

<b>REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES</b>		
<b>Pension Fund Treasury Management Strategy – 2018/19</b>  <b>Pensions Committee</b> <b>4<sup>th</sup> December 2017</b>	<b>Classification</b>  <b>PUBLIC</b>	<b>Enclosures</b>  <b>One</b>
	<b>Ward(s) affected</b>  <b>ALL</b>	

## **1. INTRODUCTION**

- 1.1 This report sets out the Annual Treasury Management Strategy for the Pension Fund for 2018/19 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 2018/19**
- **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 in line with the Council's own creditworthiness policy.**

### **3. RELATED DECISIONS**

- 3.1 Pensions Committee 4<sup>th</sup> December 2017 – Pension Fund Risk Register
- 3.2 Pension Sub-Committee 27<sup>th</sup> January 2017 – Approval of the updated Pension Fund Treasury Management Statement for 2016/17.
- 3.3 Pension Committee 23<sup>rd</sup> 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 Pensions 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 INTERIM 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 TO THE REPORT**

- 6.1 This report sets out the Pension Fund's policies in respect of cash deposits. The Fund has cash deposits held with its 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 Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which came into force 1<sup>st</sup> November 2016 stipulate that the Fund must have its own bank account, separate to that of its host authority and that it must invest any money not immediately needed to make payments from the Fund (Regulation 7(8)).
- 6.3 In accordance the Regulations, the Hackney Pension Fund maintains a bank

account separate to that of the Council. Surplus cash is invested separately to the Council's General Fund in accordance with the Fund's Treasury Management Strategy, which sets out arrangements for the management of Pension Fund cash.

6.4 The Pension Fund's cash is held across 3 locations:.

- in the Pension Fund bank account or managed using a range of deposits and Money Market Funds by the London Borough of Hackney Financial Services Section,
- with the Pension Fund custodian, HSBC, awaiting investment by the Fund's external fund managers
- with the Pension Fund administrators, Equiniti Paymaster, in order to meet benefit payments and transfers to other pension funds on behalf of former members

6.5 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 has a restricted list of counterparties; these restrictions are applied equally to the Pension Fund's cash balances. Pension Fund cash is therefore only invested with counterparties included on the wider Council lending list.

6.6 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.

6.7 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. 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, excess cash is returned to the Pension Fund bank account managed by the Council, from where it will be invested. If cash held with the administrators falls below certain levels, cash will be transferred back to the administrators to ensure that they have sufficient cash to meet demands for benefit and transfer payments.

## **7. TREASURY MANAGEMENT STRATEGY**

7.1 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.”*

The Strategy therefore sets out 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.

- 7.2 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 Strategy is reviewed annually by the Pensions Committee to ensure that the Strategy remains appropriate to the needs of the Fund, and this is built into the Fund's Business Plan.

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## **Appendix**

Appendix 1 – Draft Pension Fund Treasury Management Policy 2018/19