

CAMBRIDGESHIRE PENSION FUND



Pension Fund Committee

Date: 28th March 2019

Report by: Head of Pensions

Subject:	Cash Management Strategy
Purpose of the Report	To present the Cash Management Strategy to Pension Committee
Recommendations	The Committee are asked to: <ol style="list-style-type: none"> 1) Note the Report; 2) Approve the Cash Management Strategy
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1. Purpose of the report

- 1.1. To present the Cash Management Strategy to the Pension Committee.

2. Background

- 2.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”) came into force on 1 November 2016, and require the Fund to review its Cash Management Strategy on a regular basis.
- 2.2. The Strategy has been reviewed and officers present a revised Strategy to the Committee for consideration and adoption.

3. Key Regulations

- 3.1 Under the Local Government Pension (Management and Investment of Funds) Regulations 2016, the Fund is required to have its own separate bank account, may only borrow by way of temporary loan or overdraft for the purpose of paying benefits due under the scheme or to meet investment commitments, and must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.
- 3.2 To meet the requirements of the Regulations, the Fund has identified Objectives and Key Principles to govern the Fund’s approach to Cash Management, as can be seen in sections 3 and 4 of the Cash Management Strategy in Appendix 1.

4. Purpose of the Strategy

- 4.1. The overall purpose of the Strategy is to manage Fund cash efficiently, ensuring adequate cash is available in the Fund's accounts held at Barclays Bank to meet day to day cash requirements of the Fund, and to ensure timely payment of surplus cash to Northern Trust for investment in line with the Investment Strategy Statement.
- 4.2. The processes set up in response to the Strategy include, forecasting, monitoring and periodically moving cash to and from Barclays and Northern Trust.
- 4.3. The Strategy allows Officers the ability to react efficiently to the cash requirements of the Fund.

5. Key Features

5.1. Funds cash objectives

- 5.1.1. The Fund is compliant with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 regulations
- 5.1.2. Cash is available as and when required
- 5.1.3. Surplus cash is invested
- 5.1.4. Risks inherent within the Key Principles are managed

5.2. Current cash arrangements

- 5.2.1 The Fund currently holds cash at Barclays and at the Fund's Custodian Northern Trust, both of which have access to interest bearing accounts. There is **no** cash held with the Administering Authority

5.3. Key cash flow movements and timings

- 5.3.1 The key activities that occur within the Barclay's accounts above are monitored by Officers through regular profiling of cash movements, which identifies surplus balances or forecast shortfalls, prompting a transfer to, or from, the Custodian.
- 5.3.2 There are three streams of activity, receipt of income through Accounts Receivable, payment of pension benefits through payroll and ad hoc payments through Accounts Payable.

5.4. Operational Issues

- 5.4.1 Identifies the risk, the implications and the mitigations in place for the risk. Covers the key risks, implications and mitigations for Cash Management.

6. Recommendation

- 6.1. That the Pension Committee:
 - 6.1.1. Note the Report;
 - 6.1.2. Approve the Cash Management Strategy.

7. Relevant Fund objectives

Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.

Continually monitor and measure clearly articulated objectives through business planning. Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.
Administer the Fund in a professional and efficient manner, utilising technological solutions and collaboration.
Ensure cash flows in to and out of the Fund are timely and of the correct amount.
Ensure the long-term solvency of the Fund, taking a prudent long term view, so that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment.
Ensure an appropriate cash management strategy is in place so that net cash outgoings can be met as and when required.

8. Risk Management

- 8.1. The Pensions Committee have the authority to review and maintain the Cash Management Strategy.
- 8.2. The risks associated with implementing the strategy have been captured in the Fund's risk register as detailed below.

Risk register	Risk mitigated	Residual risk
Governance Risk 1	Failure to administer the scheme in line with regulations and policies	Green
Governance Risk 4	Policies and Strategies not being in place and up to date	Green
Investment Risk 22	Failure to invest surplus contributions	Green
Investment Risk 23	Fund assets are not sufficient to meet obligations and liabilities as they become payable.	Amber
Investment Risk 27	If liquidity is not managed correctly, assets may need to be sold at unattractive times or investment opportunities missed as cash is unavailable	Green

- 8.3. The Fund's full risk register can be found on the Fund's website at the following link:
<http://pensions.northamptonshire.gov.uk/governance/key-documents/northamptonshire/>

9. Communication Implications

- 9.1. The Cash Management Strategy will be published on the Fund's website when it has been approved by the Pension Committee.

10. Legal Implications

10.1. Legal advice will be sought as required.

11. Consultation with Key Advisers

11.1. None.

12. Alternative Options Considered

12.1. None.

13. Background Papers

13.1. None.

14. Appendices

14.1. Appendix 1 – Cash Management Strategy

Checklist of Key Approvals	
Is this decision included in the Business Plan?	Not applicable
Will further decisions be required? If so, please outline the timetable here	Not applicable
Is this report proposing an amendment to the budget and/or policy framework?	No
Has this report been cleared by Section 151 Officer?	Sarah Heywood – 15 March 2019
Has this report been cleared by Head of Pensions?	Mark Whitby – 8 March 2019
Has the Chairman of the Pension Fund Committee been consulted?	Councillor Rogers – 13 March 2019
Has this report been cleared by Legal Services?	Fiona McMillan – 12 March 2019

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Cash Management Strategy
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1. Regulations

- 1.1. Under The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Fund is required to have its own separate bank account (paragraph 6.1). A number of other instructions are set out in the regulations regarding managing the Funds cash, these are listed below.
 - 1.1.1. Regulation 5 – Restriction on power to borrow. This regulation states that an authority may only borrow by way of temporary loan or overdraft for the purpose of paying benefits due under the scheme or to meet investment commitments. The authority may only borrow if it reasonably believes that the sum borrowed and interest charged can be repaid by the pension fund within 90 days of borrowing.
 - 1.1.2. Regulation 7.8 – Investment Strategy Statement. The authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.

2. Other Regulatory Influences

- 2.1. The Fund will also have regard to:
 - 2.1.1. Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (Treasury Management Code) (2011).
 - 2.1.2. MHCLG Investment Guidance,
 - 2.1.3. The UK Money Markets Code,
 - 2.1.4. EU Money Market Funds (MMF) Regulation.

3. Objectives

- 3.1. The main objectives of a Cash Management Strategy are to ensure that:
 - 3.1.1. The Fund is compliant with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016,
 - 3.1.2. Cash is available as and when required,
 - 3.1.3. Surplus cash is invested,
 - 3.1.4. Risks inherent within the Key Principles are managed.

4. Key Principles

- 4.1. There are three key principles relating to cash management:
 - 4.1.1. Security – Safeguarding Pension Fund assets,
 - 4.1.2. Liquidity – Ensuring the Pension Fund has cash available as and when required,
 - 4.1.3. Yield – To achieve a market return.

5. Overdraft

- 5.1. An overdraft is a form of borrowing and the 2016 Regulations specify only two reasons that the Fund can legally overdraw, as set out in paragraph 1.1.1. above.
- 5.2. The Fund bank accounts operate with a zero aggregate overdraft facility, with strong financial control processes over cash activities.

6. Cash Arrangements

6.1. The Fund currently holds cash at Barclays and at the Fund's Custodian Northern Trust, both of which have access to interest bearing accounts. There is **no** cash held with the Administering Authority.

6.2. Barclays Bank Plc

Operational cash is held at Barclays Bank, managed directly by Officers. A minimal balance is maintained, varying upon the information available from the three key interfaces:

6.2.1. Accounts Receivable - this account receives all contributions, transfers and invoiced income.

6.2.2. Payroll Account – Pension benefits are paid from this account monthly.

6.2.3. Payables Account – All invoice payments, grants and lump sums are payments are made from this account.

At close of business each day any surplus/shortfall on the above accounts are swept into an overarching interest bearing Liquidity Account to ensure a residual balance of £10,000 on each.

6.3. Northern Trust (Custodian)

The Fund will transfer surplus money from Barclays Bank accounts to the Fund's account at the Custodian for investment in line with the Fund's Investment Strategy. This account also acts as a gateway to receive and pay monies to Investment Managers, for example, cash from Investment distributions. The Fund has a contractual agreement with the Custodian to sweep excess cash into Money Market Funds.

6.4. Investment Managers

Investment managers hold cash at Northern Trust as part of their mandates. Whilst this cash is under the managers' control, it can be recalled by the Fund.

7. Key Cash Flow Movements/Timings

7.1. Barclays Bank

The key activities that occur within the Barclay's accounts, noted at 6.2. above are monitored by Officers through regular profiling of cash movements, which identifies surplus balances or forecast shortfalls, prompting a transfer of cash to, or from, the Custodian.

There are three streams of activity; receipt of income through Accounts Receivable, payment of pension benefits through payroll and ad hoc payments through Accounts Payable. Contribution income is required to be received by the 19th of the month. This is important as it represents the receipt of income prior to the payment of the pensioners' payroll on the last working day of the month. The payments through Accounts Payable occur on an irregular pattern dependent upon demand, with its main activity being the payment of new pension liabilities such as retirement grants, in addition to death grants and transfers out.

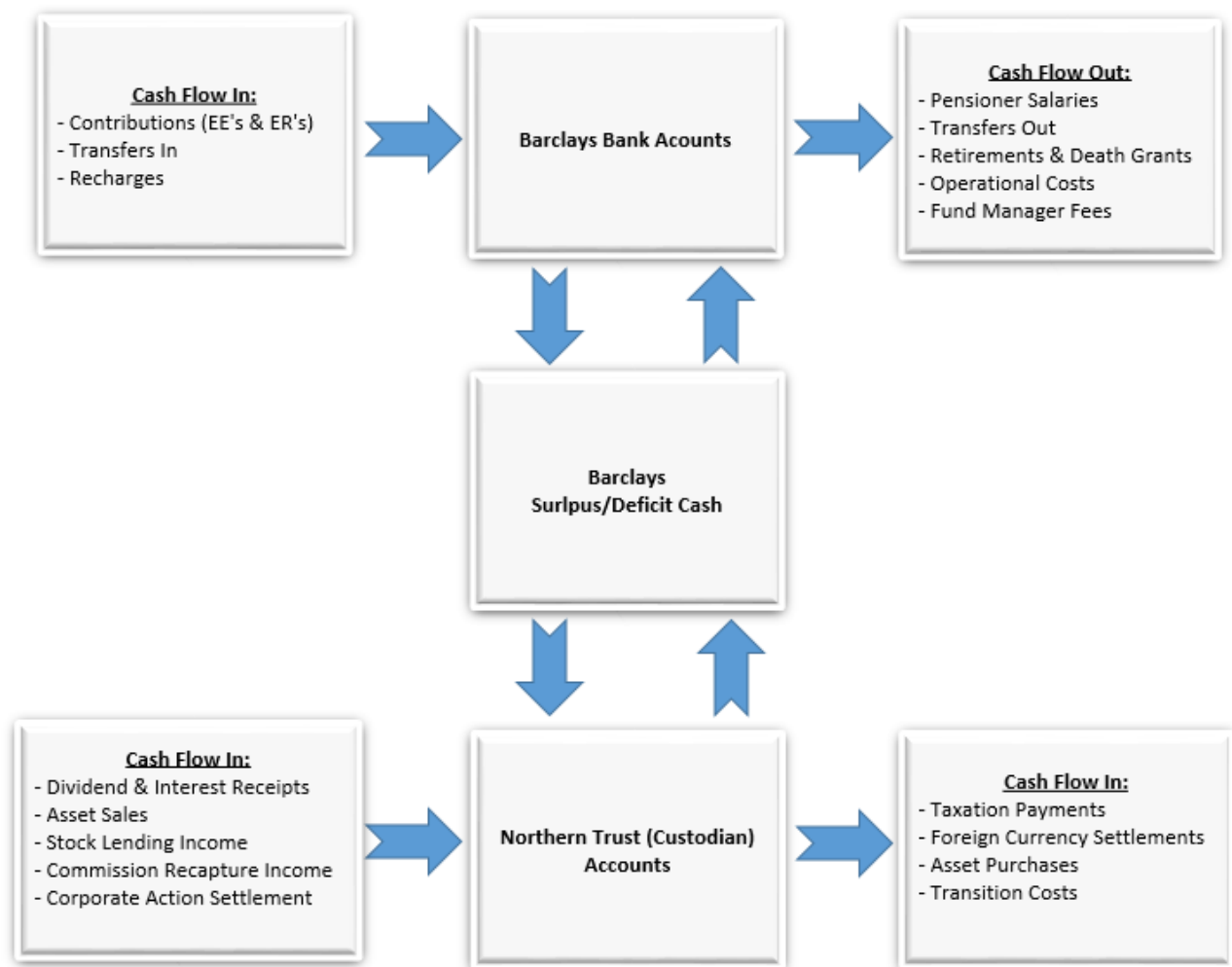
7.2. Custodian

Officers manage the Fund's cash requirements and will first recall cash from the Custodian cash account, then from Investment Managers, giving regard to the asset

allocation, liquidity and exit costs of investment assets, as required. Similarly, investing of Fund surpluses will also be in line with the Fund's Investment Strategy.

8. Operational Issues

Risk	Implication	Mitigation
Exit payments, where cash is due to Employers within the Fund who have a contribution surplus, and Employers transferring their assets and liabilities out of the Fund, generate risks to cash flows and the balance of cash within the Fund.	<ul style="list-style-type: none"> - Becoming overdrawn - Lack of liquidity to fund payments 	<ul style="list-style-type: none"> - Clear inter-team Communication - Segregation of duties - Sale of assets
Timing of payments result in payments exceeding the working balance held at Barclays Bank, requiring a recall of cash from the Custodian.	<ul style="list-style-type: none"> - Becoming overdrawn - Lack of liquidity to fund payments 	<ul style="list-style-type: none"> - Stringent cash management and forecasting - Ability to delay non-essential payments to ease cashflow
A dependency upon LGSS Treasury to action instructions from the Pension Fund in a timely manner.	<ul style="list-style-type: none"> - Lack of liquidity to fund payments 	<ul style="list-style-type: none"> - Stringent cash management and forecasting - Segregation of duties
An investment draw down where insufficient cash is held by the Custodian on behalf of the Fund.	<ul style="list-style-type: none"> - Becoming overdrawn - Lack of liquidity to fund payments 	<ul style="list-style-type: none"> - Stringent cash management and forecasting
County Council officers, with access to Pensions systems, can action fraudulent or erroneous cash movements.	<ul style="list-style-type: none"> - Becoming overdrawn - Payments made to/from wrong bank account - Fraudulent activities 	<ul style="list-style-type: none"> - Segregation of duties - Approval from Pension Senior Management required for cash movements
Surplus cash is not invested in line with the Investment Strategy Statement on a timely basis.	<ul style="list-style-type: none"> - Loss of economic benefit to the Fund 	<ul style="list-style-type: none"> - Stringent cash management - Clear inter-team Communication



9. Glossary

Custodian – An external body responsible for ensuring the investing Fund's assets are registered in the name of the Fund, managing the settlement of trades, collecting income arising and reporting transactions and values to the Fund on a regular basis.

Deficit – An outcome where expenses exceed income.

Investment Manager – An external organisation that makes investments in assets on behalf of clients.

Money Market – A mutual fund that invests in cash and cash equivalent securities.

Surplus – An outcome where income exceeds expenditure.