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| REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES | | |
| Pension Fund Treasury Management Strategy Pensions Committee 12th December 2018 | Classification PUBLIC | Enclosures One |
| | Ward(s) affected ALL | |

1. INTRODUCTION

- 1.1 This report sets out the Treasury Management Strategy for the Pension Fund for 2019-2022 and sets out 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 2019-2022**
 - **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 4th December 2017 – Pension Fund Treasury Management Strategy 2018/19
- 3.2 Pension Committee 23rd June 2009 – Approval of first Pension Fund Treasury Management Strategy

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

- 4.1 .Appropriate management of the Pension Fund's cash position helps to ensure the security of the Fund's cash deposits, minimising losses, and sufficient availability to meet immediate demand, preventing the Fund from becoming a forced seller of assets. Both are essential to maintain the financial health of the Fund.
- 4.2 Whilst the Pension Fund operates a separate bank account to allow the segregation of Pension Fund and General Fund/HRA monies, the treasury management function for the Fund is undertaken by the Council's Treasury and Banking Team. Costs incurred by the service in managing Pension Fund cash are recharged to the Fund as necessary. Appropriate management of the Fund's cash position is both essential to the Fund's financial health and a legal requirement; any cost is outweighed by the financial benefit to the Fund.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

- 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 acts as quasi trustee of the Pension Fund and this report, and the proposed Treasury Management Strategy, help the Committee to ensure that it is meeting this requirement and managing the Fund's cash deposits in an appropriate manner.

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 1st 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 has previously been reviewed annually by the Pensions Committee; however, given that relatively few changes are made year to year, it is considered appropriate to move the timescale for review in line with the majority of Fund strategies which are reviewed on a triennial basis. This helps to reduce the time required by the Committee for regular policy review work, allowing more time to be devoted to key strategic considerations.

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Appendix

Appendix 1 – Draft Pension Fund Treasury Management Strategy 2019-2022#

Background Papers

None