HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	22 June 2018
Title:	Investments: Pension Fund Cash – Annual Report 2017/18
Report From:	*Director of Corporate Resources*

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1. Recommendation

1.1. That the outturn report on the Pension Fund's cash management in 2017/18 be approved.

2. Executive Summary

2.1. 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.

3. Background

3.1. 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 for the following investment reasons:

- if the UK property manager CBRE Global Investors purchases additional properties;
- to finance drawdowns of private equity limited partnerships; and
- to finance drawdowns of infrastructure investments.

3.2. 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 private equity, infrastructure investments and indirect property funds are also paid to the Fund's balance.

3.3. The Pension Fund's investment managers aim to be fully invested in equities, bonds and hedge funds, 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 4.40% which is close to the 5% 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.

3.4. 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 2018/19 for cash, which was approved by the Pension Fund Panel and Board on 15 December 2017. In addition the County Council's treasury advisers, Arlingclose, provide advice to the Director of Corporate Resources in undertaking treasury management activities.

4. Investment activity

4.1. Security of capital remains the Fund's main investment objective for the management of the cash balance. This was maintained during 2017/18 by following the Fund's counterparty policy as set out in its Annual Investment Strategy, which was approved by the Pension Fund Panel and Board on 16 December 2016. Investments during the year included:

- Investments in AAA-rated Money Market Funds
- Investments in UK Government Treasury Bills
- Investments in Corporate Bonds
- Call accounts, notice accounts and certificates of deposit with banks and building societies with a minimum credit rating of BBB+, or equivalent

4.2. 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.

4.3. 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.

4.4. 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.

4.5. The UK base rate increased by 0.25% to 0.50% in November 2017 and short term money market rates have remained at relatively low levels which continued to have a significant impact on cash investment income. The Fund's average cash investment balance was £74.3m (1.1% of the total Pension Fund) during 2017/18, and interest earned was £230,000, leading to an average yield of 0.31%. The Fund's cash investments at 31 March 2018 and 31 May 2018 are shown in the exempt appendix.

5. Cash inflows and outflows from dealings with members

5.1. 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 reduced at that time. The Hampshire Pension Fund's draft statement of accounts for 2017/18 show that it made a surplus of £40.0m from its dealings with members, which is an increase from a £21.3m surplus in 2016/17.

5.2. A more accurate view of the Fund's cash flow 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. Removing the impact of transfers brings the net figure to £41.7m in comparison to 2016/17's net figure of £22.3m.

Table 1: Net additions from dealing with members

	2016/17	2017/18
	£'000	£'000
Net additions from dealing with members	21,304	40,010
Net total transfers	948	1,707
	22,252	41,717

5.3. The overall increase of £19.5m in net additions from dealing with members is for the main part due to 2017/18 being the first year of the new employer contribution rates following the 31 March 2016 triennial actuarial valuation. Overall employers' contributions increased by 10.9% (£21.3m) in 2017/18 in comparison to 2016/17, whilst the number of active contributors to the Fund increased only very slightly to 57,877 (57,781 in 2016/17).

5.4. This increase in employers contributions is a result of an increase of 16.2% in Past Service Deficit received and an increase of 8.2% in Future Service Rate contributions received.

5.5. 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.

5.6. 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 and Board.

CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because a decision by the Pension Fund Panel and Board to approve the annual report on Pension Fund cash for 2017/18.

Other Significant Links

Links to previous Member decisions:	
Title	Date
Direct links to specific legislation or Government Directives	
Title	Date

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.)

Document	Location
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 disproportionally low.

1.2. **Equalities Impact Assessment:**

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

Country / Domicile	Counterparty	Maximum investment	Maximum duration
UK	Bank of Scotland	£15m	6 months
UK	Barclays Bank	£15m	100 days
UK	Close Brothers	£15m	6 months
UK	Goldman Sachs	£15m	100 days
UK	HSBC Bank	£15m	6 months
UK	Leeds Building Society	£15m	100 days
UK	Lloyds Bank	£15m	6 months
UK	Nationwide Building Society	£15m	6 months
UK	Santander UK/Abbey National	£15m	6 months
UK	Standard Chartered	£15m	100 days
Australia	Australia and NZ Banking Group	£15m	6 months
Australia	Commonwealth Bank of Australia	£15m	6 months
Australia	National Australia Bank	£15m	6 months
Australia	Westpac Banking Group	£15m	6 months
Canada	Bank of Montreal	£15m	6 months
Canada	Bank of Nova Scotia	£15m	6 months
Canada	Canadian Imperial Bank of Commerce	£15m	6 months
Canada	Royal Bank of Canada	£15m	6 months
Canada	Toronto-Dominion Bank	£15m	6 months
Denmark	Danske Bank	£15m	100 days
Finland	OP Corporate Bank	£15m	6 months
Germany	Bayerische Landesbank (BayernLB)	£15m	6 months
Germany	DZ Bank	£15m	6 months
Germany	Landesbank Baden-Wuerttemberg (LBBW)	£15m	6 months
Germany	Landesbank Hessen-Thuringen (Helaba)	£15m	6 months
Netherlands	Cooperative Rabobank	£15m	13 months
Netherlands	ING Bank	£15m	100 days
Singapore	DBS Bank Ltd	£15m	13 months
Singapore	Oversea-Chinese Banking Corporation	£15m	13 months
Singapore	United Overseas Bank	£15m	13 months
Sweden	Nordea Bank AB	£15m	13 months
Sweden	Svenska Handelsbanken	£15m	13 months
Switzerland	Credit Suisse	£15m	100 days