement and loan instrument. This is posted to the lender at the registered address. The second copy, bearing the General Ledger Income Code is receipted by the Cashiers Department and filed in the Loans Office records. A file of "live" loans is maintained by the Loans Office, on which all subsequent correspondence relating to each loan is filed. Examples of such correspondence are brokers' confirmation, rates changes, audit letters etc. Any discrepancy is brought to the attention of the broker for resolution.

5.6.4 Longer Term Borrowing

Due to the variation of types of loan and lenders, together with the rigid format of Local Bonds, it was deemed necessary to produce a Loan Instrument which is stored on disc and produced when required. Information on this document includes:-

- (a) Registered Holder
- (b) Amount of Principal
- (c) Date of Acceptance
- (d) Terms of Loan (i.e. fixed, variable, margin etc)
- (e) Repayment Date
- (f) Special conditions which may apply to loan

A copy is sent to the lender and a duplicate is filed on the individual loan file, together with subsequent correspondence as with Temporary Loans (see above). The loan is receipted by the Cashiers Section via a manually prepared internal loan receipt which records loan details and the relevant Income Code.

5.6.5 PWLB

Loan applications to the Public Works Loan Board are recorded in the PWLB Advance File, together with the approval confirmation signed by the Deputy Director of Corporate Resources. A Schedule of the loan is sent by the PWLB and details are checked to our records and subsequently filed on the Advances File. An Internal Loan Receipt is prepared for receipt by the Cashiers Section in a similar manner to longer term borrowings (see above).

All borrowings are recorded in a Loans Receipt Register and each receipt/instrument is signed for by a member of the Cashiers Section. Upon receipt, the Cashier matches all documents to the Bank Statements and when satisfied as to correctness, receipts against relevant codes and returns all Instruments to the Loans Officer for filing.

5.6.6 Investments

Details of an investment are initially recorded on a Dealing Slip (Yellow – Fixed, Blue - Overnight) at the time of the telephone conversation with the Broker. The information is then entered on an Investment Register Sheet with the following information recorded:-

- (a) Name of Borrower
- (b) Deposit Number
- (c) Date invested
- (d) Amount of investment
- (e) Rate of interest
- (f) Terms of investment (i.e. fixed, variable, margins etc.)
- (g) Borrower's Bank Details
- (h) Name of Broker
- (i) Memorandum of Credit Number (M.C.)

A list of investments is kept on file which records the details of all deals in date order. On this file all subsequent correspondence is filed such as confirmations from Brokers and third parties etc. Also a copy of the Council's Lending Policy is filed for reference. As with borrowings, any discrepancy should be brought to the attention of the relevant Broker. An M.C. is completed in advance and is used for the receipt of the repaid investment together with accrued interest on the due date.

The payment of investments and repayment of borrowings are remitted via the Clearing House Automated Payment System (CHAPS) and the following sections detail the procedure.

5.6.7 Logotech Management System (PSTM)

In addition to the above, manual records for Temporary and Long Term Borrowing, PWLB and Investments, all transactions are recorded on the Logotech Public Sector Treasury Management computer system maintained in the Corporate Accountancy & Treasury section. All the relevant manual information, plus additional features are stored in this comprehensive Treasury Management System.

Backups are taken daily if possible, but at the very least, on a weekly basis. Reports available via this system, which can be viewed or printed, include loans outstanding, transaction listings, accruals report, lenders database, cash flow and diary etc. Security levels are included and controlled by the Principal Accountant – Banking.

Copies of all documentation referred to in this section are attached in the appendices.

5.6.8 Transmission Procedures

The transmission of monies for all Treasury Management related items is via the CHAPS system and is checked both manually and via Logotech reports. Notification of all payments are made to the Authority's Bankers via the Financial Director Electronic Banking system, which is maintained in the Banking Section of Financial Services Division. A security system comprising of password access and the "SPIN" device authorisation is in place. Entries which involve the transmission of cash require approval from a member of staff other than the originator of the transaction.

Once approved, a "SPIN" number which is generated by a third member of staff (restricted to users of senior status) is required to generate transmission to the Bank, via telephone line "modem". Only the PC

maintained by the Principal Accountant – Banking has this modem access, so security is further enhanced.

Details of CHAPS transactions are entered into the Financial Director system. The system will not allow the originator to approve his/her own entries (via password protection). A second member of staff has to approve using their own unique password. Once accepted, the “SPIN” number is generated and entered into the system to allow transmission, via the UPDATE Module. The onus is on the Authority’s officers to confirm the acceptance of transactions via a second update. Any rejections must be reported to the Bank and resolved quickly.

Audit reports are available and a regular check of transmissions is made by the Principal Group Accountant – Corporate Accountancy & Treasury.

5.6.9 CHAPS Payments

Details of CHAPS payments instructions are entered into the Financial Director system. These instructions will include:-

- (a) Payee
- (b) Amount
- (c) Bank Account Number and Bank Sort Code
- (d) Date of payment
- (e) Relevant references

To ensure that all CHAPS payments are recorded in the General Ledger, the Principal Accountant (Banking) completes CHAPS memorandums which are authorised by a signatory to Bolton Council's Bank Account. Details (A to D) above are entered onto the Memorandum. A record of all CHAPS payments is made in Accounts Payable and also these payments are reconciled to General Creditors votings during the monthly disbursement reconciliation work. Any debits to the Bank Account inadvertently not voted into the general Ledger will be discovered and remedial action can be taken.

In the event of a failure of Financial Director, back-up procedures involving telephone calls and fax back confirmation are in place with the Bank and approved officers. Examples of the documents outlined above are shown in Appendix C.

5.7 **Budgeting, Accounting and Audit Arrangements**

5.7.1 As part of the Council’s Corporate Business Planning Process it produces detailed Revenue and Capital Budgets which take account of the forthcoming annual costs of the Authority’s Capital Programme and the associated revenue consequences. These Budgets are approved by Special Council as part of the overall Budget setting. Consolidated within that Budget process are the expenditure and income of the Treasury Management function.

5.7.2 The Budget is monitored on an ongoing basis throughout the year and is reported on at Committee and aggregate Council level each quarter.

- 5.7.3 Similarly, as part of its planning process, the Council produces a Three Year Forecast on a rolling annual basis. This takes account of existing commitments and known future plans and is reported to the Executive each summer.
- 5.7.4 An audit on Treasury Management Systems is performed annually by the Internal Audit Section. Checks on the adequacy of procedures, systems and security levels are reported to the Deputy Director of Corporate Resources.
- 5.7.5 The Treasury Management function is also subject to audit by the Council's external Auditors. Items of a minor nature which require remedial action are reported in the first instance to the Deputy Director of Corporate Resources. Should any items not be resolved, or of such importance, then they would be included in the Auditor's Management Letter.

5.8 Cash and Cash Flow Management

- 5.8.1 To provide for Borrowing/Investment Strategy, the Principal Accountant – Banking prepares monthly cash flow projections in relation to known items of income and expenditure. With regard to the “overall” Strategy, a yearly Budget is prepared to indicate the cash flow implications which will assist the Deputy Director of Corporate Resources in her long term borrowing decisions.
- 5.8.2 The projection of cash flow is compared to “actual” cash movements on a monthly basis and the effect on the Loans/Investment portfolio is measured. Regular consultation on cash flow minimises any potential exposure to market movement and unexpected borrowing requirement. The Authority has an automatic overdraft limit of £2M with its Bankers and a maximum Settlement risk exposure of £32M whilst awaiting funds due in on any one day. Examples of cash flow statements are attached at Appendix D.

5.9 Money Laundering

- 5.9.1 The Council will ensure that all counterparties are recognised by the FSA and subject to the Non Investment Product Code. Should doubt exist as to the validity of a counterparty this will be reported immediately to the Deputy Director of Corporate Resources and/or the Director of Corporate Resources for further investigation.

5.10 Use of External Service Providers

- 5.10.1 The Council uses various external service providers to provide service and advice to the Council on a daily basis. For overall Treasury Management advice it employs “Butlers”. Their appointment runs until November 2009 when it will be reviewed.
- 5.10.2 The Council deals in the money market for both Borrowings, Investments and for Leasing.

For Leasing the Council uses "Sector Ltd." as advisor but all leasing tenders are returned to the Council for evaluation. This appointment is reviewed annually.

5.10.3 For Borrowing and Investments, as stated earlier, the Council uses various brokers in the money market, these are:-

- i) Intercapital Europe Limited
- ii) Martin Brokers (UK) Plc
- iii) Tullet Prebon Ltd
- iv) Sterling International Brokers Ltd
- v) Tradition (UK) Ltd

5.10.4 The Council has always recognised the importance of the Treasury Management function and has ensured that it has sufficiently skilled and motivated staff to undertake the full duties prudently and with full professional care. It is not felt appropriate, therefore, to externalise the management of cash investments.

5.11 **Staff Training and Qualifications**

5.11.1 The Council has always recognised the importance of the Treasury Management function and has ensured that it has sufficiently skilled and motivated staff to undertake the full duties prudently and with full professional care. With this in mind it ensures that at least three members of staff have had or are currently exposed to the market to ensure adequate cover is maintained. CIPFA intend to introduce a certificate of Treasury Management skills in 2009 for relevant staff.

5.11.2 The Council retains Butlers as its external advisors who provide regular market updates, seminars and training events and could manage the Council's Treasury function in times of emergency.

5.11.3 Staff involved directly in Treasury Management have the following qualifications and experience:

Principal Group Accountant	CIPFA Member	12 years	Treasury Mgt Experience
Principal Accountant	CIPFA Member	19 years	Treasury Mgt Experience
Principal Accountant	CIMA Member	8 years	Treasury Mgt Experience

5.12 **Corporate Governance**

5.12.1 The Council is committed to ensuring that it complies with the requirements of proper Corporate Governance. Through the adoption of this Code of Practice, the regular reporting to the Executive on its Treasury Management Strategy and Performance and by being subject to internal and external scrutiny, it is complying with its requirement to be open, transparent, honest and acting with integrity and accountability.

5.12.2 The Director of Corporate Resources will ensure that adequate procedures and reporting mechanisms are kept in place to fully comply with these requirements.