

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	AGENDA ITEM NUMBER
MEETING DATE:	22 MARCH 2013	
TITLE: TREASURY MANAGEMENT POLICY		
WARD: 'ALL'		
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1	The Fund's Treasury Management policy approved in March 2012.	
Appendix 2	The proposed Treasury Management policy.	

1 THE ISSUE

1.1 The Fund's Treasury Management policy (as set out in Appendix 1) was approved in March 2012. The Fund's policy closely mirrors the Council's policy set out in the Councils' Annual Investment Strategy.

1.2 The Fund's current accounts are held with NatWest Bank. Under the existing Treasury Management policy the Fund is barred from keeping deposits with NatWest Bank under its current credit rating.

1.3 A revised Treasury Management policy for the Council was approved by the Corporate Audit Committee at its meeting on 5 February 2013. The revised policy has removed the short term credit rating criteria and set separate credit limits for the Council's banker, NatWest Bank. In the event of NatWest falling below the accepted credit rating criteria for other banks, but having a rating of at least BBB- (or equivalent), their criteria limits deposits to £10m that must be available for next banking day withdrawal. By these criteria the Council is permitted to keep deposits with NatWest Bank under its current credit rating as long as they are available for withdrawal on the next working day.

1.4 It is proposed that the Pension Fund's Treasury Management policy be amended in order to keep it line with the Council's Treasury Management policy. The proposed amended policy is set out in Appendix 2.

2 RECOMMENDATION

2.1 That the Committee approves the revised Treasury Management Policy as set out in Appendix 2

3 FINANCIAL IMPLICATIONS

- 3.1 The Fund requires accessibility to short term cash investments to meet its day to day operating requirements. Cash received in contributions needs to be invested for periods from a few days to less than three weeks before being used to meet the payment of pensions. This short term investment of up to £25m earns interest and incurs transfer costs. However, the significance of an efficient means of short term investment is to ensure that the payment of pensions can be achieved on time and without incurring unplanned borrowing costs.

4 THE REPORT

- 4.1 The proposed revised Treasury Management policy closely mirrors the policy set out in the Councils' Annual Investment Strategy. The Pension Fund's Treasury Management is managed by the Council's Treasury Management team. The Pension Fund and Council have a similar attitude to Treasury Management risk. The use of similarly formatted policies reduces the risk of error. Where the policy limits differ, it is a reflection of the different cash flow requirements and the amounts of cash that need to be invested.
- 4.2 The Fund has a Special Interest Bearing Account with NatWest bank. Funds could be transferred to this account electronically later and for lower cost than transfers by CHAPs to other banks. The inability to leave deposits with NatWest bank imposes additional costs and administration on the Fund's Treasury Management team. In the event of funds being received after the CHAPs deadline, they are by default left with NatWest bank, but cannot currently be transferred to an interest bearing account. The revised Treasury Management policy will permit the more efficient investment of temporary cash balances through the use of the NatWest Special Interest Bearing Account.
- 4.3 The BBB credit ratings are defined by Fitch (in comparison with higher rating levels) as "Expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity."
- 4.3 The additional risk of accepting a lower credit rating for NatWest Bank is mitigated by the fact that the deposit is available for withdrawal on the next working day.

5 RISK MANAGEMENT

- 5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

6 EQUALITIES

- 6.1 This report provides recommendations about the Fund's Treasury Management Policy and no specific equalities impact assessment was carried out.

7 CONSULTATION

- 7.1 None appropriate.

8 ISSUES TO CONSIDER

8.1 The issues are detailed in the report.

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (Council Solicitor) and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

.Contact person	Martin Phillips Finance & Systems Manager (Pensions) Tel: 01225 395369.
Background papers	Various Accounting and Statistical Records

AVON PENSION FUND

TREASURY MANAGEMENT POLICY 2012

- 1 The management of the pension fund cash will be delegated to the Treasury Management team.
- 2 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 in to the Pension Fund bank account.
- 3 The Pension Fund's limits are in addition to the Council's limit in any single counterparty.
- 4 The Fund will invest its short term cash balances in bank call accounts and Money Market Funds (with maximum notice requirements of three days) that fall within the credit rating criteria stated below.
- 5 In the event that call accounts and Money Market Funds are not available the Fund will invest its short term balances with counterparties meeting the same ratings criteria.
- 6 In the absence of alternative or more preferred counter parties the Fund will invest its short term balances with the Government's Debt Management Office.
- 7 The criteria for acceptable counter parties and their limits are:-

	Maximum Monetary limit	Time limit
UK Banks and building societies holding long-term credit ratings no lower than A- or equivalent, short-term credit ratings no lower than F1 or equivalent and a Fitch Support Rating (where given) no lower than 3.	£10m each ¹	2 months
Money market funds ² holding the highest possible credit ratings (AAA) or equivalent.	£10m each	3 months

Where the above counterparties are considered unavailable for any reason:-

UK Local Authorities ³ (irrespective of ratings)	£5m each	2 months
UK Central Government (Including Debt Management Agency Deposit Facility)	no limit	no limit

¹, Banks within the same group ownership are treated as one bank for limit purposes.

², as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2003

³, as defined in the Local Government Act 2003

- 8 The cash retained as a working balance will target £10 million.
- 9 All Treasury Management activity related to the Pension Fund will be reported to the Pension Fund Finance and Systems Manager on a regular basis.

10 For reference the rating agencies equivalent ratings are as shown below.

Fitch		Moody's		S&P	
Short term	Long term	Short term	Long term	Short term	Long term
	AAA		Aaa		AAA
	AA+		Aa1		AA+
	AA		Aa2		AA
	AA-		Aa3		AA-
	A+		A1		A+
	A		A2		A
	A-		A3		A-
F1+		P-1		A-1+	
F1		P-1		A-1	

AVON PENSION FUND

– DRAFT TREASURY MANAGEMENT POLICY 2013

- 1 The management of the pension fund cash will be delegated to the Treasury Management team.
- 2 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 in to the Pension Fund bank account.
- 3 The Pension Fund's limits are in addition to the Council's limit in any single counterparty.
- 4 The Fund will invest its short term cash balances in bank call accounts and Money Market Funds (with maximum notice requirements of three days) that fall within the credit rating criteria stated below.
- 5 In the event that call accounts and Money Market Funds are not available the Fund will invest its short term balances with counterparties meeting the same ratings criteria.
- 6 In the absence of alternative or more preferred counter parties the Fund will invest its short term balances with the Government's Debt Management Office.
- 7 The criteria for acceptable counter parties and their limits are:-

	Maximum Monetary limit	Time limit
UK Banks and building societies holding long-term credit ratings no lower than A- or equivalent and a Fitch Support Rating (where given) no lower than 3. (see note 1)	£10m each	2 months
Money market funds (see note 2) holding the highest possible credit ratings (AAA) or equivalent.	£10m each	3 months
NatWest Bank (as the Council / Pension Fund's Banker), rating and limits as other UK banks or, if rating below that, but no lower than BBB-	£10m	To next working day.

Where the above counterparties are considered unavailable for any reason:-

UK Local Authorities (see note 3) (irrespective of ratings)	£5m each	2 months
UK Central Government (Including Debt Management Agency Deposit Facility)	no limit	no limit

- 1, Banks within the same group ownership are treated as one bank for limit purposes.
 - 2, as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2003
 - 3, as defined in the Local Government Act 2003
- 8 The cash retained as a working balance will target £10 million.

- 9 The Treasury Manager will inform the pension Fund of any changes to the counterparty credit ratings.
- 10 All Treasury Management activity related to the Pension Fund will be reported to the Pension Fund Finance and Systems Manager on a regular basis.
- 11 For reference the rating agencies equivalent ratings are as shown below.

Fitch	Moody's	S&P
Long term	Long term	Long term
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-
BB+	Ba1	BB+
BB	Ba2	BB
BB-	Ba3	BB-
B+	B1	B+
B	B2	B
B-	B3	B-

There are a further three levels of C ratings.

- 12 The current credit ratings of counter-parties that would be accepted under the proposed policy are given below.

Counterparty Name	FITCH RATINGS			MOODY'S RATINGS		S&P RATINGS	
	S/Term	L/Term	Sup	S/Term	L/Term	S/Term	L/Term
Barclays Bank plc.	F1	A	1	P-1	A2	A-1	A+
HSBC Bank plc.	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Lloyds Banking Group							
→ Bank of Scotland plc.	F1	A	1	P-1	A2	A-1	A
→ Lloyds TSB Bank plc.	F1	A	1	P-1	A2	A-1	A
Royal Bank of Scotland Group							
→ National Westminster Bank plc.	F1	A	1	P-2	A3	A-1	A
→ Royal Bank of Scotland plc.	F1	A	1	P-2	A3	A-1	A
Standard Chartered Bank	F1+	AA-	1	P-1	A1	A-1+	AA-
UK Building Societies							
Nationwide	F1	A+	1	P-1	A2	A-1	A+