

## **Pension Fund Committee**

**6 March 2014**



## **Investment of the Pension Fund's cash balances**

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**Don McLure, Corporate Director Resources**

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### **Purpose of Report**

1. To update the Committee of the Treasury Management service provided to the Pension Fund and to review the charges for the services and the calculation of interest on short term investments administered by the County Council for 2014/15.

### **Background**

2. 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.
3. As a result of the 2009 Regulations, a report was presented to the Pension Fund Committee in June 2010. At this meeting, the Pension Fund Committee gave its agreement to Durham County Council continuing to invest the cash balances of the Pension Fund in line with the County Council's Treasury Management Policy and Annual Investment Strategy. This agreement was reviewed in 2013 and the County Council continues to invest the balances of the Pension Fund.
4. The County Council's Treasury Management Policy and Annual Investment Strategy sets out the maximum amounts and time limits in respect of deposits which can be placed with each financial institution.
5. The Pension Fund's cash balances are invested along with the County Council's cash balances at the most advantageous rate that can be achieved using approved counterparties.
6. Reports on the return on short term investments are presented quarterly to the Pension Fund Committee.

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

7. The Treasury Management team administer the cash balances of the Pension Fund in line with the County Council's procedures.

8. 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.
9. The primary principle governing the County Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.
10. After this main principle the County Council will ensure:
  - (a) It 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) It 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) It maintains a counterparty list in compliance with the CIPFA Treasury Management Code of Practice and credit rating information supplied by the County Council's Treasury Management advisers and will revise the criteria and submit them to the County Council for approval as necessary.
11. The Treasury Management team review and monitor the County Council's Treasury Management Strategy on behalf of the County Council and implement it on behalf of the Pension Fund. The team also update counterparties in line with information supplied by the County Council's Treasury Management Advisers.
12. The County Council's treasury management team monitors the cash, the bank account balances and the cash codes for the County 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.
13. All bank charges incurred by the Pension Fund are recharged to the Pension Fund by the Treasury Management team,
14. 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 Audit.
15. Currently, an administration fee of 0.1% of the investment made is charged to the Pension Fund for the provision of this service.

16. It is recommended that the fee for this service be amended with effect from 1 April 2014. The current fee varies with the amount of cash being invested. The amount of time that the Treasury Management team spend providing the service does not vary significantly with the value of the investment.
17. A flat fee of £2,500 per quarter is appropriate for the provision of the service and it is recommended that this fee be applied from 1 April 2014. This represents a saving to the Pension Fund based on the current year's fees and is a less costly option to the Pension Fund than undertaking the service.

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

18. The interest paid to the Pension Fund in respect of its cash balances is based on LIBID three month rate and it is recommended that this rate continues to be applied in 2014/15 .
19. The LIBID three month rate is the rate at which banks are willing to borrow from other banks, and is the closest to the return that the County Council make on their own short term investments.
20. However, the choice of the rate would be subject to review by the Treasury Management team, to ensure an appropriate rate is applied.

### **Investments**

21. It was also agreed by the Committee, that the Pension Fund's cash balances would be invested as part of the County Council's overall investments.
22. 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 County Council would be liable for the loss. This is due to the investment being in the name of the County Council although the investment would include Pension Fund balances
23. 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 County Council and the Pension Fund.
24. It is recommended that this arrangement continues.

### **Recommendation**

25. It is recommended that, with effect from 1 April 2014:
  - (a) The Pension Fund continues to invest its cash balances with the County Council in line with the County 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 LIBID interest rate;
- (c) An administration fee of £2,500 per quarter be paid to the County Council for the Treasury Management function being carried out on behalf of the Pension Fund; 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 Papers**

- (a) Pension Fund Committee – 21 June 2010 – The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
- (b) Pension Fund Committee – 7 March 2013 – Investment of the Pension Fund's Cash Balances
- (c) Durham County Council's Treasury Management Policy.

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