

**FALKIRK COUNCIL**

**Subject: FALKIRK COUNCIL PENSION FUND –  
CASH MANAGEMENT POLICY  
Meeting: PENSIONS COMMITTEE  
Date: 6 JUNE 2013  
Author: CHIEF FINANCE OFFICER**

**1. INTRODUCTION**

- 1.1 This report invites the Pensions Committee to consider for approval a draft Cash Management Policy document in relation to the pension fund.
- 1.2 The draft document sets out the parameters for managing the Fund's cash holdings, so that balances are kept to a minimum; appropriate controls are in place; and sufficient cash holdings are available to allow the Fund to meet its statutory and contractual obligations.

**2. BACKGROUND**

- 2.1 The nature of pension fund business means that at any given time, the Fund is likely to be receiving income from employer and member contributions and investments, whilst simultaneously making pension and lump sum payments. The Fund therefore needs to organise its cash management activities to ensure that it retains sufficient funds to meet its daily obligations and invests any cash not immediately required.
- 2.2 At present, the Fund uses the same criteria for investing cash as is set out in the Council's Treasury Management Strategy. However, in view of the need to demonstrate "clear water" between the financial transactions of the Fund and those of the Council, it was agreed at the December 2012 Pensions Committee that a separate document be created for the Fund. This followed on from an Audit Scotland recommendation for Fund cash management arrangements to be more formally documented.
- 2.3 Whilst the return on investments generally has an impact on funding levels and on the rate of employers' contributions, the interest arising from cash balances is likely to be of relatively minor significance, not least because of the historically low yields presently available in the market.

**3. REGULATORY AND OPERATIONAL CONTEXTS**

- 3.1 The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 stipulate that an Administering Authority must invest any fund monies that are not immediately needed to meet benefit obligations.
- 3.2 However, as outlined above, the Fund needs to retain a certain amount of cash to meet its daily operational requirements.

- 3.3 The Fund is currently in a “cash positive” situation, which means that income from investments and contributions exceed benefit payments. The net inflow is around £0.75m per month.
- 3.4 Surplus cash is invested with either the Fund’s banker, Clydesdale Bank, or forwarded to the Fund’s custodian, Northern Trust, prior to it being allocated to one or more of the Fund’s investment managers.
- 3.5 The main reasons for holding cash (other than to meet short term obligations), are:
- to meet unexpected benefit commitments (e.g. death lump sums and transfer value payments);
  - to meet drawdowns arising from the Fund’s Private Equity and Infrastructure programme; and
  - to meet the costs of an imminent investment.

#### **4. PROPOSED CASH MANAGEMENT POLICY**

- 4.1 The overriding aim of the Fund’s cash management policy is to minimise cash holdings.
- 4.2 Where cash balances are being held, the primary investment objectives are the security and liquidity of the holdings. The return to be achieved on the holdings is a secondary consideration. This is consistent with the Cipfa Treasury Management Code.
- 4.3 The draft Cash Management Policy sets out:
- the types of instrument in which the Fund’s cash may be invested;
  - the standard of creditworthiness required for a counterparty to be an “approved counterparty”;
  - the cash limits that may be held by the various institutions; and
  - the maximum aggregate cash holding (£20m).
- 4.4 It must be stressed that the individual limits set for counterparties are not investment targets, but limits within which Officers will be expected to operate.
- 4.5 The policy document recognises that from time to time a breach of limits may occur. This is most likely to arise where a restructuring of assets or a change of fund manager is taking place. In such cases, the matter will be brought to the attention of the Chief Finance Officer and remedial action put in place to return the cash holdings back to their agreed limits.
- 4.6 The policy will be kept under regular review by Officers to monitor the appropriateness of limits and any events such as a fall in scheme membership or a change in the benefit structure that could affect the day-to-day cash flow of the Fund.

#### **5. CONCLUSION**

- 5.1 The Pension Fund’s cash holdings will continue to be kept to a minimum, consistent with the Fund’s requirement for cash to meet its various financial obligations.
- 5.2 Levels of cash will be closely monitored by officers and any surplus funds invested with Fund Managers at the earliest opportunity.

- 5.3 The existence of the Cash Management Policy will demonstrate the good governance of the Fund's cash assets and provide a framework for officers to undertake the effective management of these assets.

**6. RECOMMENDATION**

- 6.1 The Committee is asked to approve the draft Cash Management Policy with a view to its adoption by the Pension Fund.

**Chief Finance Officer**

**Date: 24 May 2013**

**Contact Officer: Alastair McGirr**

**LIST OF BACKGROUND PAPERS**

NIL