

WIRRAL COUNCIL

PENSIONS COMMITTEE

14 JANUARY 2009

REPORT OF THE DIRECTOR OF FINANCE

TREASURY MANAGEMENT POLICY AND STRATEGY 2009/10

1. EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to seek approval of the treasury management policy statement and the treasury management annual plan and strategy for Merseyside Pension Fund for the financial year 2009/10.

2. BACKGROUND

- 2.1 At its meeting on 29 January 2003 the Pensions Committee approved a treasury management policy statement, which sets out a framework for treasury management operations. This policy statement requires that the Pensions Committee approves an annual plan and strategy. The plan and strategy was last approved by the Pensions Committee at its meeting on 28 January 2008.
- 2.2 The treasury management policy statement is also due for review.

3. ECONOMIC CLIMATE

- 3.1 The UK, Eurozone and US economies contracted in the third quarter of 2008. Globally, the economic outlook is poor as debt and deficits hit economic activity and growth.
- 3.2 Financial markets are going through a period of unprecedented volatility. Governments around the world have been intervening in financial markets in an attempt to improve liquidity and restore confidence in the financial market.
- 3.3 Interest rates have fallen sharply and although LIBOR has improved, the gap is still wide and is not yet considered normal. Financial institutions are still cautious of lending to one another and credit conditions remain challenging.

4. POLICY STATEMENT

- 4.1 The policy statement is attached as Appendix 1 to this report.

5. PLAN AND STRATEGY

- 5.1 MPF will comply with the twelve treasury management practices set out in the treasury management policy statement.
- 5.2 The portfolio arrangements outlined in schedule 1 to the policy statement and shown below will be maintained. The purpose of the ranges around the core positions is to allow the internal investment team to effectively manage the uncertainties currently being faced in the financial environment. The core position remains at 1% of Fund assets following the change to the strategic benchmark approved on 26 November 2007.

	Core Position	Range
	%	%
Call Funds/Overnight maturities	0.5	0.5 – 1.0
Deposits 1 month to 6 months	0.25	0.0 – 0.5
Deposits up to one year	0.25	0.0 – 0.25
TOTAL	1.0	

- 5.3 The main aims when managing liquid resources are:
- the security of capital
 - the liquidity of investments
 - matching inflows from lendings to predicted outflows
 - an optimum return on investments commensurate with proper levels of security and liquidity.
- 5.4 The internal investment team uses a variety of sources of information in the treasury management decision making process, including internal research, and advice from brokers, cash managers and treasury management consultants.
- 5.5 The Audit Commission is currently reviewing treasury management in Local Authorities including Pension Funds and is expected to publish a report and best practice in 2009. MPF will endeavour to both comply with and provide examples of best practice, as expected to be set out in this publication.

6. FINANCIAL AND STAFFING IMPLICATIONS

- 6.1 There are none arising directly out of this report.

7. EQUAL OPPORTUNITY IMPLICATIONS

7.1. There are none arising from this report.

8. COMMUNITY SAFETY IMPLICATIONS

8.1. There are none arising from this report.

9. LOCAL MEMBER SUPPORT IMPLICATIONS

9.1. This report has no particular implications for any Members or wards.

10. LOCAL AGENDA 21 IMPLICATIONS

10.1. There are none arising from this report.

11. PLANNING IMPLICATIONS

11.1. There are none arising from this report.

12. BACKGROUND PAPERS

12.1 Treasury Management Policy Statement - January 2003.

12.2 Treasury Management in the Public Services: Code of Practice – CIPFA 2002.

13. RECOMMENDATION

13.1 That Members approve the policy statement, and annual plan and strategy for the treasury management function for 2009-10.

IAN COLEMAN
DIRECTOR OF FINANCE

MERSEYSIDE PENSION FUND
TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION

- 1.1 Merseyside Pension Fund adopts the key recommendations of 'CIPFA's Treasury Management in the Public Services: Code of Practice' (the Code), as described in Section 4 of that Code.
- 1.2 Accordingly the Fund will create and maintain, as the cornerstones for effective treasury management:
- This treasury management policy statement stating the policies and objectives of its treasury management activities
 - Suitable treasury management practices (TMPs), setting out the manner in which this organisation will seek to achieve these policies and objectives, and prescribing how it will manage and control these activities.

2. DELEGATION

- 2.1 Pensions Committee will receive reports on its treasury management policies, practices and activities including an annual strategy and plan in advance of the year and an annual report after its close.
- 2.2 Pensions Committee is responsible for the implementation and monitoring of its treasury management policies and practices and will delegate execution and administration of treasury management decisions to the Director of Finance who will act in accordance with this policy statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

3. DEFINITION

- 3.1 Treasury management activities are defined as:
The management of the Fund's cash flows, its banking, money market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

- 3.2 The Fund regards the successful identification, monitoring and control of risk to be the prime criterion by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on the risk implications for the Fund.
- 3.3 The Fund 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 best value in treasury management and to employing suitable performance measurement techniques within the context of effective risk management.

TREASURY MANAGEMENT PRACTICES (TMPs)

4. TMP 1: RISK MANAGEMENT

- 4.1 The Director of Finance will design, implement and monitor all arrangements for the identification, management and control of treasury management risk and will report 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 Fund's objectives
- 4.2 The Fund will ensure that it has adequate though not excessive cash resources to enable it at all times to have the level of funds available to it, which are necessary for the achievement of its business objectives.
- 4.3 The Fund will manage its exposure to interest rates with a view to securing its interest revenue as far as is possible within cash flow constraints and permissible instruments.
- 4.4 It will manage its exposure to fluctuations in exchange rates. In general, the Fund will only hold foreign currencies to fund pending investment transactions thus limiting the exposure of treasury management activities to fluctuations in exchange rates so as to minimise any detrimental impact.
- 4.5 The effects of varying levels of inflation are not considered to impact directly on the Fund's treasury management activities, which are primarily influenced by cashflows. The Fund's asset allocation is the integral part of its strategy to managing its overall exposure to inflation.

- 4.6 The Fund will achieve these objectives by the prudent use of its approved 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 and 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.
- 4.7 The Fund 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 TMP 4 and listed in the schedule (2.1, 2.2) to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations with whom it may enter into financing arrangements.
- 4.8 The Fund will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its counterparty list 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.
- 4.9 The Fund 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 organisation.
- 4.10 The Fund 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.
- 4.11 The Fund 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.

5. TMP 2: Best Value and Performance Measurement

- 5.1 This organisation is committed to the pursuit of best value in its treasury management activities. Accordingly the treasury management will be the subject of ongoing analysis of the value it adds. It will be the subject of regular examinations of alternative methods of service delivery and the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule (3.1) to this document.

6. TMP 3: Decision Making and analysis

- 6.1 The Fund will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching these decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that 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 (8.1, 8.2, 8.3) to this document.

7. TMP 4: Approved Instruments, methods and techniques

- 7.1 The Fund will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule (2.1, 2.2) to this document.

8. TMP 5: Organisation, clarity and segregation of responsibilities, and dealing arrangements

- 8.1 The Fund considers it essential for the purposes of effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner and that there is at all times clarity of treasury management responsibilities.
- 8.2 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.

- 8.3 If and when the Fund intends, as a result of a lack of resources or other circumstances to depart from these principles, the responsible officer will ensure that the reasons are properly reported and the implications properly considered and evaluated.
- 8.4 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 (4.4, 4.5) to this document.
- 8.5 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.
- 8.6 The delegations to the responsible officer in respect of treasury management are set out in the schedule (4.1, 5.1) to this document. The responsible officer will fulfil all such responsibilities in accordance with this policy statement and TMPs and the CIPFA Standard of Professional Practice on Treasury Management.

9. TMP 6: Reporting Requirements and Management Information Requirements

- 9.1 The Fund 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 these 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.
- 9.2 Pensions Committee will receive an annual report on the strategy and plan to be pursued in the coming year.
- 9.3 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 Fund's treasury management policy statement and TMPs, will be sent to the Pensions Committee.

10. TMP 7: Budgeting, accounting and audit arrangements

- 10.1 The budget for the treasury management function will be included as part of the budget for the internal investment management team which is submitted to Pensions Committee on an annual basis.
- 10.2 The Fund 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 (9.1) to this document.

11. TMP 8: Cash and cash flow management

- 11.1 All monies in the hands of the Fund will be under the control of the Director of Finance and will be aggregated for cash flow and investment 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 liquidity risk management. The present arrangements for preparing cash flow projections are set out in the schedule (6.1, 6.2) to this document.

12. TMP 9: Money Laundering

- 12.1 The Fund is alert to the possibility that it may become 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 will ensure that staff involved in this are properly trained.

13. TMP 10: Staff Training and Qualifications

- 13.1 The Fund 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 Director of Finance will recommend and implement the necessary arrangements. The present arrangements are set out in the schedule (4.5) to this document.

14. TMP 11: Use of external service providers

- 14.1 This organisation 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.
- 14.2 The Fund 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 Finance and details of the current arrangements are set out in the schedule (7.2, 7.3) to this document.

15. TMP 12: Corporate Governance

- 15.1 The Fund is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.
- 15.2 The Fund 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 Director of Finance will monitor and, if necessary, report upon the effectiveness of these arrangements.

MERSEYSIDE PENSION FUND: SCHEDULE TO TREASURY MANAGEMENT POLICY

SCHEDULE 1: PORTFOLIO ARRANGEMENTS FOR LIQUID RESOURCES

- 1.1 The Fund requires liquid resources to meet pension payments and administrative expenses. The cash flows from realisation and purchase of investments can be large and concentrated and the Fund needs to maintain facilities and resources to meet these.

- 1.2 The Fund's cash flows are in balance, with outflows to pensioners matched by income from contributions. In an environment where a significant proportion of investment income is directly re-invested the levels of liquid resources held need to be adequate. Pensions Committee and the Investment Monitoring Working Party have agreed the following base portfolio.

	Core Position	Range
	%	%
Call Funds/Overnight maturities	0.5	0.5 – 1.0
Deposits 1 month to 6 months	0.25	0.0 – 0.5
Deposits up to one year	0.25	0.0 – 0.25
TOTAL	1.0	

**SCHEDULE 2:
APPROVED INSTRUMENTS AND TECHNIQUES**

- 2.1 The Fund will use the following instruments for its internally managed treasury management activities.

AAA rated money market/call funds
 Fixed term deposits with counterparties
 Forward Fixed term deposits with counterparties
 Structured Fixed term deposits with counterparties (See Note 1)
 Cash at bank (RBS)

Note 1 These are effectively loans which give MPF or borrower the option to cancel agreement or renegotiate duration/interest rate of the loan at fixed periods agreed at commencement of loan. These products allow the internal team the opportunity to gain additional yield if their view on interest rates is correct, as the counterpart will have a contrarian view on either the direction or speed of interest rate changes.

- 2.2 The Fund will permit external fund managers to use all instruments permitted under the Investment Manager Agreement.

SCHEDULE 3: PERFORMANCE MEASUREMENT

- 3.1 The performance of the Fund's investments are independently measured by WM Company. The performance of cash will be included as part of this process and be benchmarked against an appropriate inter-bank rate. This performance measurement is subject to scrutiny by Pensions Committee and Investment Monitoring Working Party.
- 3.2 The costs of investment management are subject to internal and external monitoring and comparison with other pension funds. The treasury management function will be considered as part of this monitoring and comparison.
- 3.3 The treasury management function will be subject to the best value review process as part of the Best Value reviews of investment management.

SCHEDULE 4: MANAGEMENT ARRANGEMENTS FOR TREASURY MANAGEMENT

- 4.1 The structure for the treasury management functions is as follows.

Pensions Committee

Oversees all aspects of Merseyside Pension Fund on behalf of Wirral Council and the other admitted bodies. Reviews investment strategy and overall administration of the Fund.

Investment Monitoring Working Party

Makes recommendations to Pensions Committee following consultation with in-house managers and external advisers.

Fund Operating Group

Includes reviewing the day to day operation of the investments function.

Financial Controller

Responsible for team that undertakes treasury management activities.

- 4.2 The current day to day transactions for treasury management are executed by the Fund Accountant (Compliance) or her delegate supervised by the Financial Controller.
- 4.3 The transmission of Funds is carried out by the settlements team through electronic banking system and the recording of transactions is monitored by the Fund Accountant (Operations) ensuring an adequate separation of duties in the system.

- 4.4 There are sufficient staff employed in the process to cover absences and maintain a separation of duties; the duties of staff are outlined in their job descriptions.
- 4.5 The staff involved in the system have an adequate level of relevant qualifications. Further training, as required, is made available as part of ongoing staff development.

Director of Finance	CPFA
Head of Pension Fund	FSI, ACIB
Financial Controller	CPFA
Fund Accountant (Compliance)	CPFA
Fund Accountant (Operations)	CIMA
Senior Settlements Officer	AAT
Compliance & Valuations Officer	ASI
Investment Assistant	

**SCHEDULE 5:
COUNTERPARTY LIST**

- 5.1 The Fund has the following range of approved maximum limits for counterparties subject to meeting the high credit criteria determined by the Fund

CATEGORY	LIMIT Per Institution
Fund's Bank	£30m
Fund's Custodian	£30m
Approved Banks	£20m
Approved Building Societies	£15m
Local Authorities	£20m
Money Market Funds with a Constant Net Asset Value	£30m

- 5.2 Under exceptional circumstances e.g. transitional arrangements on appointment of new Investment Managers, these limits may be exceeded for a limited period with the prior written approval of the Head of Pension Fund and FOG. Such instances will be reported to the next Investment Monitoring Working Party.
- 5.3 Counterparties are reviewed on a regular basis using a range of information sources, including credit rating agencies, internal research, advice from brokers and advice given to Wirral Council by their treasury management consultants. The approved list is maintained on an internal spreadsheet.

SCHEDULE 6: CASH FLOW

- 6.1 Given the unpredictable nature of cashflows in investment management the Fund is not able to forecast cash flows precisely. The Fund has designed its cash portfolio to meet the principal material predictable cash flows e.g. pension pay days, and retains a sufficient level of liquidity to cover other calls on cash.
- 6.2 The investments office maintains cash flow statements on a weekly and monthly basis for predictable cashflows and uses this as a tool to assist the treasury management function.

SCHEDULE 7: USE OF EXTERNAL PROVIDERS

- 7.1 The main providers of services to the Fund are money market brokers. As the Fund does not borrow funds it does not pay commission to the brokers. The performance of brokers is under regular review by staff.
- 7.2 The Fund's main clearing bank contract is the subject of regular tendering exercises.
- 7.3 The Fund's Custodian Bank contact is the subject of regular tendering exercises.

SCHEDULE 8: DECISION MAKING

- 8.1 Decision-making is delegated as indicated in the management arrangements set out in schedule 4. Day to day decisions are constrained by the risk controls set out in the other schedules such as approved instruments and counterparties etc.
- 8.2 Tactical decision making by officers will seek to use advice from brokers to meet cashflows whilst gaining maximum return within risk constraints. Officers will have access to up to date market information.
- 8.3 Strategic decision making by officers and members will seek to set in place a plan that meets the needs of the Pension Fund in relation to its overall investment plan. The external advisers to the Fund (actuary and independent advisers) will help ensure that decisions are well informed.

SCHEDULE 9: CORPORATE GOVERNANCE AUDIT AND COMPLIANCE

- 9.1 The Fund is administered by Wirral Council and is subject to its corporate governance arrangements including regular internal audit and annual external audit. The treasury management function will be examined by both of these audits regularly as a high priority area. The Director of Finance will ensure that all documentation listed below is made available to auditors.
- Internal policies
 - Internal records of deals
 - Counterparty confirmations