WIRRAL COUNCIL

PENSIONS COMMITTEE

24 JUNE 2013

SUBJECT:	**TREASURY MANAGEMENT ANNUAL REPORT 2012/13**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION AND RESOURCES**
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 2012/13 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 17 January 2012 Pensions Committee approved the Treasury Management Policy and Strategy 2012/13.

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 2013, MPF had a cash balance of £68.1 million (excluding Iceland deposits) as against £55 million at 31 March 2012. All of these funds were held on call (instant access) accounts with Royal Bank of Scotland (RBS) and Lloyds.

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 2012/13.

2.7 Over the twelve month period, WM calculated the cash performance to be 2.9% against a benchmark performance (7 day LIBID) of 0.4%. 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 2012/13, apart from the limit with our previous bankers RBS. There was one incident where MPF was non-compliant with this limit due to the receipt of significant funds after the day's dealings had been completed. The anomaly was rectified the following working day, with no financial disadvantage to the Fund. The fact that RBS, which is one of the main recipient of the Fund's surplus cash, is some 80% Government owned is viewed as low risk.

2.10 The Fund's banking service provider changed during 2012/13 from RBS to Lloyds Banking Group, although the Fund still utilises the deposit account at RBS.

ICELAND DEPOSIT UPDATE

2.11 In 2008, MPF had £7.5 million deposited across two Icelandic Banks, Glitnir £5 million and Heritable £2.5 million.

Glitnir

2.12 As previously reported, 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 the Fund's accounts. The NOK were converted via a spot rate into GBP. The remaining 19% remains held in Icelandic Krona (ISK). The ISK amounts that have been distributed by the Glitnir Winding Up Board 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 4.20%. 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, are working on a practical solution.

Heritable

2.13 The projected return to creditors is to be between 86% and 90% of the claim. To date (May 2013) MPF has received thirteen dividend payments totalling £2m.

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 2013.

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/S

12.1 That the Treasury Management Annual Report for 2012/13 be noted.

13.0 REASON/S FOR RECOMMENDATION/S

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 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**
Pensions Committee – Treasury Management Policy and Strategy 2012/13	**17 January 2012**
Pensions Committee – Treasury Management Annual Report 2011/12	**25 June 2012**
Pensions Committee – Treasury Management Policy and Strategy 2013/14	**15 January 2013**