

<b>Pensions Investment Committee</b>		
Report Title	<b>Investment of Pension Fund Cash Balances</b>	
Key Decision		<b>Item No. 7</b>
Ward		
Contributors	<b>Executive Director for Resources</b>	
Class	<b>Part One</b>	Date: <b>24 February 2011</b>

## **1. SUMMARY**

- 1.1 This report informs Members of how it is proposed to comply with a Regulation issued by the Government which requires Council's to operate a separate bank account for Pension Fund cash balances from the 1<sup>st</sup> April 2011.
- 1.2 The report comprises the following sections:
  2. Recommendations
  3. Background
  4. Options
  5. Investment of Cash Balances
  6. Financial Implications
  7. Legal Implications

## **2. RECOMMENDATIONS**

Committee is recommended to ;

- 2.1 Authorise the Executive Director for Resources to open a bank account for the Pension Fund with the Council's bankers the Cooperative Bank Plc.
- 2.2 Note the arrangements for the operation of the account.
- 2.3 Note the arrangements for the transfer of cash sums to the external fund managers on a basis to be determined by the Executive Director for Resources.

## **3. BACKGROUND**

- 3.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 provide that by the 1<sup>st</sup> April 2011 the Council must establish a separate bank account for the Pension Fund. The Regulations specifically require that :
    - The Pension Fund bank account must be entirely separate from those of the Council which specifically excludes including the Pension Fund bank account as part of the group.
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- The Council cannot “borrow” cash from the Pension Fund for investment purposes.
  - The Pension Fund has powers to borrow to fund its investment or revenue related activities provided that such borrowing is not anticipated to exceed 90 days.
- 3.2 It should be noted that the Regulation purely relates to cash and does not require the separation of the arrangements for recording the cash related transactions from those of the administering authority.
- 3.3 The legislation results from a number of factors including:
- The requirement for Private Sector occupational pension schemes to segregate assets (including cash) from those of the sponsoring company.
  - The uncertainty of what proportion of the losses on investments with Icelandic Banks could be chargeable to Pension Funds and
  - The differing practices amongst Councils on the payment of interest on Pension Fund cash balances and the perception that the fund’s were not receiving adequate recompense for the use of their cash balances by Councils.
- 3.4 This Council currently aggregates the Pension Fund cash with its own cash for investment purposes and credits the Pension Fund with interest on its average cash holding for the year at a rate corresponding to the interest earned on the total investments. In 2009/10 the pension fund was credited with interest of £0.070 million on a average cash balance of £3.753 million which equated to an average rate of 1.81%.
- 3.5 This arrangement is no-longer permissible under the new Regulations which require separation of the two cash holdings.

#### **4. OPTIONS**

- 4.1 The alternative arrangements which could be adopted to comply with the Regulations may be summarized as :
- Establishing an entirely separate accounting and payment system to enable cash transactions to directly interface with the separate Pension Fund bank account.
  - Continuing with current accounting and payments arrangements through the Lewisham systems but with periodic transfers of cash into the separate bank account and separate investment of this cash.
- 4.2 The separate accounting and payment arrangement whilst providing total transparency does involve a number of issues and practicalities which will inevitably increase administrative and computer processing costs. In particular the numerous inter Council / Pension Fund transactions will involve extensive invoicing and cash transfer arrangements.
- 4.3 The Executive Director for Resources after considering the projected cash profile of the Pension Fund does not consider that total separation of the Pension Fund accounting and payments arrangements provides either a cost effective solution to
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the requirement to operate a separate bank account or additional security for the Pension Fund cash balances.

- 4.4 It is considered appropriate to continue with the current arrangement whereby all transactions are processed by the Lewisham systems but the Pension Fund cash balances as identified by the accounting system are transferred periodically from the Lewisham to the Pension Fund bank account.
- 4.5 To minimise the administration and the associated bank transfer costs it is proposed to transfer the net funds on the date the pensions are payable which is mid month. Financial modelling has indicated that one monthly transfer will not result in material sums of pension fund cash being temporarily held by the Council.

## **5. INVESTMENT OF CASH BALANCES**

- 5.1 Cash balances are temporarily held by the Pension Fund until they are transferred to managers for long term investment in the different asset classes as determined by the investment strategy.
- 5.2 The average cash holdings will be relatively small and it is not cost effective to invest the cash sums on the market given the relatively small rate of accretion and short duration of cash holdings. Higher rated banks generally will not deal with balances of less than one million. Balances held with the Cooperative Bank will however be subject to relatively low rates of interest – currently approximately 0.28%. In these circumstances it is proposed to minimize deposits with the bank by remitting funds to managers.
- 5.3 The cash will eventually be paid over to the managers for longer term investment and it is proposed to minimize the balance on the bank account by initially remitting the funds for investment by the manager whose share of total funds is most underweight against the strategic benchmark. The additional funds allocated will be reflected in the periodic rebalancing between all managers.

## **6. FINANCIAL IMPLICATIONS**

- 6.1 The comments of the Executive Director for Resources have been incorporated into the report.

## **7. LEGAL IMPLICATIONS**

- 7.1 The legal implications are contained in the body of the Report at paragraph 3.
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