**WIRRAL COUNCIL**

**PENSIONS COMMITTEE**

**27 JUNE 2011**

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| **SUBJECT:** | **TREASURY MANAGEMENT ANNUAL REPORT 2010/11** |
| **WARD/S AFFECTED:** | **ALL** |
| **REPORT OF:** | **DIRECTOR OF FINANCE** |
| **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 2010/11 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 RECOMMENDATION

2.1. That the Treasury Management Annual Report for 2010/11be agreed.

## 3.0 REASON FOR RECOMMENDATION

3.1. 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).

## 4.0 BACKGROUND AND KEY ISSUES

4.1 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”.

4.2 On 13 January 2010, Pensions Committee approved the Treasury Management Policy and Strategy 2010/11.

4.3. This report relates to money managed in-house during that 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**

4.4 As at 31 March 2011, MPF had a cash balance of £53.8 million (excluding Iceland deposits) as against £50.2 million at 31 March 2010. All of these funds were held on call accounts with Royal Bank of Scotland, Yorkshire Bank, Bank of Scotland and Prime Rate Money Market Fund.

4.5 Managing counterparty risk continued to be the overarching investment priority. This was maintained by following the counterparty policy as set out in the Treasury Management Strategy for 2010/11. Investments during the year included:

- Call accounts and deposits with UK Banks and Building Societies
- Investments in AAA rated money market funds with a constant Net Asset Value

4.6 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 2010/11.

4.7 Over the twelve month period, WM calculated the cash performance to be 3.2% against a benchmark performance (7 day LIBID) of 0.4%. This performance is enhanced by the inclusion of securities lending income.

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

4.9 The detailed cash flow plans were managed so as to be fully compliant with the deposit limits agreed for individual financial institutions as reflected in the Treasury Management Policy for 2010/2011. During the year however, there were three individual days where MPF was non-compliant with these limits due to the receipt of significant funds 24 hours ahead of when they were expected, after the days' dealings had been completed. In each case, the total of deposits held in MPF bank accounts with the Royal Bank of Scotland (RBS) exceeded the agreed limit. In each case, the anomaly was rectified the following working day, with no financial disadvantage to the Fund.

4.10 Scenarios when deposit limits can sometimes be exceeded occur when there are major transitions within or between asset classes and when planned property purchases are not completed on the scheduled dates. Cash sums over and above those needed for operational purposes have to be readily available to fund such purchases on the expected completion day. When delays happen and the temporary surplus of funds exceeds, or is expected to exceed these deposit limits, MPF seeks the agreement, in the first instance, of the Fund Operating Group (FOG), and duly reports such exceptions to the next meeting of the IMWP. In accordance with the Treasury Management Strategy, in December 2010 the FOG agreed to increase temporarily the limit at the RBS pending completion. Permissions were sought thereafter on a monthly basis until the delayed purchase was duly completed. A report was presented to the IMWP in February 2011. There was no negative impact experienced by the Fund during this time.

**ICELAND DEPOSIT UPDATE**

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

**Glitnir**

4.12 Local authorities with investments in Glitnir have gained priority status as creditors. A ruling by the Iceland district court means that deposits placed by UK wholesale depositors will now have priority in the winding up of Glitnir bank. However an appeal has been lodged against this decision by the Glitnir winding up board and the appeal hearing is expected in September 2011. If priority status is retained, as is expected, recovery is likely to be 100%. If however non-priority status is awarded, recovery is expected to be 29%.

**Heritable**

4.13 The projected return to creditors remains at 85 pence in the pound. To date (May 2011) MPF has received seven dividend payments totalling £1,426,398.06 (56.35 pence in the pound). An eighth payment is expected to be declared in July 2011.

## 5.0 RELEVANT RISKS

5.1 All relevant risks have been discussed within section 4 of this report. The fact that RBS, which is the main recipient of surplus cash, is some 80% Government owned is viewed as low risk.

## 6.0 OTHER OPTIONS CONSIDERED

6.1 There are no other options considered in this report.

## 7.0 CONSULTATION

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

## 8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 There are none arising out of this report.

## 9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 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 2011.

## 10.0 LEGAL IMPLICATIONS

10.1 The legal implications have been discussed within section 4 of this report.

## 11.0 EQUALITIES IMPLICATIONS

11.1 There are none arising out of this report.

11.2 Equality Impact Assessment is not required.

## 12.0 CARBON REDUCTION IMPLICATIONS

12.1 There are none arising out of this report.

## 13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 There are none arising out of this report.

FNCE/128/11

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## APPENDICES

None

## REFERENCE MATERIAL

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

**SUBJECT HISTORY**

| Council Meeting | Date |
|---|---|
| Pensions Committee – Treasury Management Policy and Strategy 2010/11 | 13 January 2010 |
| Pensions Committee – Treasury Management Annual Report 2009/10 | 28 June 2010 |
| Pensions Committee – Treasury Management Policy and Strategy 2011/12 | 11 January 2011 |