

## **PENSION FUND COMMITTEE – 19 MARCH 2010**

### **INVESTMENT OF PENSION FUND CASH**

#### **Report by Assistant Chief Executive & Chief Finance Officer**

#### **Introduction**

1. The Oxfordshire Pension Fund maintains a balance of cash arising from the receipt of employer and employee contributions exceeding the amount of payments made on behalf of the Fund. The cash managed in-house by the Administering Authority, provides a working balance for the fund to meet its short term commitments and forms 0-5% of the Fund's strategic asset allocation.
2. Historically Oxfordshire County Council has pooled Pension Fund cash with its own cash and deposited surplus balances in the name of the Administering Authority returning interest earned to the Pension Fund at the average rate achieved.
3. In December 2009, new investment regulations were laid before Parliament and came into force on 1 January 2010. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 S.I.No. 3093 state that from 1 April 2011 the administering authority must hold in a separate bank account all monies held on behalf of the Pension Fund on that date, and all monies received by the Pension Fund on or after that date.
4. From 1 April 2010, the Administering Authority will no longer have the legal power to pool pension fund money with its own cash and invest the pooled sums.
5. The regulations also state that the Administering Authority must formulate an investment policy to govern how the authority invests any Pension Fund money that is not needed immediately to make payments from the fund.

#### **Current Arrangements**

6. Current practice is that Pension Fund cash balances are held within the Council's Consolidated Bank Account. Investment of the Pension Fund temporary surplus cash balances is currently made by the Council in its own name in accordance with the approved Treasury Management Strategy. Pension Fund cash is not separately identified in these investments but is pooled together with the Council's own cash balances. The average rate of interest earned on all short, medium and long-term deposits managed by the Council's in-house Treasury Management team is applied to the average monthly Pension Fund cash balance, and paid to the Pension Fund. Pooling of cash has enabled the pension fund to achieve a higher level of

diversification and interest rates above the level that would have been achieved on short-term cash deposits.

### **Separate Bank Account**

7. A project is currently being undertaken to identify the costs, system and procedural changes that will be required to comply with the new regulations and to ensure that a separate bank account for the Pension Fund is operational by 1 April 2011.
8. The full impact of the requirement for a separate bank account is not yet known, however, initial indications are that there may be implications for payroll, income collection and accounts payable, ICT and SAP. A further report will be prepared for the Pension Fund Committee when the full implications are known.

### **Investment of Pension Fund Cash Balances from 1 April 2010**

9. To facilitate the separate investment of Pension Fund cash during the transition period between 1 April 2010 and 1 April 2011, the Treasury Management and Pensions Investment team will calculate the Pension Fund cash balance held within the Administering Authority's bank account at the end of each dealing day. The end of day balances will be regularly transferred to instant access, short term notice deposit accounts, or money market funds held in the name of the Pension Fund, rather than the Administering Authority.
10. Fixed term deposits arranged on behalf of the Pension Fund after 1 April 2010, will be arranged in the name of the Pension Fund and will be recorded separately from the Council's cash deposits.
11. Management of the Pension Fund's cash balances will be in accordance with the Administering Authority's approved Treasury Management Strategy and policies and procedures. Lending limits related to the Council's in-house deposits will however not apply. The Pension Fund cash balances are only a small proportion of the total cash balances and application of the same % restrictions to the Pension Fund cash may result in lending limits below minimum deposit levels accepted by counterparties. The Pension Fund cash balances managed in-house by the County Council will be deposited in sterling with a minimum of two counterparties. Any changes to approved counterparties on the Council's lending list will be applied to the in-house Pension Fund cash balances.

### **Borrowing for Pension Fund**

12. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 gives administering authorities a limited power to borrow on behalf of the pension fund for up to 90 days. The power cannot be used to invest, but only for cashflow management in specified circumstances which should in practice be exceptional, i.e. to ensure that benefits are paid

on time, and in transition management situations when the allocation of a pension fund's assets is being amended. Money can only be borrowed for these purposes if, at the time of borrowing, the administering authority reasonably believes that the sum borrowed, and any interest charged as a result, can be repaid out of the pension fund within 90 days of the date when the money is borrowed. Pension Fund management arrangements presume no borrowing normally, but the possibility remains of unexpected pressures occurring and in these circumstances the power would enable the Pension Fund to avoid becoming forced sellers of fund assets due to cashflow requirements.

13. It is proposed that authority be delegated to the Assistant Chief Executive and Chief Finance Officer (S.151 Officer) to borrow money for the Pension Fund in accordance with the regulations but only in exceptional circumstances.

## **RECOMMENDATIONS**

**The Pension Fund Committee is RECOMMENDED to:**

- (a) note the requirement for a separate bank account for Pension Fund transactions from 1 April 2011;**
- (b) delegate authority to the Assistant Chief Executive and Chief Finance Officer to apply the Council's approved Treasury Management Strategy separately to the management of Pension Fund cash;**
- (c) delegate authority to the Assistant Chief Executive and Chief Finance Officer to open separate Pension Fund bank, deposit and investment accounts as appropriate; and**
- (d) delegate authority to the Assistant Chief Executive and Chief Finance Officer to borrow money for the Pension Fund in accordance with the regulations.**

SUE SCANE  
Assistant Chief Executive & Chief Finance Officer

Background papers: Nil

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March 2010