Haringey Council

Agenda item:

Pensions Committee **On 16 September 2010**

Report Title. **Pension Fund Treasury Management Strategy Statement**	
Report of **Director of Corporate Resources** Signed : J. Parker 7/9/10	
Contact Officer : **Nicola Webb – Corporate Finance** **Telephone 020 8489 3726**	
Wards(s) affected: **All**	Report for: Non key decision

1. Purpose of the report

1.1 To consider a proposed treasury management strategy statement for the investment of pension fund cash.

2. Introduction by Cabinet Member

2.1 Not applicable.

3. State link(s) with Council Plan Priorities and actions and /or other Strategies:

3.1 Not applicable.

4. Recommendations

4.1 That the proposed Treasury Management Strategy Statement for pension fund cash be approved.

5. Reason for recommendations

5.1. As a separate bank account is being introduced for the Pension Fund, it is considered best practice for the Pensions Committee to have agreed a specific Treasury Management Strategy Statement. Mirroring the Council's treasury management strategy statement is considered the most efficient way of doing this.

6. Other options considered

6.1. Not applicable.

7. Summary

7.1 The revised LGPS (Management & Investment of Funds) regulations require Pension Funds to have a bank account which is separate from the Council's by 1st April 2011.

7.2 The Pension Fund holds cash in-house for the purposes of paying benefits and pending investments. It is best practice for the Pensions Committee to agree a specific treasury management strategy statement for investment of this cash.

7.3 It is proposed that the pension fund treasury management strategy mirrors that of the Council's as this is considered a prudent strategy suitable for short term cash. The only change from the Council's reflects a restriction by the Debt Management Office regarding the taking of deposits from Pension Funds.

8. Head of Legal Services Comments

8.1 The report correctly identifies the statutory requirement under Regulation 6 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 that from 1 April 2011 a separate bank account is required for the Pension Fund for all monies held at that date and for all monies received on or after that date. In this light the proposals made concerning the nature and content of an appropriate Treasury Management Strategy Statement are reasonable ones.

9. Equalities & Community Cohesion Comments

9.1 There are no equalities issues arising from this report.

10. Consultation

10.1 Not applicable.

11. Service Financial Comments

11.1 The separate treasury management strategy statement for the Pension Fund will not change the amount of interest earned by the Fund, as the Fund's cash is currently being invested in accordance with the Council's strategy.

11.2 However it will demonstrate transparency in dealings between the Council and the Pension Fund, which the Pension Fund's auditors have been seeking.

12. Use of appendices /Tables and photographs

12.1 Appendix 1: Draft Pension Fund Treasury Management Strategy Statement

13. Local Government (Access to Information) Act 1985

- Haringey Council's Treasury Management Strategy Statement 2010/11

14. Separate Bank Account

14.1 The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2009 set out the parameters within which Local Government Pension Funds should invest their funds. These regulations require that Pension Funds operate a separate bank account for pensions from 1st April 2011.

14.2 Historically local authorities have operated one bank account for transactions both from the Council and the Pension Fund, although separate accounting arrangements have always been in place. It has been decided that separate bank accounts should be in place to demonstrate transparency between the Council and the Pension Fund.

14.3 A project team of officers was set up to ensure a separate bank account is in place by the regulatory deadline. This is progressing well and it is planned that the separate arrangements will go live in the autumn of this year.

15. Pension Fund in-house cash balances

15.1 The Pension Fund's benchmark does not have an allocation to cash, however cash is held for a number of reasons:

- The fund managers hold cash at the custodian bank to facilitate the buying and selling of stocks.

- Cash is held at the Council as a result of contributions coming in and to enable the payment of pension benefits. The surplus of contributions in over benefit payments out is around £1m per month.
- It was decided at the last investment strategy review in 2007 to set aside cash from the monthly surpluses for investments in property and private equity. Due to the economic climate there have not been as many opportunities to invest as anticipated.

15.2 This has resulted in cash balances held in-house amounting to around £66m currently. Theses balances are invested in a number of fixed term deposits and AAA rated money market funds within the limits of the Council's Treasury Management Strategy Statement which is agreed by full Council in advance of each financial year.

15.3 The cash held by the fund managers is invested at the Fund's custodian bank, Northern Trust in an AAA rated money market fund. The amount varies depending on the number of outstanding transactions, but is usually a very small percentage of their portfolios. This strategy does not cover this cash.

16. Treasury Management Strategy Statement for the Pension Fund

16.1 With the introduction of more transparent arrangements for the Pension Fund's cash transactions in the bank account, it is considered to be best practice for the Committee responsible for the Pension Fund's investment strategy to approve the treasury management strategy being used to invest the in-house cash.

16.2 It is therefore proposed that the strategy attached at Appendix 1 be applied to the Pension Fund cash held in-house pending investment with the Pension Fund's fund managers. The proposed strategy is based on the one used for the investment of the Council's cash. It is a risk averse strategy appropriate for the investment of cash held for the payment of pension benefits and for investment by the fund managers.

16.3 The strategy proposes primarily investing in a small number of UK banks and in AAA rated money market funds. The only differences from the Council's strategy are:

- The Council's strategy lists the Debt Management Office (DMO), which is part of HM Treasury as the default option with no limit. However at the current time the DMO will not accept deposits from the Pension Fund and so an alternative default option is required. It is proposed to use an AAA rated money market fund which invests only in government securities as the default option for the Pension Fund and so a limit of £30m has been included for the Blackrock Sterling Liquidity Fund, which is recommended by the Council's treasury management advisers. It is proposed the DMO remains on the list in case their decision is reversed.

- In addition it is proposed that the Northern Trust Money Market Fund is available to invest in. Northern Trust is the Pension Fund's custodian bank, which means it is responsible for the safekeeping of all the Fund's assets. The use of the Northern Trust money market fund will facilitate a more efficient process of transferring cash to the fund managers.

16.4 In agreeing to this strategy, the Committee are accepting the risks inherent with investing cash. The primary risk is that of default by a counterparty. In this event the Pension Fund will bear the total of any loss relating to Pension Fund specific deposits. To mitigate this risk officers keep all the counterparties on the lending list under constant review with the support and advice of the Council's treasury management advisers, Arlingclose.

APPENDIX 1

Pension Fund Treasury Management Strategy Statement

1 Introduction

This document sets out the limits within which the management of Pension Fund cash held internally is carried out. This should be read in conjunction with the Council's Treasury Management Strategy Statement and the Pension Fund's Statement of Investment Principles.

2 Compliance with guidance

All treasury management activities will be carried out in accordance with the CIPFA Treasury Management Code of Practice and the guidance issued by the Communities and Local Government (CLG) Department on Local Government Investments in England.

To comply with the CLG's guidance, the Council's general policy objective is to invest its surplus funds prudently. The Council's investment priorities are:

- security of the invested capital;
- liquidity of the invested capital;
- an optimum yield which is commensurate with security and liquidity.

3 Risk Management

The Pension Fund is responsible for the meeting the costs which would be incurred in the event of default by a counterparty. Although this strategy is prudent, there is always a risk. In order to mitigate this risk the Council operates a real time information monitoring process. With the advice and support of the Council's treasury management advisers the strength of counterparties is monitored by reviewing credit ratings from all three agencies, credit default swaps, share price movements, corporate news and news concerning government support. Where potential issues are spotted, the counterparty will be removed from the list with immediate effect until officers and the advisers are confident that the issues have been resolved or do not affect the likelihood of the return of cash deposits.

4 Types of investments

Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Specified investments are denominated in sterling, mature within 12 months and meet the Council's high credit quality standard. This standard is a minimum long term credit rating of A+ from all three credit rating agencies. These are listed in section 5 and the majority of the Pension Fund investments will fall into this category.

The addition of money market funds investing only in government securities is the only difference to the Council's list of specified investments.

The non specified investments selected for use by the Council are gilts and bonds, as listed in section 6.

Sections 5 and 6 set out the counterparties with whom the Pension Fund can invest, along with the limit for each counterparty. These are set to diversify risk by spreading the investments.

5 Specified Investments

Specified Investments are those that meet the criteria in the CLG Guidance, i.e. the investment:

- is sterling denominated
- has a maximum maturity of 1 year
- meets the "high" credit criteria as determined by the Council or is made with the UK government or is made with a local authority in England, Wales and Scotland.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

Specified Investments identified for the Council's use are:

- Deposits in the DMO's Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- Certificates of deposit with banks and building societies
- Gilts : (bonds issued by the UK government)
- Bonds issued by multilateral development banks
- AAA-rated Money Market Funds with a Constant Net Asset Value
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

For credit rated counterparties, regard will be had to the credit ratings assigned by Fitch, Moody's and Standard and Poor's. The Council will also take into account other information including corporate developments and market sentiment towards investment counterparties.

Specified investments will be made with the institutions and the limits set out overleaf:

Instrument	Country	Counterparty	Maximum Limit of Investments in Group (where applicable)	Maximum Term of Investment
Term Deposits	UK	DMO's Debt Management Account Deposit Facility	No limit	6 months
Term Deposits	UK	Other UK Local Authorities	£30m (per Local Authority)	364 days
Term Deposits/ Call Accounts	UK	Santander UK Plc	£20m	364 days/ Instant access
Term Deposits/ Call Accounts	UK	Lloyds TSB Bank Plc (Lloyds Banking Group)	£20m	364 days/ Instant access
Term Deposits/ Call Accounts	UK	Bank of Scotland Plc (Lloyds Banking Group)	£20m	364 days/ Instant access
Term Deposits/ Call Accounts	UK	Barclays	£20m	364 days/ Instant access
Term Deposits/ Call Accounts	UK	Clydesdale	£20m	364 days/ Instant access
Term Deposits/ Call Accounts	UK	HSBC	£20m	364 days/ Instant access
Term Deposits/ Call Accounts	UK	Nationwide	£20m	364 days/ Instant access
Term Deposits/ Call Accounts	UK	Royal Bank of Scotland*	£20m	364 days/ Instant access
AAA rated Money Market Funds (MMFs)	Ireland	Goldman Sachs Liquid Reserves Fund	£15m**	Instant access
AAA rated Money Market Funds (MMFs)	Ireland	Henderson Liquid Assets Sterling Fund	£15m**	Instant access
AAA rated Money Market Funds (MMFs)	Ireland	RBS Global Treasury Fund	£15m**	Instant access
AAA rated Money Market Funds (MMFs)	Ireland	Northern Trust Global Cash Fund	£15m**	Instant access
AAA rated Govt Money Market Funds	Ireland	Blackrock Sterling Liquidity Fund	£30m	Instant access

* Approval of this bank also approves the use of the Council's current banker which is Nat West Bank, part of the Royal Bank of Scotland Group. Therefore, when maximum deposits with RBS are made (£20m) this group limit could be exceeded temporarily by the current account credit balance remaining overnight with Nat West Bank. There will also be the usual daylight exposure.

** Up to £15m can be invested in any one non government money market fund subject to a group limit of £45m in non government money market funds.

NB: All of the above banks and building societies are members of the UK Government Credit Guarantee Scheme.

6 Non Specified Investments

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use:

	In-house use	Maximum maturity	Capital expenditure?	Maximum Counterparty Limit
Gilts and bonds ▪Gilts ▪Bonds issued by multilateral development banks ▪Bonds issued by financial institutions guaranteed by the UK government, e.g. GEFCO ▪Sterling denominated bonds by non-UK sovereign governments	✓ (on advice from treasury advisor)	_6 years_	No	£60m
Government guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies (e.g. govt bonds issued by HBOS / RBS / Nationwide, etc)	✓	_6 years_	Yes	£60m

Note: In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.