

Bath & North East Somerset Council			
MEETING:	AVON PENSION FUND COMMITTEE	AGENDA ITEM NUMBER	
MEETING DATE:	8 DECEMBER 2017		
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 2017. The policy closely mirrors the Council's policy set out in the Councils' Annual Investment Strategy but in addition restricts counterparties to those based outside the Eurozone.
- 1.2 The current restriction on money market funds based in the Eurozone is inappropriate. It is proposed that this element of the restriction is removed.
- 1.3 The Committee are asked to approve the Treasury Management policy in March each year. The Committee are now asked to approve the proposed amended policy as set out in Appendix 1. The only amendment to the previously approved policy is the deletion of the words "based outside the Eurozone" that previously followed the words "Money Market Funds" in the second row of the table in paragraph 7.

## 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 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 makes extensive use of call accounts at Handelsbanken and the Bank of Scotland and a Money Market Fund at Goldman Sachs. The rules of access to these particularly suit the Fund's cash flow requirements as they permit daily deposits and withdrawals.
- 4.3 The Pension Fund's Treasury Management Policy restricted the use of Counterparties to those outside the Eurozone with a sufficiently high credit rating. This restriction applied to call accounts within banks and to Money Market Funds. It is proposed that the restriction continues to apply to call accounts within banks as money in these accounts is deposited with the bank.
- 4.4 It is proposed that the Eurozone restriction is no longer applied to Money Market Funds because it is inappropriate to their structure. The restriction has been applied to exclude the money market funds of Eurozone institutions. Following independent advice from Arlingclose, the Council's Treasury Management advisor, it is understood that these institutions' Money Market Funds are registered in Eurozone countries to enable them to be marketed across the EU in line with EU regulations. Applying the restriction severely limits the availability of Money Market Funds.
- 4.5 The assets of Money Market Funds are ring fenced and therefore entirely separated from the financial institution that manages the product. It is proposed that the use of Money Market Funds will continue to be restricted to those rated AAA (or equivalent). Such a rating would factor in any risk that might exist as a result of exposure to the Eurozone.

### **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 Treasury Management Advisor.

## 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 (Head of Legal & Democratic Services) and Section 151 Officer (Strategic Director - Resources) have had the opportunity to input to this report and have cleared it for publication.

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<b>Background papers</b>	Various Accounting and Statistical Records