

MEETING: **PENSIONS COMMITTEE**

DATE: **7 OCTOBER 2013**

TITLE: **TREASURY MANAGEMENT 2012/13**

PURPOSE: **CIPFA's Code of Practice requires that a report be produced on the results of the Council's actual Treasury Management on behalf of the Pension Fund.**

RECOMMENDATION: **RECEIVE THE REPORT FOR INFORMATION**

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1. Introduction and Background

CIPFA's revised Code of Practice on Treasury Management was adopted by the Council on 1st March 2011 and the Council fully complies with its requirements. The Code requires that I report on the results of the Council's actual treasury management in the previous financial year against expectations.

In accordance with the Welsh Assembly Government's Statutory Guidance on Local Government Investments, which requires an authority to produce an Annual Investment Strategy, it was considered best practice for the Gwynedd Pension Fund (the "Fund") to adopt Gwynedd Council's Treasury Management Strategy Statement (TMSS) for 2012/13, as amended for the purpose of the Pension Fund. The Pensions Committee approved the TMSS at its meeting on 23 March 2012. As a result, I am required to report on the results of the actual treasury management in 2012/13 against expectations.

2. Investment Activity

The Welsh Assembly Government's (WAG's) revised Investment Guidance came into effect on 1st April 2010 and reiterated the need to focus on security and liquidity, rather than yield. It also recommended that strategies include details of assessing credit risk, reasons for borrowing in advance of need and the use of treasury advisers.

Pension Fund Balances	Balance on 31/03/2012 £m	Balance on 31/03/2013 £m
Balances	3.4	7.4

As requested by the Pensions Committee on 23 March 2012, the pension fund's money was pooled with the Council's general cashflow. As agreed at the Pensions Committee on 22 March 2013 this arrangement continues in 2013/14. Currently interest rates are very low but there is no reason to change this decision.

The table below shows a summary of where this pooled money was invested during 2012/13.

Investments	Balance on 01/04/2012 £'000	Investments Made £'000	Maturities/ Investments Sold £'000	Balance on 31/03/2013 £'000	Avg Rate %
Short Term Investments	35,883	203,821	(204,075)	35,629	1.05
Investments in Pooled Funds	0	0	0	0	0
TOTAL INVESTMENTS	35,883	203,821	(204,075)	35,629	1.05
Increase/ (Decrease) in Investments £m				(254)	

Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2012/13. Investments during the year included:

- Deposits with other Local Authorities;
- Investments in AAA-rated Constant & Variable Net Asset Value Money Market Funds;
- Call accounts and deposits with Banks and Building Societies systemically important to each country's banking system (UK, Australia, Canada, Finland, France, Germany, Netherlands, Spain, Switzerland and the US).

Credit Risk

Counterparty credit quality was assessed and monitored with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price. The minimum long-term counterparty credit rating determined for the 2012/13 treasury strategy was A-/A-/A3 across rating agencies Fitch, S&P and Moody's.

In June Moody's downgraded a swathe of banks with global capital market operations, including the UK banks on the Council's lending list - Barclays, HSBC, Royal Bank of Scotland/Natwest, Lloyds TSB Bank/Bank of Scotland, Santander UK plc - as well as several non UK banks, but none of the ratings fell below the Council's minimum A-/A3 credit rating threshold.

Counterparty credit quality has been maintained as demonstrated by the Credit Score Analysis summarised below. The table in Appendix 2 explains the credit score.

Credit Score Analysis 2012/13

Date	Value Weighted Average Credit Risk Score	Value Weighted Average Credit Rating	Time Weighted Average Credit Risk Score	Time Weighted Average Credit Rating	Average Life (days)
31/03/2012	4.98	A+	4.93	A+	27
30/06/2012	5.19	A+	3.00	AA	36
30/09/2012	3.74	AA-	3.48	AA	68
31/12/2012	5.54	A	5.31	A+	146
31/03/2013	5.17	A+	4.97	A+	81

Liquidity

In keeping with the WG Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds, overnight deposits and call accounts.

Yield

The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate was maintained at 0.5% through the year.

The Council considered an appropriate risk management response to uncertain and deteriorating credit conditions in Europe was to shorten maturities for new investments. Short term money market rates also remained at very low levels which had a significant impact on investment income.

Update on the Council's Investment with Heritable Bank

The accounts for 2012/13 were closed using the expectation that 88p/£ would be recovered overall. At that point 77.25% had been recovered to date, and a further 10.8% was expected in 2013/14. CIPFA issued further updated guidance on the accounting treatment surrounding these transactions in May 2013 and this was used for the 2012/13 accounts.

The latest distribution from the administrators was 16.73% which brings the total received to date to 94%. It is possible that further distributions will be received in the future.

4. Recommendation

The Pensions Committee is asked to receive the report for information on investment of the Fund's cash, pooled with the Council's cash, in 2012/13.

Credit Score Analysis

Scoring:

Long-Term Credit Rating	Score
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10
Not rated	11
BB	12
CCC	13
C	14
D	15

The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit

The Council aimed to achieve a score of 7 or lower, to reflect the Council's overriding priority of security of monies invested and the minimum credit rating of threshold of A- for investment counterparties.