

**HAMPSHIRE COUNTY COUNCIL****Decision Report**

<b>Decision Maker:</b>	Pension Fund Panel
<b>Decision:</b>	9 July 2015
<b>Title:</b>	Pension Fund Cash – Annual Report 2014/15
<b>Reference:</b>	6800
<b>Report From:</b>	Director of Corporate Resources – Corporate Services

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## **1. Executive Summary**

- 1.1. This report provides an annual review of the policy for managing the Hampshire Pension Fund's cash balance. The Pension Fund adopts the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice, which includes an annual report on the treasury management strategy after the end of each financial year.

## **2. Background**

- 2.1. The Pension Fund receives cash each month from contributions by employees and employers, and from investment income. The Pension Fund requires a cash balance to be able to pay pensions and other costs. Cash is also required if the UK property manager CBRE Global Investors purchases additional properties, to finance drawdowns by the indirect property and alternative investment funds, and the purchase of new and top-up hedge fund investments as recommended by Aberdeen Asset Management, who are the advisers for the alternative investment portfolio.
- 2.2. Dividends from shares and interest receipts from bonds are retained by the external investment managers for reinvestment, but rent income from the Pension Fund's direct property portfolio is credited to the Fund's cash balance. Distributions from the Fund's alternative investments and indirect property funds are also paid to the Fund's balance.
- 2.3. The Pension Fund's investment managers aim to be fully invested in equities and bonds, and generally do not plan to hold cash as a matter of investment policy. The exception at the current time is Newton, who are holding a cash balance of close to the 10% limit set as part of their Investment Management Agreement, as a hedge against falling equity values. All of the Fund's active investment managers will have some cash

balances as a result of trading between stocks and from dividend and interest income pending investment. These cash balances are held by the Pension Fund's Custodian bank, JP Morgan, and are held in an account on which interest is earned.

- 2.4. There are rigorous procedures in place to ensure the security of all cash deposits which are managed by the County Council in separate investment accounts for the Pension Fund. These include criteria for the quality of counterparties and limits on the amount that can be placed with any one counterparty as set out in the Pension Fund's Annual Investment Strategy for 2015/16 for cash, which was approved by the Panel on 6 March 2015. In addition the County Council's treasury advisers, Arlingclose, provide advice to the Director of Corporate Resources in undertaking treasury management activities.

### **3. Investment activity**

- 3.1. Security of capital remains the Fund's main investment objective for the management of the cash balance. This was maintained during 2014/15 by following the Fund's counterparty policy as set out in its Annual Investment Strategy. Investments during the year included:
  - Investments in AAA-rated Money Market Funds
  - Call accounts and fixed deposits with banks and building societies with a minimum credit rating of A-, or equivalent
- 3.2. In addition to credit ratings counterparty credit quality was assessed and monitored with reference to:
  - credit default swap prices
  - any potential support mechanisms
  - share prices
  - other economic or financial data.
- 3.3. Based on these factors and advice from the Treasury Management advisers, Arlingclose, the Director of Corporate Resources on behalf of the Pension Fund has varied investment duration limits for new investments according to the assessment of credit risk and has suspended investing with individual counterparties when it is felt to be necessary to protect the Pension Fund's capital.
- 3.4. The Pension Fund's current counterparty limits are shown in Appendix 1. The limits are the agreed maximum values and duration of investments per counterparty, which shows the full range of counterparties the Fund could potentially invest with. The placement of actual investments is likely to be below these limits and will depend on both the Fund's requirements, such as the need to maintain a high degree of liquidity, and the availability of counterparties in the market; most of the foreign banks listed do not offer instant accounts that the Pension Fund can access.

- 3.5. The UK base rate has been maintained at 0.5% throughout 2014/15 and short term money market rates continued at very low levels which has depressed the level of cash investment income earned in 2014/15. The Fund's average cash investment balance was £84.46m (1.6% of the total Pension Fund) during 2014/15, and interest earned was £396,000, leading to an average yield of 0.47%. Cash was held during 2014/15 not just for the normal obligations of paying benefits and investment obligations but additionally pending the outcome of the review of the Fund's Investment Strategy, and the bulk transfer to Greater Manchester Pension Fund for the Probation Service. The Fund's cash investments at 31 March 2015 and 31 May 2015 are shown in the exempt appendix.

#### 4. Cash inflows and outflows from dealings with members

- 4.1. The Pension Fund monitors its surplus or deficit from dealings with members, the extent to which income from employer and employee contributions are greater or less than the outgoings on pensions and other costs. Up until 2011/12 the Fund's historic average was a surplus of around £50m. However due to austerity in the Public Sector and the reductions in scheme employers' workforces that took place, beginning in 2012/13, the surplus has reduced. The Hampshire Pension Fund's draft statement of accounts for 2014/15 show that it made a deficit of £57.5m from its dealings with members, which is a reduction from a £20.5m surplus in 2013/14.
- 4.2. A more accurate view of the Fund's cashflow can be achieved by removing the effect of the transfer of scheme members, which can vary significantly from year to year, and the Fund has no control over. In 2014/15 this adjustment removes the significant one-off transfer of £74.7m to Greater Manchester Pension Fund for the transfer of the Probation Service. Removing the impact of transfers brings the net figure to £21.0m which is comparable to 2013/14's net figure of £19.6m.

Table 1: Net additions from dealing with members

	2013/14	2014/15
	£'000	£'000
Net additions from dealing with members	20,464	(57,475)
Group transfers	(831)	78,470
	<u>19,633</u>	<u>20,995</u>

- 4.3. It has been reported that a number of LGPS funds are experiencing annual cash deficits from their dealings with members, which will result in them having to liquidate some of their investments to continue to meet their obligations for payments to scheme members.

- 4.4. Projecting the Pension Fund's annual surplus or deficit from dealings with members in the future is very difficult given the number of variables involved, such as membership numbers, investment returns and inflation. The Fund's cash position will continue to be monitored by officers, with the assistance of the Fund's actuary – Aon Hewitt, where necessary, and reported to the Panel

**5. Recommendation**

- 5.1. That the outturn report on the Pension Fund's cash management in 2014/15 be approved.

**CORPORATE OR LEGAL INFORMATION:**

**Links to the Corporate Strategy**

**This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision by the Pension Fund Panel to approve the annual report on Pension Fund cash for 2012/13.**

**Other Significant Links**

**Links to previous Member decisions:**

<u>Title</u>	<u>Reference</u>	<u>Date</u>

**Direct links to specific legislation or Government Directives**

<u>Title</u>	<u>Date</u>

**Section 100 D - Local Government Act 1972 – background documents**

**The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)**

<u>Document</u>	<u>Location</u>
None	

## **IMPACT ASSESSMENTS:**

### **1. Equality Duty**

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

**Due regard in this context involves having due regard in particular to:**

- a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

### **1.2. Equalities Impact Assessment:**

1.3. Equality objectives are not considered to be adversely affected by the proposals in this report.

### **2. Impact on Crime and Disorder:**

2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

### **3. Climate Change:**

a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact.

**Current Bank and Building Society investment limits**

<b>Country / Domicile</b>	<b>Counterparty</b>	<b>Maximum investment</b>	<b>Maximum duration</b>
UK	Barclays Bank	£50m	100 days
UK	Bank of Scotland	£50m	100 days
UK	Close Brothers	£50m	100 days
UK	Goldman Sachs	£50m	100 days
UK	HSBC Bank	£50m	6 months
UK	Leeds Building Society	£50m	100 days
UK	Lloyds Bank	£50m	100 days
UK	Nationwide Building Society	£50m	100 days
<b>UK</b>	<b>NatWest</b>	<b>Suspended</b>	<b>Suspended</b>
UK	Santander UK	£50m	100 days
UK	Standard Chartered Bank	£50m	6 months
Australia	Australia and NZ Banking Group	£50m	6 months
Australia	Commonwealth Bank of Australia	£50m	6 months
Australia	National Australia Bank	£50m	6 months
Australia	Westpac Banking Group	£50m	6 months
Canada	Bank of Montreal	£50m	6 months
Canada	Bank of Nova Scotia	£50m	6 months
Canada	Canadian Imperial Bank of Commerce	£50m	6 months
Canada	Royal Bank of Canada	£50m	6 months
Canada	Toronto-Dominion Bank	£50m	6 months
Finland	Pohjola Bank	£50m	6 months
<b>Germany</b>	<b>Deutsche Bank AG</b>	<b>Suspended</b>	<b>Suspended</b>
Germany	Landesbank Hessen-Thuringen (Helaba)	£50m	100 days
Netherlands	Bank Nederlandse Gemeenten	£50m	6 months
Netherlands	ING Bank	£50m	100 days
Netherlands	Rabobank	£50m	6 months
Singapore	DBS Bank Ltd	£50m	6 months
Singapore	Oversea-Chinese Banking Corporation	£50m	6 months
Singapore	United Overseas Bank	£50m	6 months
Sweden	Nordea Bank AB	£50m	6 months
Sweden	Svenska Handelsbanken	£50m	6 months
Switzerland	Credit Suisse	£50m	100 days
US	JP Morgan Chase Bank	£50m	6 months