REPORT TO: **PENSION SUB-COMMITTEE OF THE POLICY AND RESOURCES COMMITTEE - 2 MARCH 2015**

REPORT ON: **TREASURY MANAGEMENT STRATEGY**

REPORT BY: **DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **99-2015**

1 PURPOSE OF REPORT

1.1 This report reviews the Treasury Management Strategy for Tayside Pension Fund.

2 RECOMMENDATIONS

2.1 The Committee are asked to approve the Treasury Management Strategy including list of permitted counterparties.

3 FINANCIAL IMPLICATIONS

3.1 The Pension Fund will pay a fee of £6,000 per annum to Dundee City Council for the provision of a treasury management service.

4 BACKGROUND

4.1 From 1 December 2009, the Tayside Pension Fund has operated a separate bank account from that of Dundee City Council. This is requirement of legislation and ensures greater transparency of Pension Fund money.

4.2 Although the Pension Fund's investments are all managed externally there are frictional cash balances which are held internally. These arise from timing differences between receipt of pension contributions and payment of pensions within the month.

4.3 The fourth Treasury Management Strategy for the Pension Fund (Article IV of the Minute of Meeting of the Pension Investment Sub-Committee of Policy and Resources Committee of 3 March 2014, Report No 131-2014 refers). This report reviews this strategy.

5 TREASURY MANAGEMENT STRATEGY 2015/2016

5.1 The Pension Fund's Treasury Management Strategy will be based on cash flow management to ensure that sufficient funds are held to make all necessary payments.

5.2 The primary concern will be to ensure the security of cash to allow the capital to be preserved. Secondly the cash must be easily accessible. The return earned will only be considered once the first two conditions are satisfied.

5.3 The most suitable vehicles will either be call accounts with the major clearing banks or money market funds. Over the next year it is expected that call accounts will continue to be more secure because of the government guarantee and also that they will offer a better return.

5.4 A suggested list of permitted counterparties with limits is shown at Appendix 1.

6 **POLICY IMPLICATIONS**

6.1 This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

There are no major issues.

7 **CONSULTATION**

7.1 The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

8 **BACKGROUND PAPERS**

None

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DIRECTOR OF CORPORATE SERVICES **23 FEBRUARY 2015**

APPENDIX 1

PERMITTED COUNTERPARTIES FOR INVESTMENT TRANSACTIONS

Approved Lending Bodies	Short Term Credit Rating**	Maximum Deposits £m
Banks		
Royal Bank Of Scotland Plc	F1	5*
Lloyds Banking Group (Inc HBOS)	F1	5
Handelsbanken	F1+	8
Santander	F1	5
Money Market Funds	AAA	5

* This £5m limit applies to the call account. Additional smaller balances (less than £1m) may also be held in the current account.

Any institution whose credit rating falls below the limits F1 or AAA will no longer be a permitted counterparty for further transactions.

** Fitch Ratings Definition - Short-Term Ratings Assigned to Issuers or Obligations in Corporate, Public and Structured Finance

A short-term issuer or obligation rating is based in all cases on the short-term vulnerability to default of the rated entity or security stream and relates to the capacity to meet financial obligations in accordance with the documentation governing the relevant obligation. Short-Term Ratings are assigned to obligations whose initial maturity is viewed as "short term" based on market convention. Typically, this means up to 13 months for corporate, sovereign, and structured obligations, and up to 36 months for obligations in U.S. public finance markets.

F1: Highest short-term credit quality - Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.

AAA: These Money Market Funds seek to maintain high credit quality portfolios by investing exclusively in short-term securities rated at least 'F1' by Fitch or equivalent. Generally, these MMFs limit their exposures to individual issuers at 10% of the fund's assets, with no more than 5% for those above seven days in tenor.