

## Suffolk Pension Fund Committee

<b>Report Title:</b>	Treasury Management Strategy 2016/17
<b>Meeting Date:</b>	27 January 2016
<b>Chairman:</b>	Councillor Peter Bellfield
<b>Director:</b>	Geoff Dobson, Director of Resource Management Tel. 01473 264347
<b>Author:</b>	Paul Finbow, Corporate Finance Specialist Tel. 01473 265288

### Brief summary of report

1. This report sets out the proposed Treasury Management strategy for the management of the Pension Fund cash.

### Action recommended

2. The Committee is asked to approve the Treasury Management strategy set out in **Appendix 1**.

### Reason for recommendation

3. The Pension Fund committee is responsible for the determination of what activities may be undertaken for the purpose of managing the Pension Fund's cash balances and for establishing a framework to govern how these activities are undertaken.
4. The proposed Treasury Management strategy will ensure that the Pension Fund's treasury management arrangements are conducted in a prudent and cost effective manner.

### Alternative options

5. There are no alternative options.

### Main body of report

#### Regulatory Background

6. It is a requirement under the 2009 investment regulations (SI 2009 No. 3093) for the Pension Fund to maintain a bank account separate from the County Council's banking arrangements.
7. The Suffolk Pension Fund maintains a separate bank account in accordance with the regulations.

## **Pension Fund cash**

8. The Pension Fund cash is either held with Lloyds Bank and managed by the treasury management staff of the County Council or held with HSBC and managed by the Pension Fund officers.

## **Cash managed by Suffolk County Council**

9. The cash managed by treasury management is received from contributions paid over by the employers in the Fund, this cash is used to pay benefits due under the scheme and expense invoices.
10. The treasury management arrangements are operated under the terms of the Treasury Management Practices which have been approved by the County Council.
11. The Committee has previously agreed the specific criteria for deciding what short-term investments may be made from Pension Fund cash, which have been included within the statement of investment principles for the Fund. This includes the specification of approved counterparties for the investment of pension fund cash. Pension Fund cash is currently invested in money market funds with a AAA credit rating (the highest credit rating that is available) or in a deposit account with the County Council's banker, Lloyds Bank. In each case, the Pension Fund has instant access to the cash without notice.
12. The cash managed by the treasury management team for the Pension Fund at 31 December 2015 was £2.5 million. These sums are held on deposit with Lloyds Bank earning interest at a rate of 0.5%.

## **Cash held by Custodian**

13. The Pension Fund cash held on HSBC is money returned in the form of distributions which is then used to fund capital calls or balance the investment mandate. In addition, the Pension Fund's investment managers have discretion to hold a limited amount of cash within their mandates, subject to the limits specified in their investment management agreements.
14. One of the services provided to the Pension Fund by the Fund's custodian, HSBC, is a banking service. A separate bank account is set up in the currencies used in each investment manager's mandate. Certain investment managers invest cash directly in money market funds rather than leaving it in HSBC.
15. US Dollars and sterling balances are swept in money market funds each day and receive 0.3% and 0.5% respectively. Cash balances in other currencies attract a cash interest rate which is variable depending on the currency held.
16. The maximum limit of cash to be held at HSBC has been increased to £50 million. As the size of the Pension Fund has increased it was felt that the previous limit of £25 million was not sufficient to manage the amount of cash flowing through the investments. Advice was taken from the investment advisers and the increase has been approved by the Director of Resource Management.
17. At 31 December 2015, the Pension Fund held £23.0m in cash. The details are set out in the table overleaf.

## Pension Fund cash held at HSBC as at 31 December 2015

	£'m
Cash at HSBC	
Cash in HSBC money market fund (Pension Fund)	3.5
Cash in HSBC money market fund (investment managers)	9.9
Other cash balances held by HSBC (non-sterling)	1.5
BlackRock money market fund	3.3
Schroders money market fund	4.8
<b>Total</b>	<b>23.0</b>

### Treasury Management Strategy 2016/17

18. The Treasury Management Strategy contains the policy statement for treasury management setting out the formal objectives of treasury management, details of how the performance of the activity will be measured and monitored, and the criteria that will be applied for specifying counterparties which are eligible for pension fund deposits.
19. The regulations give local authority pension funds a limited power to borrow for up to 90 days. The power may only be used in exceptional circumstances, principally to ensure that benefits are paid on time, and any borrowing must in any case be repaid within 90 days. Borrowing by local authority pension funds in order to invest is not permitted. The treasury management strategy also sets out how any borrowing on behalf of the Fund will be undertaken.
20. The Treasury Management Strategy attached as **Appendix 1** sets out the proposed treasury management arrangements for the pension fund in 2016/17. **Annex 1** to the Appendix sets out the counterparty criteria for in-house Pension Fund cash.

#### Sources of further information

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (S.I. 2009 No.3093).

Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes 2011 edition.

