

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 12

INVESTMENT PANEL REPORT

27 SEPTEMBER 2017

STRATEGIC DIRECTOR FINANCE, GOVERNANCE & SUPPORT – JAMES BROMILEY

TREASURY MANAGEMENT REPORT

1. PURPOSE OF THE REPORT

- 1.1 To report on the treasury management of the Fund's cash balances, including the methodology used.

2. RECOMMENDATION

- 2.1 That Members note the report.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no particular implications arising from this report.

4. BACKGROUND

- 4.1 The Fund holds cash balances made up from investment income and contributions from employers and employees that are available for investments and to make pension payments. The balance of cash held varies from time-to-time, primarily as a result of the Investment Advisors' recommendations. The balances are managed as part of the Council's treasury management operation. The Treasury Manager is part of the Loans & Investment section.

5. THE CIPFA CODE OF PRACTICE ON TREASURY MANAGEMENT

- 5.1 The Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice (the Code) sets out how cash balances should be managed.
- 5.2 The Code states that the objective of treasury management is the management of the Authority's cash flow, its borrowings and investments, in such a way as to control the associated risks and achieve a level of performance or return consistent with those risks. The security of cash balances invested is more important than the interest rate received.
- 5.3 Middlesbrough Council adopted the Code on its inception and further determined that the cash balances held by the Fund should be managed using the same criteria. The policy establishes a list of counterparties (banks, building societies and others to whom

the Council will lend) and sets limits as to how much it will lend to each counterparty. The only difference when dealing with the Fund's cash balances is that the limits are larger, reflecting the fact that the Fund has in recent years held more cash than the Council. The counterparty list and associated limits are kept under constant review by the Strategic Director Finance, Governance and Support and changes were made on several occasions as the banking crisis unfolded.

- 5.4 Although it is accepted that there is no such thing as a risk-free counterparty, the policy has been successful in avoiding any capital loss through default.
- 5.5 In the interests of good governance it is required that a quarterly report on the Fund's treasury management policy and current position be presented.
- 5.6 Panel Members are advised that Middlesbrough Council is currently reviewing its arrangements for treasury management, including appointing an independent treasury advisory company. In future, the treasury management policies for the Council and the Fund will differ, and a policy appropriate to the Fund will be brought to a future Investment Panel meeting for approval. Until then, the Fund will continue with the existing policy.

6. TREASURY MANAGEMENT POLICY

6.1 The counterparty list and associated limits, as at 30 June 2017 was:

- H.M. Government (Debt Management Office): **Unlimited**
- UK Clearing Banks and their wholly owned subs: **£25m (per group)**
- Co-operative Bank: **£15m**
- Nationwide Building Society: **£15m**
- An overseas bank Group: **£7.5m**
- Local Authorities, Police & Fire Authorities and Nationalised Industries: **£10m per Authority**
- AAA-rated Cash Funds: **£7.5m per Fund**
- Other Building Societies (Coventry, Leeds, Skipton and Yorkshire): **£10m per Society**
- The custodian of the Pension Fund's assets **£20 million**, this limit can be temporarily increased by a further **£5 million** by the Head of Investments and Treasury Management, for a maximum of 1 week at a time. Any such increase must be reported to the Strategic Director Finance, Governance and Support within 1 week, specifying why the increase was needed.

6.2 In order to keep abreast of a volatile market, which is often fuelled by rumours, the policy can be changed at any time by the Strategic Director Finance, Governance and Support, with subsequent reporting to the relevant committee. The Head of Investments or the Treasury Manager can delete names from the list, but cannot add them, and can reduce limits but cannot increase them.

6.3 As at 30 June 2017, the Fund had £468.0 million invested with approved counterparties at an average rate of 0.282%.

- 6.4 The attached graph (Appendix A) shows the maturity profile of cash invested. It also shows the average rate of interest obtained on the investments for each time period. For example, 13.08% of the Fund's cash investments are repayable in the period 2 weeks to 1 month at an average interest rate of 0.25%.
- 6.5 Ordinarily, the Treasury Manager is under instruction to keep at least 50% of cash investments relatively liquid (one month or less), in order to fund pension payments and investments. However, given the size of the cash assets held, this strict level is relaxed while cash levels are this high to allow cash flows to be managed at more sensible levels. At the 30 June 2017 47.1% (£220.5m) of the investments matured within one month.

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Outstanding maturities, as at the end of June 2017

