WIRRAL COUNCIL

PENSIONS COMMITTEE

25 JUNE 2012

SUBJECT:	**TREASURY MANAGEMENT ANNUAL REPORT 2011/12**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**ACTING CHIEF FINANCE OFFICER**
RESPONSIBLE PORTFOLIO HOLDER	
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report presents a review of treasury management activities within Merseyside Pension Fund (MPF) for the 2011/12 financial year and reports any circumstances of non-compliance with the treasury management strategy and treasury management practices. It has been prepared in accordance with the revised CIPFA Treasury Management Code.

2.0 BACKGROUND AND KEY ISSUES

2.1 Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services and in this context is the "management of the Fund's investments and 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".

2.2 On 11 January 2011 Pensions Committee approved the Treasury Management Policy and Strategy 2011/12.

2.3 This report relates to money managed in-house during the period. It excludes cash balances held by investment managers in respect of the external mandates and the internal UK and European investment managers.

TREASURY MANAGEMENT

2.4 As at 31 March 2012, MPF had a cash balance of £55 million (excluding Iceland deposits) as against £53.8 million at 31 March 2011. All of these funds were held on call (instant access) accounts with Royal Bank of Scotland, Bank of Scotland and Santander.

2.5 Managing counterparty risk continued to be the overarching investment priority. Investments during the year included:

- Call (instant access) accounts and deposits with UK banks
- Investments in AAA rated money market funds with a constant Net Asset Value.

2.6 The rate at which MPF can invest money continues to be low, reflecting the record low Bank of England base rate which remained at 0.5% throughout 2011/12.

2.7 Over the twelve month period, WM calculated the cash performance to be 3.3% against a benchmark performance (7 day LIBID) of 0.5%. This performance is enhanced by the inclusion of securities lending income.

2.8 Transactions were undertaken to reflect the day-to-day cash flows of the Fund, matching inflows from receipts to predicted outflows.

2.9 The detailed cash flow plans were managed so as to be compliant with the deposit limits agreed for individual financial institutions as reflected in the Treasury Management Policy for 2011/12, apart from the limit with the Council bankers RBS. There were a number of incidents where MPF was non-compliant with this limit due to the receipt of significant funds 24 hours ahead of when they were expected; in anticipation of cash outflows with the prior agreement of the Head of Pension Fund; and following the approval by Pensions Committee to increase the limit with the bankers. In each case, the anomaly was rectified with no financial disadvantage to the Fund. The fact that RBS, which is the main recipient of surplus cash, is 80% Government owned is viewed as low risk and the limit has since been increased following approval by Pensions Committee on 17 January 2012.

2.10 During the year, MPF retained on the counterparty list some banks that fell below the minimum credit rating of A+. Credit rating agencies downgraded a considerable number of institutions over the period, some of which were considered to be systemically important to the financial system including RBS. This was reported to the Governance and Risk Management Working Party on 24 January 2012. The institutions suffering downgrades in credit rating to A- are, nonetheless, defined as having high credit quality, low credit risk and a strong ability to repay. Any deposits however, were restricted to call (instant access) accounts only during this period. The continued inclusion of UK Banks that did not meet the counterparty requirements is also considered low risk as the treasury management consultants were still comfortable with these banks as counterparties. Again, the credit criteria minimum requirements have since been amended following the advice of the treasury management consultants and approved by Pensions Committee on 17 January 2012.

ICELAND DEPOSIT UPDATE

2.11 As previously reported MPF had £7.5 million deposited across two Icelandic Banks, Glitnir £5 million and Heritable £2.5 million.

(a) Glitnir

In December 2011, the Icelandic Courts determined that local authority deposits with Glitnir qualified for priority status. Securing priority creditor status means that deposits with Glitnir are set to recover 100%.

In March 2012, approximately 81p/£ was recovered from a mixture of GBP, EUR, USD and NOK (£4.2m). The GBP, EUR and USD payments were paid into MPF accounts. The NOK were converted via a spot rate into GBP. The remaining 19% remains held in Icelandic Krona (ISK). The ISK amounts have been distributed by the Glitnir Winding Up Board and are held in escrow accounts because, under the applicable currency controls operating in Iceland, the permission of the Central Bank of Iceland is required to release Icelandic Krona payments held within the Icelandic banking system. The money held in the Glitnir Winding Board escrow account is, however, earning interest at a market rate of 3.4%. There are still uncertainties regarding funds currently held in Icelandic Krona, as they cannot currently be converted into GBP. The LGA in conjunction with those authorities affected, is working on a practical solution.

(b) Heritable
The projected return to creditors is to be between 86% and 90% of the claim. To date (May 2012) MPF has received eleven dividend payments totalling £1.8m.

3.0 RELEVANT RISKS

3.1 All relevant risks have been discussed within section 2 of this report.

4.0 OTHER OPTIONS CONSIDERED

4.1 There are no other options considered in this report

5.0 CONSULTATION

5.1 There has been no consultation undertaken or proposed for this report. There are no implications for partner organisations arising out of this report.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are none arising out of this report.

7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

7.1 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 2012.

8.0 LEGAL IMPLICATIONS

8.1 The legal implications have been discussed within section 2 of this report.

9.0 EQUALITIES IMPLICATIONS

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 There are none arising out of this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are none arising out of this report.

12.0 RECOMMENDATION

12.1 *That the Treasury Management Annual Report for 2011/12 be agreed.*

13.0 REASON FOR RECOMMENDATION

13.1 The Treasury Management Code requires public sector authorities to determine an annual Treasury Management Strategy and, as a minimum to report formally on their treasury activities and arrangements mid-year and after the year-end. These reports enable those tasked with implementing policies and undertaking transactions to demonstrate that they have properly fulfilled their responsibilities and enable those with responsibility/governance of the treasury management function to scrutinise and assess its effectiveness and compliance with policies and objectives. The requirement to report mid-year is met via regular reports to the Investment Monitoring Working Party (IMWP).

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APPENDICES

None.

REFERENCE MATERIAL

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

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee – Treasury Management Annual Report 2008/09	**18 June 2009**
Pensions Committee – Treasury Management Annual Report 2009/10	**28 June 2010**
Pensions Committee – Treasury Management Policy and Strategy 2011/12	**11 January 2011**
Pensions Committee – Treasury Management Annual Report 2010/11	**27 June 2011**