

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	AGENDA ITEM NUMBER
MEETING DATE:	26 JUNE 2015	
TITLE:	TREASURY MANAGEMENT POLICY	
WARD:	'ALL'	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1	The proposed Treasury Management Policy	

THE ISSUE

- 1.1 The Fund's Treasury Management policy was approved in March 2014. The policy closely mirrors the Council's policy set out in the Councils' Annual Investment Strategy.
- 1.2 The policy for 2015/16 proposed at the March 2015 Committee differed from the policy approved in March 2014 in that it removed the restriction of approved counterparties to only those based in the UK. All the required credit ratings and investment limits were to remain unchanged. In March the Committee withheld approval of the proposed policy due to concerns around the use of counterparties based in the Eurozone. The policy now proposed for 2015/16 restricts the use of counterparties to those based outside the Eurozone and meeting the necessary credit ratings. The revised 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.
- 4.2 The Fund has previously made extensive use of Barclays Platinum Call account. The rules of access to this account particularly suited the Fund's cash flow requirements. Barclays have withdrawn this account. In order to use an equivalent alternative without increasing the limits on existing accounts, it is necessary to use a bank outside the UK. It is therefore proposed that the Fund's restriction to UK banks be lifted. It is further proposed that a restriction is imposed to only use counterparties that are based outside the Eurozone. The required credit ratings and investment limits remain unchanged and all potential counterparties are continuously monitored using the advice of external consultants.
- 4.3 The Pension Fund's Treasury Management Policy was originally restricted to UK banks because it was not expected that the Fund would require many counterparties. Extending the Policy to non UK banks would have brought the Fund in to line with the Council's Treasury Management Policy but the Council do not exclude use of Eurozone counterparties. The credit ratings of non UK banks reflect any issues around the regulations and jurisdiction governing those banks. Consequently there is no difference in the level of risk between UK banks and non UK banks with equal credit ratings.

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.

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

Appendix 1

AVON PENSION FUND

– DRAFT TREASURY MANAGEMENT POLICY 2015

- 1 The management of the pension fund cash will be delegated to B&NES Council 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
Banks and building societies based outside the Eurozone 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) based outside the Eurozone 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 A guide to the rating agencies equivalent ratings and to the credit ratings themselves is given 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.

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicate san issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

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

Name	Moody's Long-Term Ratings	Moody's Short Term Rating	Fitch Long-Term Rating	Fitch Short Term Rating	Fitch Support Rating	S&P Long-Term Rating	S&P Short-term
UNITED KINGDOM	Aa1		AA+	F1+		AAAu	A-1+u
BANK OF SCOTLAND PLC	A1 *	P-1	A	F1	1	A *	A-1 *
LLOYDS BANK PLC	A1 **	P-1	A	F1	1	A *	A-1 *
BARCLAYS BK PLC-ADR C	A2	P-1	A	F1	1	A *	A-1 *
CLOSE BROTHERS LTD	A3 *	P-2 *	A	F1	5		
GOLDMAN SACHS INTERNATIONAL	A2 *	P-1	A	F1		A	A-1
HSBC BANK PLC	Aa3 **	P-1	AA-	F1+	1	AA- *	A-1+ *
NATIONAL WESTMINSTER BANK	Baa1 **	P-2	A	F1	1	A- *	A-2
ROYAL BANK OF SCOTLAND PLC/T	Baa1 **	P-2	A	F1	1	A- *	A-2
SANTANDER UK PLC	A2	P-1	A	F1	1	A *	A-1 *
STANDARD CHARTERED BANK	A1 **	P-1	AA-	F1+	1	A+ *	A-1
UK BUILDING SOCIETIES							
NATIONWIDE BUILDING SOCIETY	A2 **	P-1	A	F1	1	A *	A-1 *
YORKSHIRE BUILDING SOCIETY	Baa1	P-2	A-	F1	5	NR	NR
COVENTRY BUILDING SOCIETY	A3 **	P-2 *	A	F1	5		
LEEDS BUILDING SOCIETY	A3	P-2 *	A-	F1	5		
COMMONWEALTH OF AUSTRALIA	Aaa		AAA	F1+		AAAu	A-1+u
AUST AND NZ BANKING GROUP	Aa2	P-1	AA-	F1+	1	AA-	A-1+
COMMONWEALTH BANK OF AUSTRAL	Aa2	P-1	AA-	F1+	1	AA-	A-1+
NATIONAL AUSTRALIA BANK LTD	Aa2	P-1	AA-	F1+	1	AA-	A-1+
WESTPAC BANKING CORP	Aa2	P-1	AA-	F1+	1	AA-	A-1+
GOVERNMENT OF CANADA	Aaa		AAA	F1+		AAA	A-1+
BANK OF MONTREAL	Aa3	P-1	AA-	F1+	1	A+	A-1
BANK OF NOVA SCOTIA	Aa2	P-1	AA-	F1+	1	A+	A-1
CAN IMPERIAL BK OF COMMERCE	Aa3	P-1	AA-	F1+	1	A+	A-1
ROYAL BANK OF CANADA	Aa3	P-1	AA	F1+	1	AA-	A-1+
TORONTO-DOMINION BANK	Aa1	P-1	AA-	F1+	1	AA-	A-1+
REPUBLIC OF SINGAPORE	Aaa		AAA	F1+		AAAu	A-1+u
DBS BANK LTD	Aa1	P-1	AA-	F1+	1	AA-	A-1+
OVERSEA-CHINESE BANKING CORP	Aa1	P-1	AA-	F1+	1	AA-	A-1+
UNITED OVERSEAS BANK LTD	Aa1	P-1	AA-	F1+	1	AA-	A-1+
KINGDOM OF SWEDEN	Aaa	P-1	AAA	F1+		AAAu	A-1+u
SVENSKA HANDELSBANKEN-A SHS	Aa3 **	P-1	AA-	F1+	1	AA-	A-1+
NORDEA BANK AB	Aa3 *	P-1	AA-	F1+	1	AA-	A-1+
SWISS CONFEDERATION	Aaa		AAA	F1+		AAAu	A-1+u
CREDIT SUISSE AG	A1 *	P-1 *	A	F1	1	A	A-1
UNITED STATES (GOVT OF)	Aaa		AAA	F1+		AA+u	A-1+u
JPMORGAN CHASE BANK NA	Aa3	P-1	A+	F1	1	A+	A-1
UNITED KINGDOM - OTHER INSTITUTIONS							
DEBT MANAGEMENT OFFICE	Aa1		AA+	F1+		AAAu	A-1+u
GOVERNMENT AGENCIES, MULTI-LATERAL AND SUPRANATIONAL BANKS							
NORDIC INVESTMENT BANK	Aaa	P-1				AAA	A-1+
INTER-AMERICAN DEV BANK	Aaa	(P)P-1	AAA	F1+		AAA	A-1+
INTERNATIONAL BANK FOR RECON	Aaa	(P)P-1	AAA	F1+		AAA	A-1+