



Haringey Council

Agenda item:

Pensions Committee

On 12 April 2011

Report Title. **Pension Fund Treasury Management Strategy Statement**

Report of **Director of Corporate Resources**

Signed : *J. Pave 11/4/11*

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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 during 2011/12.

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 the Pension Fund now has a separate bank account, it is considered best practice for the Pensions Committee to agree a specific Treasury Management Strategy Statement for 2011/12. 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 LGPS (Management & Investment of Funds) regulations require Pension Funds to have a bank account which is separate from the Council's.

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 Head of Legal Services has been consulted on the content of this report and comments that its content and recommendation are within the policy agreed by Council and consistent with the requirements and purposes of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. In considering the report Members must take into account the expert financial advice available in the report and any further advice given at the meeting of the Committee.

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 Agreeing a treasury management strategy specifically for the Pension Fund is best practice and helps to demonstrate transparency in dealings between the

Council and the Pension Fund.

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 2011/12

14. Background

- 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. This was implemented in Haringey in October 2010.
- 14.2 In September 2010, Pensions Committee agreed that the Pension Fund in-house cash balances be invested in accordance with the Council's treasury management strategy for 2010/11. It was also agreed that the activity and performance on these investments be included in the quarterly performance update reports.
- 14.3 Cash is held in-house to manage pension benefit payments and to fund calls from the Private Equity and Property fund managers.

15. Treasury Management Strategy for 2011/12

- 15.1 It is proposed that the strategy attached at Appendix 1 be applied to the Pension Fund cash held in-house. 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 pending investment by the fund managers.
- 15.2 The strategy proposes primarily investing in a small number of banks all of which are based in countries with AAA ratings and a minimum credit rating of A+ 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 continue 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 Government 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.

15.3 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.

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, 6 & 7 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 quality" definition as determined by the Council or is made with the UK government or is made with a local authority in England, Wales, Scotland or Northern Ireland or a parish or community council.
- 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
- AAA-rated Money Market Funds with a Constant Net Asset Value
- Treasury-Bills (T-Bills)
- *Certificates of deposit with banks and building societies
- *Gilts: (bonds issued by the UK government)
- *Bonds issued by multilateral development banks

** Investments in these instruments would only be undertaken on advice from the Council's treasury management adviser.*

For credit rated counterparties, the minimum criteria will be the lowest equivalent short-term and long-term ratings assigned by Fitch, Moody's and Standard & Poor's (where assigned).

*Long-term minimum: A+ (Fitch); A1 (Moody's); A+ (S&P)
Short-term minimum: F1 (Fitch); P-1 (Moody's); A-1 (S&P)*

In addition to credit ratings, the Council will review a range of other information to determine an organisation's creditworthiness:

- Credit Ratings (minimum long-term A+ for counterparties; AAA for countries)
- Credit Default Swaps (where quoted)
- Net Debt as a Percentage of GDP for countries
- Sovereign Support Mechanisms/potential support from a well-resourced parent institution
- Share Prices
- Macro-economic indicators
- Corporate developments, news and articles, market sentiment.

Specified investments will be made within the limits detailed in the following table. The limits stated will apply across the total portfolio operated by the Council and so incorporate both Council and Pension Fund specific investments.

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limits £m	Maximum period of investment*
Term Deposits	UK	Debt Management Account Deposit Facility (DMADF), Debt Management Office (DMO)	No limit	6 months
Gilts	UK	Debt Management Office (DMO)	No limit	364 days
T-Bills	UK	Debt Management Office (DMO)	No limit	6 months
Term Deposits/ Call Accounts	UK	Other UK Local Authorities	£30m per local authority	364 days
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent)	£20m per bank or banking group	364 days
Term Deposits/ Call Accounts/ Certificates of Deposit	Non-UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent) in European countries** with a Sovereign Rating of at least AAA from all three credit rating agencies.	£15m per bank or banking group	6 months

Continued overleaf

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limits £m	Maximum period of investment*
Bonds issued by multilateral development banks	Non-UK	Counterparties rated AAA in which the UK is a shareholder	£15m per counterparty	364 days
AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	Constant Net Asset Value Money Market Funds (MMFs)	£20m per MMF***; Group limit £100m	Instant Access

* The limits for the period of investment are the maximum for the categories of counterparties. Lower operational limits will apply if recommended following a review of creditworthiness.

** Investments in any one country's banks will be limited to a maximum of 10% of the total investments at the time of investment, excluding the UK.

*** Limit per MMF to be no more than 0.5% of the Money Market Fund's total assets.

6 Non-Specified Investments proposed for use by the Council

Non-specified investments are those which do not meet the criteria for specified investments. The non-specified investments which it is proposed the Council will consider are investments for longer than one year with the same counterparties as specified investments. None of these will constitute capital expenditure. Non-specified investments will form a maximum of 50% of the total portfolio at any time.

	In-house use	Maximum maturity	Capital expenditure?
<ul style="list-style-type: none"> ▪ Term Deposits with UK banks and building societies ▪ Certificates of Deposit with UK banks and building societies 	✓	5 years	No
<ul style="list-style-type: none"> ▪ Gilts ▪ Bonds issued by multilateral development banks 	✓ (on advice from treasury adviser)	5 years	No

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.

7 Lending List of counterparties for investments

This is the proposed list of counterparties which the Council can lend to. The list will be kept under constant review and counterparties removed if any concerns are raised about their credit worthiness.

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit £m
Gilts, Treasury Bills, Term Deposits	UK	Debt Management Office (Term deposits with Debt Management Account Deposit Facility DMADF)	No limit
Term Deposits	UK	Other Local Authorities	£30m per local authority
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Santander UK Plc (Banco Santander Group)	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Bank of Scotland (Lloyds Banking Group)	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Lloyds TSB (Lloyds Banking Group)	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Barclays Bank Plc	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Clydesdale Bank (National Australia Bank Group)	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	HSBC Bank Plc	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Nationwide Building Society	20

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit £m
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	NatWest (RBS Group)	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Royal Bank of Scotland (RBS Group)	20
Term Deposits/ Call Accounts/ Certificates of Deposit	UK	Standard Chartered Bank	20
Term Deposits/ Call Accounts/ Certificates of Deposit	Finland	Nordea Bank	15
Term Deposits/ Call Accounts/ Certificates of Deposit	France	BNP Paribas	15
Term Deposits/ Call Accounts/ Certificates of Deposit	France	Credit Agricole CIB (Credit Agricole Group)	15
Term Deposits/ Call Accounts/ Certificates of Deposit	France	Credit Agricole SA (Credit Agricole Group)	15
Term Deposits/ Call Accounts/ Certificates of Deposit	France	Société Générale	15
Term Deposits/ Call Accounts/ Certificates of Deposit	Germany	Deutsche Bank AG	15
Term Deposits/ Call Accounts/ Certificates of Deposit	Netherlands	ING Bank NV	15
Term Deposits/ Call Accounts/ Certificates of Deposit	Netherlands	Rabobank	15

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit £m
Term Deposits/ Call Accounts/ Certificates of Deposit	Sweden	Svenska Handelsbanken	15
Term Deposits/ Call Accounts/ Certificates of Deposit	Switzerland	Credit Suisse	15
Money Market Funds	Ireland	BlackRock Institutional Sterling Liquidity Fund	20
Money Market Funds	Ireland	BlackRock Institutional Sterling Government Liquidity Fund	30
Money Market Funds	Ireland	Goldman Sachs Liquid Reserves Fund	20
Money Market Funds	Ireland	Henderson Global Investors Liquid Assets Sterling Fund (now managed by DB Advisors – a name change is likely during 2011/12)	15
Money Market Funds	Ireland	Invesco Short Term Investments Company Sterling Liquidity Portfolio	5
Money Market Funds	Luxembourg	J.P. Morgan Asset Management Sterling Liquidity Fund	20
Money Market Funds	Ireland	Northern Trust Global Cash Fund	17
Money Market Funds	Ireland	RBS Global Treasury Fund - Sterling	20
Bonds	European Union	European Investment Bank	15
Bonds	European Union	European Bank for Reconstruction and Development	15
Bonds	Worldwide	International Bank for Reconstruction and Development (the World Bank)	15

