

<b>Bath &amp; North East Somerset Council</b>			
<b>MEETING:</b>	<b>AVON PENSION FUND COMMITTEE</b>	<b>AGENDA ITEM NUMBER</b>	
<b>MEETING DATE:</b>	<b>28 MARCH 2014</b>		
<b>TITLE:</b>	<b>TREASURY MANAGEMENT POLICY</b>		
<b>WARD:</b>	<b>'ALL'</b>		
<b>AN OPEN PUBLIC ITEM</b>			
<b>List of attachments to this report:</b>			
<b>Appendix 1</b> The proposed Treasury Management Policy			

## **THE ISSUE**

- 1.1 The Fund's Treasury Management policy was approved in March 2013. The policy closely mirrors the Council's policy set out in the Councils' Annual Investment Strategy.
- 1.2 The Committee are asked to renew their approval of the Treasury Management policy each year.
- 1.3 The policy proposed for 2014/15 is unchanged from the policy approved in March 2013. The proposed policy is set out in Appendix 1.

## **2. RECOMMENDATION**

- 2.1 That the Committee approves the Treasury Management Policy as set out in Appendix 1**

### **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 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.

### **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 IN REACHING THE DECISION**

8.1 The issues are detailed in the report.

### **9. ADVICE SOUGHT**

1.1 9.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Business Support) have had the opportunity to input to this report and have cleared it for publication.

<b>Contact person</b>	Martin Phillips Finance & Systems Manager (Pensions)) ( <i>Budgets</i> ) Tel: 01225 395259.
<b>Background papers</b>	Various Accounting and Statistical Records

## AVON PENSION FUND

### – DRAFT TREASURY MANAGEMENT POLICY 2014

- 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:-

	<b>Maximum Monetary limit</b>	<b>Time limit</b>
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.

<b>Fitch</b>	<b>Moody's</b>	<b>S&amp;P</b>
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.

<b>Counterparty Name</b>	<b>FITCH RATINGS</b>			<b>MOODY'S RATINGS</b>		<b>S&amp;P RATINGS</b>	
	<b>S/Term</b>	<b>L/Term</b>	<b>Sup</b>	<b>S/Term</b>	<b>L/Term</b>	<b>S/Term</b>	<b>L/Term</b>
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-2	A-
→ Royal Bank of Scotland plc.	F1	A	1	P-2	A3	A-2	A-
Santander UK plc (Domiciled in the UK)	F1	A	1	P-1	A2	A-1	A
Standard Chartered Bank	F1+	AA-	1	P-1	A1	A-1+	AA-
<b>UK Building Societies</b>							
Nationwide	F1	A	1	P-1	A2	A-1	A+