

## **Pension Fund Committee**

**16 March 2023**

### **Provision of Treasury Management Services to the Pension Fund for 2023/24**



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## **Report of Paul Darby, Corporate Director of Resources**

### **Purpose of Report**

1. To update the Committee of the Treasury Management services provided to the Pension Fund and to review the charges for the services and the calculation of interest on short term investments administered by Durham County Council (the Council) for 2023/24.

### **Executive Summary**

2. As a result of changes to the Local Government Pension Scheme (Management and Investment of Funds) Regulations, in June 2010 the Pension Fund Committee agreed to invest the cash balances of the Pension Fund in line with the Council's Treasury Management Strategy and Annual Investment Strategy.
3. Since then the Council's Treasury Management team has continued to invest the balances of the Pension Fund on its behalf using approved counterparties in line with the Council's Treasury Management Strategy. This agreement is reviewed annually.

### **Recommendations**

5. It is recommended that with effect from 1 April 2023:
  - (a) the Pension Fund continues to invest its cash balances with the Council in line with the Council's Treasury Management Strategy;
  - (b) interest be paid quarterly to the Pension Fund at a rate based on the daily cash balance and the 3 month rate of return earned by the Council on its own short term investments;
  - (c) an administration fee of £2,998 per quarter be paid to the Council for Treasury Management services; and

- (d) in the event of the loss of an investment, the Pension Fund will bear the loss in proportion of the value of cash balances held at the time of the investment with Durham County Council.

## **Background**

6. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the 2009 Regulations) introduced changes which ended the use of Pension Fund money by the administering authority. (The 2009 Regulations have since been superseded by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016; however the same principle applies).
7. As a result of these regulations, a report was presented to the Pension Fund Committee in June 2010. At this meeting, the Committee gave its agreement to the Council continuing to invest the cash balances of the Pension Fund in line with the Council's Treasury Management Strategy and Annual Investment Strategy. This agreement is reviewed annually and the Council continues to invest the balances of the Pension Fund on its behalf.
8. The Council's Treasury Management Strategy (approved by Council annually each February) sets out the maximum amounts and time limits in respect of deposits which can be placed with each financial institution.
9. The Pension Fund's cash balances are invested along with the Council's cash balances at the most advantageous rate that can be achieved using approved counterparties.

## **Administration of the Treasury Management Function**

10. The Treasury Management team administer the cash balances of the Pension Fund in line with the Council's procedures.
11. The prime objective of the Council's investment strategy is to ensure prudent investment of surplus funds. The Council's investment priorities are therefore the security of capital, liquidity of investments and, within those objectives, to secure optimum performance.
12. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.
13. After this main principle, the Council will ensure that it:

- (a) maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.
  - (b) has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
  - (c) maintains a counterparty list in compliance with the CIPFA Treasury Management Code of Practice and credit rating information supplied by the Council's Treasury Management advisers and will revise the criteria and submit them to the Council for approval, as necessary.
14. The treasury management team reviews and monitors the Council's Treasury Management Strategy on behalf of the Council and implements it on behalf of the Pension Fund. The team also updates counterparties in line with information supplied by the Council's Treasury Management Advisers.
  15. The Council's treasury management team monitors the cash, the bank account balances and the cash codes for the Council and the Pension Fund and actions the necessary transfers and coding adjustments. The Pension Fund balance is corrected for any incorrect banking of funds prior to calculation of the interest on the cash balance.
  16. The treasury management team maintains full and accurate records in the performance of this service and makes them available for inspection by the Pension Fund Accounting Team, Internal and External Auditors.
  17. It is recommended that the charge for this service is increased from £2,855 to the flat fee of £2,998 per quarter.

### **Calculation of Interest on Cash Balances**

18. With effect from 1st April 2018 the interest paid to the Pension Fund in respect of its cash balances has been based upon the average three month rate of return earned by the Council on its own short term investments. It is recommended that interest will continue to be paid to the Pension Fund using the average three month rate of return in 2023/24.
19. The choice of rate would however be subject to review by the Treasury Management team, to ensure an appropriate rate is applied.

## **Investments**

20. It was also agreed by the Committee, that the Pension Fund's cash balances would be invested as part of the Council's overall investments.
21. As a result of this however, in the event of an investment being lost, for example due to the failure of a financial institution in which the cash is invested, the Council would be liable for the loss. This is due to the investment being in the name of the Council although the investment would include Pension Fund balances.
22. It was therefore agreed that the Pension Fund Committee share the risk of any investment in proportion to the value of cash balances at the time of investment. Any losses incurred as a result of impairment would then be split proportionately between the Council and the Pension Fund.
23. It is recommended that this arrangement continues.

## **Background Papers**

- (a) Pension Fund Committee - 21 June 2010 - The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
- (b) Pension Fund Committee – 14 March 2022 - Provision of Treasury Management Services to the Pension Fund for 2022/23
- (c) DCC's Treasury Management Strategy 2023/24 approved 22 February 2023.
- (d) The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

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