

meeting	PENSIONS INVESTMENT SUB-COMMITTEE	
date	14 January 2010	agenda item number

REPORT OF THE SERVICE DIRECTOR (FINANCE)

PENSION FUND CASH INVESTMENT

1. Purpose

- 1.1 To review the arrangements for investing pension fund cash and agree a preferred option for investment from 1 April 2010.

2. Information and Advice

- 2.1 At its meeting on 10 December 2009, the Pensions Investment Sub-Committee considered a report on pension fund cash investment and resolved that a further report be brought to this meeting to outline options for cash investment from 1 April 2010 following changes introduced by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the new Regs).
- 2.2 Current practice is that actual cash investments are made by the County Council in its own name. Pension fund cash is not separately identified in these investments but is pooled together with all other cash balances. The Fund receives a 7-day rate on these cash balances with any additional return being kept by the County Council. This practice is subject to ongoing debate.
- 2.3 From 1 April 2010, the new Regs remove the ability of an administering authority to use 'fund money for any purpose for which it may borrow'. This means that the Fund will need to formulate a specific cash investment policy to govern how the authority invests 'any fund money that is not needed immediately to make payments'.
- 2.4 The new Regs also specify that the Fund's Statement of Investment Principles must include its policy on risk and the expected return on investments. The new CIPFA Code of Practice on Treasury Management states that the 'successful identification, monitoring and control of risk' are the prime criteria for measuring the effectiveness of the treasury management function. These requirements therefore place risk at the centre of any cash investment policy.

- 2.5 Additional legal opinion, received since the meeting in December 2009, suggests that pooling balances is lawful as long as the full return on the pension fund's share of the balance is credited to the fund. It does, however, cast doubt on the power of an administering authority to pay an agreed rate to the pension fund if it bears all of the risk of loss from the investment. This effectively leaves two options open.

Option One

- 2.6 The Fund's cash balances would continue to be pooled with other balances and invested by the County Council. The Fund would be credited with interest calculated by applying the average rate of all outstanding cash investments to the Fund's cash balance each day. The current average rate is 0.71% (compared to the current 7-day rate of 0.325%). The investments would be low risk (in accordance with the Council's treasury management policy). However, if losses were incurred, the Fund would have to bear a proportion of them.

Option Two

- 2.7 If the Sub-Committee wishes to take no risk with its cash investment the County Council would seek to join the Debt Management Account Deposit Facility (DMADF) in order to securely place the Fund's cash. This facility is administered by the Debt Management Office and all deposits are guaranteed by HM Government (and therefore have the equivalent of a sovereign triple-A credit rating). For this reason returns will be lower than those available from commercial banks (actual return figures are only available to those who subscribe to the facility).
- 2.8 Both options will require amended procedures and additional work to identify cash balances and appropriate interest rates. The preferred option is Option One as it offers a better balance of risk and return. Once approved by Pensions Committee, the chosen option would be incorporated into the County Council's annual treasury management policy for approval by full Council.

3. Statutory and Policy Implications

- 3.1 This report has been compiled after consideration of implications in respect of finance, equal opportunities, personnel, crime and disorder and those using the service and where such implications are material they have been described in the text of the report.

4. Recommendations

- 4.1 That the Sub-Committee recommends its preferred option for approval by the Pensions Committee and inclusion in the Council's annual treasury management policy.

ALAN SUMBY
SERVICE DIRECTOR (FINANCE)

Background Papers Available for Inspection
None