

Part D - Pension Fund Cash Management Strategy 2018/19

Introduction

1. The Oxfordshire Pension Fund maintains a balance of cash arising from the receipt of employer and employee contributions, and income from internally managed investments. This incoming cash currently exceeds the amount of payments made on behalf of the Fund. The situation is forecast to continue for the whole of 2018/19. Income from portfolios managed by fund managers currently remains within the fund manager's portfolio and is available for re-investment. Were the Pension Fund's cashflow to turn negative based on the current arrangements, income from fund manager portfolios could instead be paid back to the Fund as required to make up any cash shortfall. 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. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 state that administering authorities must hold in a separate bank account all monies held on behalf of the Pension Fund. The regulations also state that the Administering Authority must formulate an investment strategy to govern how the authority invests any Pension Fund money that is not needed immediately to make payments from the fund. This document sets out the strategy for cash for the financial year 2018/19.

Management Arrangements

4. The Pension Fund cash balances are managed by the Council's Treasury Management team and Pension Fund Investments team. Cash balances are reviewed on a daily basis and withdrawals and deposits arranged in accordance with the current strategy. Pension Fund cash deposits are held separately from the County Council's cash.

Rebalancing

5. The Oxfordshire County Council Pension Fund has a strategic asset allocation range of 0 - 5% for cash. The cash balance is regularly monitored and reviewed as part of a quarterly fund rebalancing exercise undertaken by officers and the Independent Financial Adviser.
6. Arrangements will be made for cash balances which are not required for cashflow purposes, to be transferred to the Pension Fund's Investment Managers in accordance with the decisions taken during the rebalancing exercise.
7. In general a minimum cash balance of £10million will be retained following a fund rebalancing exercise, to meet cashflow requirements and private equity investment transactions. The level of cash balances will fluctuate on a daily

basis and may be considerably higher than the minimum balance dependent upon the timing of transactions and strategic asset allocation decisions.

Investment Strategy

8. The Pension Fund cash investment policies and procedures will be in line with those of the administering authority. Priorities for the investment of cash will be:-
 - (a) The security of capital
 - (b) The liquidity of investments
 - (c) Optimum return on investments commensurate with proper levels of security and liquidity

Investment of Pension Fund Cash

9. 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.
10. The pension fund cash balances will be held predominantly in short-term instruments such as notice accounts, money market funds and short-term fixed deposits. Approved instruments for pension fund cash deposits will be the County Council's list of specified investments for maturities up to 1 year, excluding the Debt Management Account deposit facility which is not available to pension funds and UK Government Gilts which are managed by an external fund manager. The County Council's current approved list of specified investments is attached at appendix 1.
11. Pension Fund deposits will be restricted to a subset the County Council's approved counterparties at the time of deposit and will include the Fund's custodian bank. Approved counterparties as at 31st January 2018 are shown in annex 2. There will be a limit of £25m for cash held with each counterparty.

Borrowing for Pension Fund

12. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 give 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.
13. 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.

14. The Chief Finance Officer (S.151 Officer) has delegated authority to borrow money for the Pension Fund in accordance with the regulations but only in exceptional circumstances. It is proposed that the authority to borrow on behalf of the Pension Fund continues to be delegated to the Chief Finance Officer during 2018/19.

Lorna Baxter
Chief Financial Officer

February 2018

**Oxfordshire County Council 2018/19 Approved Specified Investments for
Maturities up to one year**

| Investment Instrument | Minimum Credit Criteria |
|---|---|
| Debt Management Agency Deposit Facility | N/A |
| Term Deposits – UK Government | N/A |
| Term Deposits – other Local Authorities | N/A |
| Term Deposits – Banks and Building Societies | Short-term F1, Long-term BBB+, Minimum Sovereign Rating AA+ |
| Certificates of Deposit issued by Banks and Building Societies | A1 or P1 |
| Money Market Funds | AAA |
| Other Money Market Funds and Collective Investment Schemes ¹ | Minimum equivalent credit rating of A+. These funds do not have short-term or support ratings |
| Reverse Repurchase Agreements – maturity under 1 year from arrangement and counterparty of high credit quality (not collateral) | Long-term Counterparty Rating A- |
| Covered Bonds – maturity under 1 year from arrangement | Minimum issue rating of A- |
| UK Government Gilts | AA |
| Treasury Bills | N/A |

¹ I.e., credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

Approved Counterparties

Standard Life Sterling Liquidity Fund

BNP Paribas

State Street Bank & Trust Company

Lloyds Bank Plc

Oversea-Chinese Banking Corp

Svenska Handelsbanken