



Report to Pension Fund Committee

Title: Treasury Management Service Level Agreement

Date: 21 January 2010

Date Decision can Be implemented: 21 January 2010

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Electoral Divisions Affected: n/a

Portfolio Areas Affected: None

Purpose of Report

To formalise the arrangements for investing the Pension Fund's surplus cash balances.

Summary

At its meeting on 19 November 2009, the Pension Fund Committee agreed that the arrangements for investing the Fund's surplus cash should be documented in a Service Level Agreement (SLA) and agreed by the Committee. This report documents the arrangements for managing the Pension Fund bank account and investment of cash.

Recommendation

The Committee is asked to APPROVE the Pension Fund treasury management Service Level Agreement.

A. Main issues arising

The Pension Fund maintains relatively small balances of cash arising from the receipt of employer and employee contributions exceeding payments made on behalf of the Fund. Most of the Fund's cash is managed externally, either by the investment managers or the Bank of New York Mellon, the Fund's custodian. The cash held by the administering authority is usually less than 1.0%, or £10m, of the Fund's assets providing a working balance for the Fund to meet its short term commitments. From time to time, if surplus cash balances held are greater than £10m and are greater than the amounts required for , then they are invested with the Fund's fund managers in accordance with the Investment Strategy.

Historically the Council has pooled Pension Fund cash with its own cash and paid interest to the Pension Fund at the Interbank Sterling LIBID 7 day rate. From time to time when the Pension Fund's cash balances have been higher than average; for example, prior to the implementation of a fund manager transition, funds have been invested with counterparties directly on behalf of the Fund in accordance with the Council's treasury

management strategy. A call account solely for the use of Pension Fund cash was set up in summer 2009 to establish greater separation with only small balances pooled with the Council's cash to minimise the administration of the process.

Recently there has been national interest in the co-mingling of Council and Pension Fund investments and the Audit Commission raised this as an issue for further discussion during the 2008/09 Fund audit.

Usually an administering authority must not borrow money on behalf of the Pension Fund. Regulation 5 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 gives an administering authority the power to temporarily borrow on behalf of the Fund in order to pay benefits due or to meet investment commitments arising from a change in Investment Strategy. The temporary loan and interest should be repaid within 90 days of the date of the borrowing.

It is proposed that to facilitate greater transparency going forward all surplus Pension Fund cash should be managed in accordance with an SLA agreed by the Pension Fund Committee, thereby formalising the arrangements for investing the daily cash balances. Members are therefore asked to review and approve the SLA attached as Appendix 1. This SLA reflects processes already in place for the Fund. A copy of the Council's Treasury Management Strategy is attached as Appendix 2. The Treasury Management Strategy is due to be scrutinised by the Council's Regulatory and Audit Committee on 1 February.

C. Resource Implications

None.

D. Legal Implications

None.

E. Other implications / issues

During 2010, the Treasury Team will be working with the Fund's Actuary to develop more detailed cashflow analysis for the short and longer term alongside the triennial valuation activity.

F. Feedback from consultation and Local Member Views

Not applicable.

G. Communication Issues

None.

H. Progress Monitoring

Not applicable.

I. Background Papers

Pension Fund Committee 19 November 2009, agenda item 4.

Your questions and views

If you have any questions about the matters contained in this paper please get in touch with the Contact Officer whose telephone number is given at the head of the paper.