

PENSION FUND COMMITTEE – 18 MARCH 2011

Pension Fund Cash Management Strategy 2011/12

Report by Assistant Chief Executive and 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. 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. 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. This report sets out the strategy for the financial year 2011/12.

Banking Arrangements

3. Oxfordshire County Council Pension Fund Cash balances are held separately from County Council cash and all deposits entered into on behalf of the Pension Fund are recorded in the name of the pension fund. Oxfordshire County Council has undertaken a project during 2010/11 to amend its financial systems to enable direct routing, wherever practical of pension fund transactions via the pension fund bank accounts from 1 April 2011.

Management Arrangements

4. The pension fund cash balances held by the Administering Authority are managed by the Council's Treasury Management and Pension Fund Investments team. Cash balances are reviewed on a daily basis and deposited in accordance with the current strategy. The Council's Treasury Management Strategy team meet regularly to review the Council's Treasury Management Strategy and from 1 April 2011 will also keep under review the separate strategy for pension fund cash balances.

Rebalancing

5. The Oxfordshire County Council Pension Fund normally has a positive monthly cashflow where the level of income received by the fund exceeds the level of payments out. To avoid an excessive build up of cash over the strategic asset allocation range of 0 – 5% of the fund, the cash balance is regularly monitored and reviewed as part of a quarterly rebalancing exercise.
6. Arrangements will be made for cash balances which are not required for cashflow purposes, to be transferred to the pension fund 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 and
 - (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. Lending limits relating to the council’s in-house deposits will however not apply due to differences in the levels of cash held. The Pension Fund cash balances managed in-house will be deposited with a minimum of two counterparties.
- 10. The Council uses Fitch ratings as the basis by which to determine its approved counterparty list. The minimum credit rating applicable to pension fund short-term deposits will be in line with the County Council’s approved credit rating criteria. The minimum Fitch credit ratings applicable for 2011/12 are as follows:-

Minimum Short term rating	Minimum Long term rating	Minimum Support rating	Minimum Individual rating
F1+	AA-	1 -2	C
F1+	AA-	3	B
F1	A	1-2	C
F1	A	3	B

- 11. The Treasury Management Strategy Team may further limit counterparties by using other available information such as Credit Default Swap Rates, Share prices, Ratings Watch & Outlook notices and other quality Financial Media sources. Any additions or deletions to approved counterparties on the council’s approved lending list, will also be applied to the Pension Fund internal cash balances.
- 12. 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 approved list of specified investments is attached at annex 1.

Borrowing for Pension Fund

- 13. 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.

14. 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.
15. The Assistant Chief Executive and 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 Assistant Chief Executive and Chief Finance Officer during 2011/12.

RECOMMENDATIONS

The Pension Fund Committee is RECOMMENDED to:

- a) approve the Pension Fund Cash Management Strategy for 2011/12;**
- b) delegate authority to the Assistant Chief Executive and Chief Finance Officer to make changes necessary to the Pension Fund Cash Management Strategy during the year, in line with changes to the County Council's Treasury Management Strategy;**
- 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.**

PAUL GERRISH
Interim Deputy Director, Oxfordshire Customer Services

Background papers: Nil

Contact Officer: Donna Ross, Principal Financial Manager
– Treasury and Pension Fund Investments
Tel: (01865) 323976

February 2011

Oxfordshire County Council 2011/12 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 – Banks and Building Societies	Fitch short-term F1, Long-term A, Individual rating C with support rating 2 or individual rating B with support rating 3, Minimum Sovereign Rating AA
Term Deposits with Nationalised Banks with Government Guarantee for wholesale deposits	N/A
Term Deposits with Part Nationalised banks by the UK Government	N/A
Certificates of Deposit issued by Banks and Building Societies	A1 or P1
Money Market Funds with a Constant Net Asset Value	AAA
Other Money Market Funds and Collective Investment Schemes ¹	Minimum equivalent credit rating of A+ across all 3 Ratings Agencies. These funds do not have short-term or support ratings.
UK Government Gilts	AAA

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.