

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
TREASURY MANAGEMENT STRATEGY FOR THE PENSION FUND – 2017/18 Pensions Committee 24th January 2017	Classification PUBLIC	Enclosures One
	Ward(s) affected ALL	

1. INTRODUCTION

1.1 This report sets out the Annual Treasury Management Strategy for the Pension Fund for 2017/18 and the context in which the strategy is being set.

2. RECOMMENDATIONS

2.1 **The Committee is recommended to:**

- **Agree the Treasury Management Strategy for the Pension Fund for 2017/18**
- **Delegate responsibility for Pension Fund treasury management to the Group Director, Finance and Corporate Resources, including the authority to add or remove institutions from the approved lending list and amend cash and period limits as necessary inline with the Council's own creditworthiness policy.**

3. RELATED DECISIONS

- 3.1 Pensions Committee 24th January 2017 – Pension Fund Risk Register
- 3.2 Pension Sub-Committee 28th January 2016 – Approval of the updated Pension Fund Treasury Management Statement for 2015/16.
- 3.3 Pension Committee 23rd June 2009 – Approval of first Pension Fund Treasury Management Statement.

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

4.1 Whilst the treasury management function is undertaken by the Administering Authority on behalf of the Pension Fund and there is a segregation of monies held in the Fund with a separate bank account, it is important to recognise that the Pension Fund Committee needs to be aware of how cash is being invested outside of the main asset classes and to satisfy themselves that appropriate steps are taken to ensure the security of any deposits.

4.2 There are no immediate implications arising from consideration of this report or its recommendations, however, the report and associated treasury strategy will help to ensure good governance of the Fund and ensure that the Committee are informed about all aspects of Pension Fund management.

5. COMMENTS OF THE DIRECTOR, LEGAL

- 5.1 Pursuant to Regulation 11 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Pension Fund must invest, in accordance with its investment policy, any fund money that is not needed immediately to make payments from the fund.
- 5.2 The Pensions Committee act as quasi trustees of the Pension Fund and this report, and the proposed Treasury Management Strategy, help to fulfil their role in respect of the cash management of the Fund.
- 5.3 There are no immediate legal implications arising from this report.

6. BACKGROUND/TEXT OF THE REPORT

- 6.1 The Pension Fund has cash deposits with the investment managers, the Fund's custodian and the pension administrator along with deposits held within the Pension Fund's own bank account managed within the Council's Treasury function.
- 6.2 The purpose of this report is to set out treasury management policies in respect of the cash held in the Pension Fund's own bank account managed by Council officers.
- 6.3 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which came into force 1st November 2016, include regulations for Pension Funds to have segregated pension fund bank accounts in order to ensure improved pension fund governance and to have formulated an agreed policy for the investment of its pension fund money.
- 6.4 The Hackney Pension Fund has maintained a separate bank account for a number of years, with surplus cash invested separately to the Council's General Fund, and formulated its own Treasury Management Strategy for the Pension Fund, the first of which was agreed at Pension Sub-Committee in June 2009. Given the need to ensure proper governance of the Fund, it is therefore appropriate to review the arrangements for the management of Pension Fund cash and the Treasury Management Strategy for the Pension Fund for the financial year 2017/18
- 6.5 The factors affecting the Pension Fund cash are contained in the background information below and a draft Pension Fund Treasury Management Strategy is attached as an appendix to this report.
- 6.6 The Pension Fund has for a number of years operated with a separate bank account, as this helps to ensure direct accountability of Pension Fund monies. The Council manages the cash held in the Pension Fund bank account as part of the overall treasury process, with sums being invested separately to the main Council monies. The Treasury Management Strategy developed for the Council with a restricted list of counterparties, is equally applied to the Pension Fund, therefore the Pension Fund cash would not be invested with a counterparty that is not included on the wider Council lending list.
- 6.7 Since the 1st April 2014, the Council's banking services, which include the Pension Fund Account, has been provided by Lloyds Banking Group PLC. Lloyds Banking Group PLC was appointed the Council banking provider following a tender exercise at the end of 2014.

- 6.8 The Treasury Management Strategy for the Pension Fund is designed to ensure that the Pension Fund has clear guidelines on its treasury management which are distinct from the Council, but which are compatible with wider Council treasury management policies and practices. CIPFA has defined Treasury Management as:
- “the management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*
- 6.9 The Pension Fund Treasury Management Strategy sets out percentage limits for cash managed by the Council, how it is to be invested and policies for distribution of surplus cash to the fund’s external managers for investment. Also on the agenda for the Committee is the Pension Fund Risk Register which includes the risks surrounding the use of third party providers, which would include the counterparties for cash management and the control mechanisms in place for managing such risks.
- 6.10 Following a tendering exercise by the Council for Pension Fund custodian services, a new provider, HSBC, was appointed. Work was undertaken to facilitate the transition from the previous custodians, State Street, to HSBC. The Pension fund custodian contract with HSBC has been implemented and operational from the 1st October 2014.
- 6.11 Pension Fund cash required by fund managers, but not currently invested in their respective asset classes, is held in a segregated account by the Fund’s custodian, HSBC. Cash balances may arise for timing reasons on income, sales and purchases or because a manager wants to hold cash for tactical reasons, such as market conditions. Cash balances are swept in or out of a money market fund on a daily basis to maximise the available yield.
- 6.12 In addition to the cash held by HSBC, cash is also held by the Fund’s pension scheme administrators in a separate designated account with Lloyds Banking Group. The pension administrators collect the pension contributions on a monthly basis as well as receiving money from transfers. From the contributions and transfers collected, the administrator pays pension benefits and also transfers out, where scheme members move to new employment. Officers of the Council monitor the level of cash held on a monthly basis to ensure that sufficient liquidity is retained by the administrators as required to fulfil their functions. Where sums collected exceed the requirements to pay out benefits and transfers, then excess cash is returned to the Pension Fund bank account managed by the Council or where sums fall below certain levels, cash will be transferred back to the administrators to ensure that they have sufficient cash to meet demands benefit and transfer payments.
- 6.13 The treasury management strategy for the Pension Fund is reviewed on an ongoing basis taking into account changes to the overriding strategy adopted by the Administering Authority and changes in financial conditions. The Treasury Management Strategy is reviewed annually by the Pensions Committee to ensure that the Strategy remains appropriate to the needs of the Fund.

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Appendix

Appendix 1 – Draft Pension Fund Treasury Management Policy 2017/18