

<b>Bath &amp; North East Somerset Council</b>		
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>	<b>AGENDA ITEM NUMBER</b>
MEETING DATE:	<b>23 MARCH 2018</b>	
TITLE: <b>TREASURY MANAGEMENT POLICY</b>		
WARD: <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	
<b>Appendix 2</b>	Counter parties acceptable under the policy and their Credit ratings	

## **THE ISSUE**

- 1.1 The Fund's Treasury Management policy was revised and approved in December 2017. The policy closely mirrors the Council's policy set out in the Councils' Annual Investment Strategy.
- 1.2 The Committee are asked to approve the Treasury Management policy each year.
- 1.3 The policy proposed for 2018/19 is largely a continuation of the policy approved in December 2017. The only amendment to the previously approved policy is the removal of the requirement for a Fitch support rating. The proposed policy is set out in Appendix 1. Counter parties acceptable under the policy and their Credit ratings are shown in Appendix 2.

## **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 makes extensive use of Call accounts at Handelsbanken and the Bank of Scotland and a Money Market Fund at Goldman Sachs. Further Money Market Fund accounts, including Standard Life Investments Liquidity Fund and Federated Investors have been opened to provide additional capacity if required. The rules of access to these accounts particularly suit the Fund's cash flow requirements.
- 4.3 The Pension Fund's Treasury Management Policy previously required a Fitch support rating of no lower than three (when a rating was provided). The support rating reflects whether the bank is likely to be given support by a government or guarantor in the case of difficulties. In recent years governments around the world have reduced the likelihood of their providing support to banks. This has been reflected by a reduction in many Fitch support ratings from 1 ("extremely high probability of external support") to 5 ("possibility of external support"). Removing the support rating criteria brings the Fund's Treasury Management Policy more closely in line with that of the Council and is in line with the advice of the Council's Treasury management advisers Arling Close. The Fund's long term rating criteria ensures that only the strongest banks are accepted as counterparties. All potential counterparties are continuously monitored using the advice of the external advisers. The original criterion for acceptable counterparties was particularly restrictive because it was not expected that many counterparties would be required by the Fund. As explained below, this is no longer the case.
- 4.4 The Fund currently targets to retain a working balance of £10m. With the advent of the Brunel Pension Partnership working practices may change in such a way as to reduce the amount of cash held with the custodian. This would necessitate a higher working balance to be held with the Treasury Management Team. In preparation for this possibility additional Money Market Fund accounts have been opened.
- 4.4 The Committee are asked to approve the Treasury Management Policy. The permitted counterparties shown in Appendix 2 are those that currently meet the criteria as a result of the policy.

### **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 (Head of 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