

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE

26 March 2020

TREASURY MANAGEMENT STRATEGY 2020-21

Purpose of the Report

1. This report seeks Members' approval for the 2020-21 Treasury Management Strategy for the Wiltshire Pension Fund, as shown in the attached Appendix.

Background

2. As the Committee is aware, the Fund has its own bank account, which is separate from Wiltshire Council's bank accounts. This was implemented in April 2009, at the same time as the Fund gained its own accounting entity with the introduction of the SAP system. Separate bank accounts became a requirement of the Local Government Pension Scheme Regulations from 1 April 2011.
3. Following concerns about "co-mingling" of local authority and pension fund cash balances, and the associated risk of cross-subsidy, the same Regulations require that the two sets of cash investments are also managed separately. This separation has been in place since 2010/11.
4. CIPFA defines treasury management as:
"The management of the local authority's borrowing, investments and 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."

Considerations for the Committee

5. The Fund has net inflows from its dealings with its members, so in any month, the income from contributions and transfers-in exceed the pensions, transfers-out and costs paid out. Any surplus cash accumulated (Trowbridge Cash) is sent to one of the Fund's investment managers, although a float of approximately one month's cash requirement (£6 - £10 million) is held for cashflow purposes.
6. The Fund has several money market funds and call accounts open to ensure the Funds are not all held with one counterparty, thereby spreading the risk.
7. When preparing this strategy officers liaised with Wiltshire Council's Treasury Management Team to ensure the strategy remains appropriate. There have been no major changes proposed to the Wiltshire Council Treasury Strategy for 2020-21.

The key points of the Treasury Management Strategy

8. The key points of the Strategy (see attached) are:
- a) The Fund will aim to achieve the optimum return on investments commensurate with high levels of security and liquidity.
 - b) The monies will be invested separately from the Council's and the Fund will receive the actual interest earned.
 - c) The Pension Fund will use the same criteria for maximum limits and terms with individual counterparties as approved by Wiltshire Council on an annual basis in its own Treasury Management Strategy, subject to a maximum of £3m with any single counterparty. The current limit is £6m, but this is being revised down to £3m in order to adequately spread the risk, bearing in mind the amounts of cash held. This may take time to implement as it will be necessary to open some additional accounts.
 - d) Given the nature of Trowbridge Cash (i.e. short-term working capital nature), the investments will only be made either in:
 - i. Call Accounts provided by an approved deposit-taker that complies with the Counterparty Policy set out in the Strategy; or
 - ii. Money Market Funds managed by an approved investment manager.
 - e) The providers of the Call Accounts, and the Money Market Fund vehicles, must have a "high credit rating" as prescribed in the minimum requirements for "high credit rating" set out in Wiltshire Council's annual Treasury Management Strategy.
 - f) The Fund is not permitted to borrow under the regulations, except by way of a short-term loan or overdraft from a bank (repayable within 90 days), and then only in exceptional circumstances where funds are required for:
 - i. Paying benefits due under the Scheme; or
 - ii. Meeting investment commitments arising from the implementation of a decision by the Committee to change the balance between the different types of investment.
 - g) The management of Wiltshire Pension Fund's cash will be carried out by Wiltshire Council's Treasury Management team under a Service Level Agreement.
 - h) As at the time of writing, the current list of providers was as follows...

Name of counterparty	Type	Credit rating	Current rate of interest	Interest earned 2018-19 (£)	Interest earned ytd 2019-20 (£)
HSBC	Overnight account	A+	0.60%	2,336	4,503
Black Rock	Money market account	AAA	Variable	17,173	19,422
Aberdeen	Money market account	AAA	Variable	24,470	36,369
Handlesbanken UK	Call Account	AA	0.65%	301	169

- i) Going forward the Treasury Management team will report annually on the counter parties available to the Fund, the cash balances held, and interest received against each of the them. TM team will come to committee to present their report.
- j) There is an option to review and devise proper acceptable limits to the amount of cash that is held with each Counter Party.
- k) Officers of the Fund will review the strategy annually.

Environmental Impact of the Proposal

9. There is no known environmental impact of this proposal.

Financial Considerations & Risk Assessment

10. This has been dealt with in this paper. The implementation of this Treasury Strategy mitigates the risk PEN016: Treasury Management outlined on the Wiltshire Pension Fund risk register which outlines the risk as being “*A lack of effectiveness in respect of the Fund's Treasury Management Services*”. Having a segregated treasury function means that the Fund is exposed to counterparty risk which could affect the Funding level of the Fund. In order to mitigate this risk, it is essential to have an effective treasury management strategy in place that is subject to regular annual review.
11. The Wiltshire Pension Fund Treasury Management Strategy follows the same criteria as that of Wiltshire Council but with lower counter party limits. The Fund currently has a maximum counterparty limit of £6m. From 2020-21 we will be revising this down to £3m due to the size of the balances held.

Proposals

12. The Committee is asked to approve the attached Treasury Management Strategy.

ANDY BROWN
Treasurer to the Pension Fund

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Unpublished documents relied upon in the production of this report: NONE

WILTSHIRE PENSION FUND TREASURY MANAGEMENT STRATEGY

Operational Context

1. The Fund has net inflows from its dealings with its members, so in any month, the income from contributions and transfers-in exceed the pensions, transfers-out and costs paid out.
2. Approximately one month's cash requirement (£6 - £10 million) is held back as a float for cashflow purposes.

Regulatory Context

3. The Fund will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which came into force 1 November 2016. From 1 April 2010 Wiltshire Pension Fund has not pooled pension fund cash with Wiltshire Council's own cash balances for investment purposes.

4. The Fund will also have regard to:

- a) The Ministry of Housing Communities and Local Government's (MHCLG's) Guidance on Local Government Investments ("[the Guidance](#)") issued under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1 April 2018 and any revisions to that Guidance;
- b) The 2017 revised CIPFA Treasury Management in Public Services Code of Practice ("[the CIPFA TM Code](#)"); and Cross Sectoral Guidance Notes;
- c) The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and any revisions to these regulations.

Investment Policy

5. The general investment policy of the Fund is the prudent investment of any surplus cash balances, the priorities of which are:
 - a) The security of capital; and
 - b) The liquidity of investments.

The Fund will also aim to achieve the optimum return on investments commensurate with high levels of security and liquidity.

6. All cash investments will be in sterling.
7. The monies will be invested separately from the Council's and the Fund will receive the actual interest earned. Monies will be paid out of and received back into the Pension Fund bank account.
8. Trowbridge Cash will target a range of £6 - £10 million, with the highest balances held between the 19th of the month (i.e. when all contributions must be paid over by employers) and 25th of the month (pensions payroll). The float held in-month for cashflow purposes will target £6 - £8 million. For the avoidance of doubt, these are indicative amounts, not absolute limits.
9. The Pension Fund will use the same criteria for maximum duration limits and terms with individual counterparties as approved by Wiltshire Council on an annual basis in its own Treasury Management Strategy, subject to:

- a) A maximum of £3 million with any single counterparty.
- b) No investment will be made in the same money market funds / cash vehicles used by the Custodian to invest any cash it holds on behalf of the Fund's investment managers.
- c) The Pension Fund's limits are in addition to Wiltshire Council's own limit in any single counterparty.

10. Given the nature of Trowbridge Cash (i.e. short-term working capital nature), the investments will only be made either in:

a) Call Accounts provided by an approved deposit-taker that complies with the Counterparty Policy set out below; or

b) AAA-rated Money Market Funds managed by an approved investment manager.

11. Direct investments with counterparties are not permitted (e.g. direct deals with banks or other local authorities for fixed time periods).

12. The providers of the Call Accounts, and the Money Market Fund vehicles, must have a "high credit rating" as prescribed in the minimum requirements for "high credit rating" set out in Wiltshire Council's annual Treasury Management Strategy.

13. Wiltshire Council's latest Treasury Management Strategy (2020-21) went to Cabinet on 4th February 2020. The full paper is available from the Wiltshire Council Cabinet reports can be found on the following [link](#):

Borrowing Policy

14. The Fund is not permitted to borrow under the regulations, except by way of a short-term loan or overdraft from a bank (repayable within 90 days), and then only in exceptional circumstances where funds are required for:

- i. Paying benefits due under the Scheme; or
- ii. Meeting investment commitments arising from the implementation of a decision by the Committee to change the balance between the different types of investment.

Management Arrangements

15. The management of Wiltshire Pension Fund's cash will be carried out by Wiltshire Council's Treasury Management team under a Service Level Agreement. All treasury management activity related to the Pension Fund will be reported to the Head of Pension Fund Investments on a quarterly basis. This includes the Head of Pension Fund Investments being informed of any specific concerns relating to any of the counterparty providers.

16. The Treasury Management Team will consult with the Head of Pension Fund Investments regarding any potential change of Counter Party Provider.