

TREASURY MANAGEMENT POLICY

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1. INTRODUCTION

- 1.1. This document sets out the policies, and objectives of West Midlands Pension Fund (the Fund)'s treasury management activities. The Fund has developed this policy with reference to the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services Code of Practice (2021) (the "CIPFA code"), and aims to reflect the principles set out therein.
- 1.2. This aim of the treasury management operation is to ensure that the Fund's cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested with low risk counterparties and/or using instruments commensurate with the Fund's approach to risk management, providing adequate liquidity to meet payments due, primarily those to meet obligations to pay pension members' benefits and commitments to Fund investments. Treasury management in the context of the Fund is aimed at ensuring appropriate risk management and control of Fund cash balances, with the Fund's Investment Strategy Statement (ISS)¹ separately governing the approach taken on the Fund's investment for financial return. The ISS is prepared and maintained in line with regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- 1.3. The City of Wolverhampton Council delegates responsibility for the administration and management of the Fund to the Pensions Committee who, in turn, delegates certain responsibilities to the Director of Pensions including investment and the implementation of investment strategy. The Treasury Management Policy is owned by the Head of Finance, with implementation overseen by the Fund's Financial Management Committee. The Fund's Investment Committee support in advising the Financial Management Committee on approved parameters and instruments utilised for treasury management activity. The Policy will be reviewed annually and approved by the Pensions Committee at least every three years, no later than April 2025.
- 1.4. Since April 2019, the Fund ISS has reflected the Main Fund Strategic Investment Allocation Benchmark, together with those of the separate Admitted Body Sub Funds, created following the merger of the Fund with the former West Midlands Integrated Transport Authority Pension Fund. This policy covers the arrangements across all three elements.

¹ [CHttpHandler.ashx?id=16022&p=0 \(wmpfonline.com\)](http://www.wmpfonline.com/CHttpHandler.ashx?id=16022&p=0)

- 1.5. The Fund in compliance with the CIPFA Code defines its treasury management activities as:
- i) the management of the Fund's cash flows and other liquid assets with cash-like characteristics, primarily its banking and money market transactions; the effective management of the risks associated with those activities, and in keeping with the purpose of the treasury management operation, ensuring management of liquidity risks.
 - ii) The Fund regards the successful identification, identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Fund.
 - iii) The Fund acknowledges that effective treasury management will provide support towards the achievement of its service objectives. It is therefore committed to the principles of achieving value for money in treasury management, within the context of effective risk management.
- 1.6. West Midlands Pension Fund administers significant cash balances in the course of its normal business; the Fund does not borrow or issue any debt. The scope of this policy is thus limited to cash holdings, with balances invested short term until cash is required for use (either paid out to meet pension benefit obligations, or invested for purpose of meeting strategic asset allocation (SAA)).
- 1.7. The Fund's Investment Strategy Statement (ISS) sets out the overarching governance and risk management arrangements for the Fund's assets. Investments for treasury management purpose are investments that arise from the Fund's cash flows or treasury risk management activity and ultimately represent balances that need to be invested until the cash is required for use in the course of business. The ISS incorporates the Fund's investment beliefs including those in relation to Responsible Investment which consider the management of Environmental, Social and Governance (ESG) risks to the Fund.

The Fund's non-treasury assets are invested for the long-term with the aim of achieving financial returns to meet long-term pension benefit obligations.

- 1.8. The analysis and reporting of treasury management activities will focus on measures of effective treasury risk management and the identification, monitoring and control of the associated risks.

- 1.9. The ISS confirms the Main Fund has a 2% allocation to cash as per the Strategic Investment Allocation Benchmark, with lower allocations to the smaller Admitted Body Sub Funds. Day-to-day operational cash requirements will be met from within the benchmark cash allocations, with appropriate planning for forecast of net positive or negative cashflow requirements.. The Fund may also hold cash ahead of commitments to Alternative asset classes and also as backing for futures positions.

2. RISK MANAGEMENT

The Fund has adopted a Risk Management Framework which sets out how the Fund manages risk and demonstrates its commitment to making risk management an integral part of its daily activity. The Framework outlines what risk management is for the Fund and what Governing Bodies and employees are required to do at all levels across the organisation. Risk Management does not prevent the Fund from developing new ideas and different ways of working, it aims to ensure assurance is integrated into all levels of decision making helping the Fund achieve it's goals in a more considered and effective way.

Risk management in the context of Treasury management has been considered in line with the CIPFA code. The following risks have been considered in the development of the Fund's Treasury Management Policy.

2.1. Credit and Counterparty risk management

The Fund defines this risk as the loss arising from the failure of a counterparty to meet its contractual obligations to the Fund under an investment, particularly as a result of diminished creditworthiness

The Fund ensures the security of the sums it invests - including principal, interest, and other receivables. It ensures that its list of approved counterparties (banking partners and Money Market Fund managers) and their associated limits reflect a prudent attitude towards organisations and instruments with whom funds may be deposited or investments made. It also ensures that investing activities are limited to specified instruments, methods and techniques (see section 5, and Appendix- Treasury Management Parameters)

The Head of Finance, in consultation with the Financial Management Committee and Internal Investment Committee (as required), ensures the removal of any counterparty (banking partner or Money Market Fund manager) who, based on assessment, poses a credit risk outside of the specified parameters.

2.2. Liquidity risk management

The Fund Defines this as the risk that cash will not be available when it is needed and that ineffective management of liquidity creates inefficiency and higher costs, compromising the Fund's service objectives.

The Fund ensures that it has adequate, though not excessive cash resources to enable it at all times to have the level of funds available to meet its pension obligations and investment activities through the effective forecasting of cashflow including contribution and asset income, investment calls and distributions and Fund member benefit payments, reporting on a monthly basis to the Finance Management Committee.

2.3. Market risk management

The risk that through adverse market fluctuations in the value of the principal sums the Fund invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to adequately protect itself.

The Fund ensures that its treasury management objectives and activities will not be compromised by adverse market fluctuations in the value of the principal sums invested, and seek to protect itself from the effects of such fluctuations.

2.4. Interest rate risk management

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Fund's finances against which the Fund has failed to protect itself adequately.

The Fund manages its exposure to interest rate fluctuations with a view to securing its interest revenues, as well as funds invested, in consideration of how selected instruments are likely to behave in response to changes in the level or structure of interest rates.

2.5. Inflation risk management

The risk that the cash flows from the Fund's treasury instruments experience a reduction in real value as a result of changes in purchasing power due to inflation

The Fund keeps under review the sensitivity of its forecast incoming and outgoing cashflow to inflation and will manages the risk accordingly through appropriate forecasting of potential variance.

2.6. Exchange rate risk management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Fund's finances against which the fund has failed to adequately protect itself.

The Fund manages its exposure to exchange rate fluctuations so as to minimise the detrimental impact on its budgeted income and expenditure. A quarterly review and consideration will be given in relation to currency cash balances which may be surplus to requirements, and determine the need to convert to Sterling at the best rate

2.7. Legal and regulatory risk management

The risk that the Fund itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements and that the Fund suffers losses accordingly.

The Fund ensures that all of its treasury management activities comply with its statutory powers and regulatory requirements and regular undertake annual assurance of its managers to ensure their ongoing compliance.

2.8. Operational risk, and contingency management

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, also the failure to maintain effective contingency management arrangements. Operational risk will include the risk of fraud, error, corruption or other eventualities in treasury management dealings.

The Fund has adopted a Business Continuity and Cyber Risk Strategy which identifies potential scenarios that may expose the Fund to the risk of loss through inadequate business continuity arrangements, ensuring adequate controls in its operational resilience. The Fund has a Fraud Risk Policy outlining the possible risk of fraud by and against the Fund (or its employees).

The Head of Finance implements and monitor all arrangements for identifying, managing and controlling treasury management risk, and will report at least annually on the adequacy and suitability thereof such to the Finance Management Committee including any circumstances impacting or likely to impact the achievement of the Fund's objectives in this regard. Any breach of parameters set in this policy are reported to the Head of Governance and investigated by the Fund's Compliance team. In the event of market events which may cause a threat and

change to normal liquidity levels, on notice of parameter breach from the Fund Compliance team, the Internal Investment Committee will review and advise on alternative actions which may need to be taken to manage an increase in liquidity risk.

3. ORGANISATION AND SEGREGATION OF RESPONSIBILITIES

Further to the general delegations to the Director of Pensions, as they relate to the City of Wolverhampton Council's (CWC) role as administering authority, the Fund has adopted formal internal delegations to senior officers and Sub committees, including for Financial administration, in accordance with the Fund's financial procedure rules which provide for the separation of duties and seeks to limit individual decisions and ensure appropriate accountability in the management of the Fund's assets, including cash. These aim to provide a distinction between those setting policy, and those responsible for implementing it.

- 3.1. The Head of Finance is responsible for maintaining this policy, and ensuring treasury management activities are administered in accordance with the policy.
- 3.2. This policy and the associated parameters will be reviewed no less than once per year with formal review and approval by the Pension Committee at least every three years.
- 3.3. In practice, operational responsibility for day-to-day cash management is overseen by the Financial Management Committee. The Head of Governance will hold the Head of Finance accountable for compliance with this policy and the approved parameters.
- 3.4. A schedule of roles and responsibilities is maintained by the Head of Finance with key roles and responsibilities under this policy outlined below. In the absence of specified officers, the roles set out below would be performed by their nominated deputy.

3.4.1. **Head of Finance**

The Head of Finance will be responsible for, subject to the provisions of the policy statement:

- Recommending the treasury management policy and practices for approval, and maintaining the policy and parameters.
- Annual review and report on risk to the Financial Management Committee.

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- Responsible for day-to-day treasury management activities; ensuring liquidity requirements are monitored and reported to the Financial Management Committee in accordance with this policy.
- Ensuring appropriate resourcing, knowledge and skills are in place to undertake treasury management operations.
- Making recommendations to the Financial Management Committee and Pensions Committee on areas for policy review and change.

3.4.2. **Head of Governance**

The Head of Governance will be responsible for, subject to the provisions of the policy statement:

- Monitoring compliance with this policy and the parameters
- Investigate breaches in the policy, and ensure appropriate action is taken in consultation with the Finance Management Committee and Internal Investment Committee, as required
- Receive notifications from the Head of Finance, or deputy, in their absence, of operational breaches in parameters and or service delivery, as part of the monitoring and compliance process.
- Report compliance breaches and provide annual assurance to the Pensions Committee

3.4.3. **Internal Investment Committee (IIC)**

The IIC will, subject to the provisions of the policy statement:

- To advise the Financial Management Committee on Treasury Management parameters.
- To advise on actions which may be taken in response to breach (or potential breach) of parameters and/or actions for consideration by the financial management Committee in term of market stress
- To undertake annual review and oversight of appointed Money Market Fund managers, reporting to the Financial Management Commitment for approval.
- To be consulted by the Head of Governance on recommendations in response to any breach investigation.

3.4.4. **Financial Management Committee**

The Financial Management committee will, subject to the provisions of the policy statement:

- To approve the policy parameters, subject to advice from the Internal Investment Committee
- To monitor and approve the list of instruments and banking partner and Money Market Fund managers, having received appropriate

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advice from the Fund's Internal Investment Committee and Council's appointed independent Treasury adviser

- Provide oversight over the operational cashflow management and projections monitoring
- Receive and review Treasury management reports, and any interim reports as deemed necessary to monitor risk
- To receive and agree action on reports from the Head of Governance in response to breach or non-compliance report
- Annual review of the treasury policy, counterparty risk, inflation risk, and to review performance.

3.5. The role of Pensions Committee is to review and approve the Treasury Management Policy and receive updates on treasury management activities. Where there are matters of breach or change, these will be reported alongside the Fund's routine compliance monitoring programme.

3.6. Decision making records are maintained through the meeting of the relevant Committee meeting.

4. PRINCIPLES

4.1. The Fund will have regard to the following when making decisions about the deployment of its cash:

- The safeguarding of deposits.
- Ensuring that cash is available to always meet outgoing expenditure requirements, including both pensions' payments and investment activities.
- Ensuring returns on cash balances are commensurate with the risk associated with deposits.

4.2. The Fund's approach to cash management will be prudent, and not unduly seek to prioritise return above security and liquidity.

4.3. Treasury management activities will be carried out and supervised by suitably qualified staff.

4.4. The Fund will manage its cash with regard to approved criteria derived from the principles set out in this policy. Those criteria will be reviewed at regular intervals, no less than annually.

- 4.5. Those criteria will include parameters that provide for a structured and evidence-based approach to the selection of counterparties (banking partners and Money Market Fund managers), limits on the amounts and the time periods over which deposits are made, and any other relevant criteria.
- 4.6. The Fund will make use of a range of information sources when considering treasury management decisions, including creditworthiness ratings provided by external agencies. The Fund will routinely monitor changes in that information.
- 4.7. Cash balances will be kept under review with reference to the approved parameters, operational requirements, and planned investment activity. Forecasts of cash balances will be prepared no less than monthly for the Financial Management Committee meeting, covering a period of no less than twelve future months.
- 4.8. Treasury management activities will be carried out daily, and all cash over and above contingency levels will be deposited in interest-bearing accounts.
- 4.9. Treasury management procedures will ensure appropriate segregation of responsibilities, the documenting of decisions and the reasons for those, and a full audit trail in respect of all other relevant matters. In particular:
- No individual will be able to both propose and approve a treasury management transaction.
 - All treasury management transactions will require the approval of a suitably qualified senior officer (the Head of Finance, Fund Accountant or Accountant, or officers of an equivalent or higher grade in the Finance team).
 - Responsibility for day-to-day treasury activities will be rotated on a frequent basis.
- 4.10. In the event that significant amounts of money are received late in the day, after the relevant cut-off times for dealing with counterparties, such monies will be deposited with the Fund's banker in an interest-bearing account overnight. This must be approved, on a case-by-case basis, by the Head of Finance, or deputy in their absence. In the absence of both officers, approval will be sought from an Assistant Director (Investment) or, in their absence Director of Pensions. In all instances, the Head of Governance will be notified, as part of their monitoring programme. Where such amounts exceed £10 million, the reasons for the payment missing the cut-off will be ascertained and notified to the Head of Governance. As part of the following working day's treasury management activity, these monies will be deposited with a suitable counterparty as normal.

5. INSTRUMENTS TO BE USED

- 5.1. The Fund will make use of the following types of instruments:
- i) Fixed term Deposits.
 - ii) Money Market Funds.
 - iii) Government Money Market Funds
 - iv) Foreign Currency Balances.
- 5.2. The Fund may consider the use of other types of instruments with cash-like qualities, subject to compliance with the principles of this policy, and to the appropriate due diligence being performed on potential counterparties.
- 5.3. Except in the case of foreign currency, the Fund will use only sterling-denominated instruments.

6. MONITORING AND OVERSIGHT

- ~~6.1.~~ The Fund will monitor the principles adopted in the treasury management policy as part of its controls, and compliance monitoring process.
- 6.2. The Fund will use this information to monitor both the suitability of potential counterparties for new deposits, and current deposits with existing counterparties. At all times, these will be automatically compared to the approved parameters to test whether a parameter has been breached.
- 6.3. In the event that the Fund is notified of a change that would cause one or more parameters to be breached in respect of existing deposits, this will trigger a review process, involving the Head of Finance and Head of Governance, who will determine the appropriate course of action in the light of all available information. The Financial Management Committee will ultimately be responsible for approving a course of action.
- 6.4. The Financial Management committee will have as standing item on its agenda monthly cashflow forecast monitoring and annual review of the treasury policy, counterparty risk, inflation risk, and to review performance. Ad hoc meetings may also be held where a change of policy may be necessary or beneficial to the Fund's treasury arrangements.

7. COMPLIANCE AND AUDIT

- 7.1. The Fund's treasury management activities will be reviewed by its Compliance team, and the council's Internal Audit team. Appropriate records, constituting a suitable audit trail, will be maintained, and always made available to those teams, and documents will be retained in accordance with the Fund's document retention policy. These records will include a record of balances held with each counterparty for each day, and the relevant limits, durations, and other criteria in place on that day.
- 7.2. Breaches will be reported to the Head of Governance in the first instance, and action taken in consultation with the relevant internal committees.

8. REPORTING

- 8.1. The Finance team will prepare summary reports covering its treasury management activities for review by the Financial Management committee
- 8.2. Reports on the levels of cash held, and investment performance will be provided to the Pensions Committee on a quarterly basis as part of overall Fund reporting on investment assets.
- 8.3. The Pensions Committee will be notified of any breaches through the Fund's quarterly compliance monitoring report. An annual assurance report will be presented to the Committee each year as part of the annual policy review, with the policy approved by the Pensions Committee no less than every three years.

9. MONEY LAUNDERING

The Fund, through the Head of Governance will monitor and ensure compliance with anti-money laundering regulations. It employs policies and procedures which embrace the UK's anti-terrorist financing, and anti-money laundering requirements, with a focus on CIPFA's "Combatting Financial Crime". It will also ensure that staff involved in the Treasury activities are properly trained and fully aware of the regulations, and the Fund's Fraud Risk policy. The Head of Governance is responsible for assurance on anti-money laundering, reporting to CWC Chief Operating Officer (COO)

10. MiFID – MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE

Under MiFID II, pension funds and management companies are categorised as professional clients. However, local authorities and municipalities (and their pension schemes) are treated as retail clients unless they opt up to professional investor status.

The Fund, in line with the MiFID II directive, has elected to opt-up as professional investor client status for all investment services including fund promotions and investments. The Head of Governance is also responsible for review and maintaining opt up.

11. ACCOUNTING AND AUDIT ARRANGEMENTS

The Fund will account for its treasury management activities in accordance with appropriate accounting practices and standard, and with statutory and regulatory requirements.

12. CASH AND CASH FLOW MANAGEMENT

The Head of Finance has responsibility for the cash management of the Fund as defined under this policy. Cash flow projections will be prepared on a regular and timely basis and will ensure that these are adequate for the purpose of liquidity risk management. The Fund will provide for a minimum level of cash holdings in its accounts to mitigate any exceptions on cash management. The Fund does not make use of overdraft or borrowing facilities.

13. BANKING ARRANGEMENTS

The Fund recognises the importance of ensuring effective control over its bank accounts. All deposits are made onto the Fund's main accounts unless otherwise approved by the Head of Finance

14. USE OF EXTERNAL SERVICE PROVIDERS

The Fund recognises that there may be potential value in 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 proper evaluation of its costs and benefits. It will also ensure that the terms of their appointment, and methods by which their value will be assessed are properly agreed, documented, and subject to regular review. It will further ensure, where feasible and necessary, that a spread of service providers is used to avoid 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.

15. TRAINING AND QUALIFICATIONS

The Fund recognises the importance of ensuring that all staff involved in treasury management activities 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 Head of Finance is responsible for ensuring and maintaining this objective.

16. CORPORATE GOVERNANCE

The Fund is committed to the pursuit of proper corporate governance through its service areas and establishing the principles and practices by which this can be achieved. Accordingly, the treasury management activities will be undertaken with openness and transparency, honesty, integrity, and accountability.

17. TREASURY MANAGEMENT PARAMETERS

The Treasury Management Parameters (see Appendix), which should be read alongside this document, sets out the criteria to be applied in treasury management decision-making, in line with the principles set out in section 4.

APPENDIX

TREASURY MANAGEMENT PARAMETERS

The following parameters will apply to individual cash investments:

	Money Market Funds	Foreign Currencies
Currency	GBP, EUR or USD	N/A
Cash Limit	£250 million per institution.	£1 million (except for EUR and USD, see below)
Minimum Cash Investment	Nil	Nil
Maximum Duration	Up to 6-month term funds	Instant Access
Sovereign Rating	N/A	HSBC only
Individual Rating - Long Term	AAAmf / Aaa-mf / AAAM	HSBC only
Other Conditions	Maximum of 5% of the MMF.	EUR and USD to be held in accordance with operational purposes and planned use. Other currencies: aim for balance of £500k.

Limit on Amount to be Placed with Money Market Funds

No more than £250m of the Fund's cash balances will be placed with any one organisation.

In the event that the Fund is notified of a high level of incoming cash, with potential delay in investment, the Internal Investment Committee may consider and recommend to the Financial Management Committee, a temporary increase in this limit, pending investment decision and implementation.

Other Limits

In addition to the parameters set out above, three further sets of limits will apply to the cash balance, as set out in the following paragraphs.

Limits on Durations

Maturity Date	Cumulative %age of Cash
More than One Year	Nil
More than Six Months	25%
More than Three Months	50%
Term Deposits of Any Length	Limit is defined by minimum cash requirements; see below

Minimum Cash Amounts

At all times, the Fund must have minimum levels of cash with reference to certain maximum maturity periods, as set out in the following table.

Maturity Date	Amount
Instant Access	£50 million
40 days or less	£90 million
100 days or less	£170 million