

WIRRAL COUNCIL

PENSIONS COMMITTEE

28 JUNE 2010

REPORT OF THE DIRECTOR OF FINANCE

TREASURY MANAGEMENT ANNUAL REPORT 2009/10

1. EXECUTIVE SUMMARY

- 1.1 The Committee is requested to agree the annual report on Treasury Management within Merseyside Pension Fund for the 2009/10 financial year which complies with the reporting requirements of the Code of Practice for Treasury Management in Local Authorities.

2. BACKGROUND

- 2.1 On 14 January 2009, Pensions Committee approved the Treasury Management: Plan and Strategy 2009/10.
- 2.2 In addition to the quarterly presentations to the Investment Monitoring Working Party on the performance of the cash element of the Fund, the Treasury Management Plan requires an annual report to be made to Committee 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 treasury management policy statement.
- 2.3 This reports relates to money managed in-house and excludes frictional cash balances held by investment managers in respect of the external mandates and the internal UK and European investment managers.

3. TREASURY MANAGEMENT

- 3.1 In November 2009 CIPFA released a revised Code of Practice for Treasury Management in Public Services and accompanying Guidance Notes. The revised Code re-emphasises an appropriate approach to risk management, particularly in relation to the security and liquidity of invested funds.
- 3.2 MPF has revised the treasury policy and practices documentation to take account of the requirements and changes in the revised Code and Guidance.

- 3.3 At 31 March 2010, MPF had a cash balance of £50.2 million as against £67.3 million at 31 March 2009. All of these funds were held on call accounts with the Royal Bank of Scotland, Yorkshire Bank, Bank of Scotland and Prime Rate money market fund.
- 3.4 Managing counterparty risk continued to be the overarching investment priority. Financial markets remained in a weakened state particularly at the beginning of 2009/10. Against this backdrop, MPF continued to place investments with a small, select list of counterparties. Investments were restricted to Banks and Building Societies which are eligible Institutions under the UK Government 2008 Credit Guarantee Scheme and AAA-rated Money Market Funds.
- 3.5 Over the twelve month period, WM calculated the cash performance to be 3.3% against a benchmark performance (7 day LIBID) of 0.4%. This performance is enhanced by the inclusion of securities lending income.
- 3.6 Transactions were undertaken to reflect the day-to-day cash flows of the Fund, matching inflows from lendings to predicted outflows.
- 3.7 During the year there was one area of non-compliance with the treasury management policy statement and treasury management practices. The total of deposits held in the bank exceeded the limit, due to income having been received earlier than expected. The non-compliance was corrected the following working day. There was no negative impact experienced by the Fund during the non-compliance.

4 ICELAND DEPOSITS UPDATE

- 4.1 As previously reported MPF had £7.5m deposited across two Icelandic Banks, Glitnir £5m and Heritable £2.5m:

Glitnir

- 4.2 The Glitnir Winding-up Board has recognised the claim (along with all other local authority claims) in the bank as general unsecured claims rather than priority claims under the Icelandic Bankruptcy Act. As indicated in the 2008/09 treasury management annual report, priority creditor status was likely to have to be tested through Icelandic Courts. This process has now begun.
- 4.3 The Local Government Association (LGA), Bevan Brittan, Logos (Icelandic Counsel) and UK specialist counsel are representing the affected Councils. Bevan Brittan are instructed to represent in the Icelandic proceedings to secure a decision as to whether or not the wholesale deposits claims are entitled to priority creditor status under the Icelandic insolvency regime and to penalty interest and costs.

- 4.4 The expected recovery rate for claims that have priority creditor status is 100%. For general unsecured claims, the expected recovery rate is approximately 29%. Local authorities' legal advice remains that deposits have priority creditor status under Icelandic law.

Heritable

- 4.5 The 2008/09 treasury management annual report indicated that the projected return to creditors was 80 pence in the pound. Administrators have reviewed the projected return to creditors and, based upon the progress of the administration to date and predicted future performance, have announced an increase in the estimated return to 85 pence in the pound.
- 4.6 To date MPF has received three dividend payments totalling £885,280 (34.98 pence in the pound) which have exceeded the levels originally projected. A fourth payment is expected to be declared in July 2010.

5. FINANCIAL IMPLICATIONS

- 5.1 The financial implications are stated above. In accordance with accounting guidance an appropriate note regarding impairment is being included in the Annual Accounts for the year ended 31 March 2010.

6. STAFFING IMPLICATIONS

- 6.1 There are no staffing implications in this report.

7. EQUAL OPPORTUNITY IMPLICATIONS

- 7.1 There are none arising directly from this report.

8. COMMUNITY SAFETY IMPLICATIONS

- 8.1 There are none arising directly from this report.

9. LOCAL MEMBER SUPPORT IMPLICATIONS

- 9.1 There are no specific implications for any Member or Ward.

10. LOCAL AGENDA 21 IMPLICATIONS

- 10.1 There are none arising directly from this report.

11. PLANNING IMPLICATIONS

11.1 There are none arising from this report.

12. BACKGROUND PAPERS

12.1 Treasury Management: Plan and Strategy 2009/10 – January 2009

12.2 Code of Practice for Treasury Management in Public Services – CIPFA Revised 2009

12.3 Glitnir Website Press Releases Winding-up Board – December 2009

12.4 `Heritable Creditor Progress Report – Ernst & Young 28 January 2010

12.5 Treasury Management Annual Report 2008/09

13. RECOMMENDATION

13.1 That Members agree the annual report.

IAN COLEMAN
DIRECTOR OF FINANCE