

APPENDIX I

SOUTH YORKSHIRE PENSIONS AUTHORITY

TREASURY MANAGEMENT: ANNUAL INVESTMENT STRATEGY

A) Policy Statement

1) Introduction

- 1.1 Treasury management can be defined as the management of the Authority's cash flow, its borrowings and its investments, the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks.
- 1.2 The Authority's treasury management operation is relatively simple compared to that of a conventional local authority. It essentially revolves around the depositing of surplus monies (i.e. pending permanent investment) with approved institutions.
- 1.3 This Strategy is constantly monitored and if deemed necessary may be replaced by a revised strategy. The circumstances warranting a revised strategy may vary but likely triggers could be changes in legislation, changes to interest rate expectations or changes to underlying investment market conditions and money market liquidity. However, the Strategy should not be formally reviewed just because of changes to purely technical circumstances. It is to be treated as a flexible document with sufficient delegations to allow officers to effectively manage the cash balances of the Authority and Fund.

2) Treasury Management Operation and Objectives

- 2.1 The activities of the treasury management operation cover:-
- Lending
 - Cash flow forecasting and management
 - Managing the underlying risk associated with the Fund's cash balances
 - Consideration, approval and use of new financial instruments and treasury management techniques
 - Liaison with brokers, the Authority's bankers, and other financial institutions
- 2.2 The overall objectives of the Authority are to achieve the optimum return consistent with minimising risk, with the overriding principle being to maintain the Authority's and Fund's capital.
- 2.3 Currently, investments are restricted to a limited number of organisations which enjoy a credit rating of F1 or better for short term debt (see 3.4 below).
- 2.4 Under the CIPFA Code procedures for the formulation of treasury management strategy are to be set and approved each year. This involves, inter alia, forecasting sums available for investment determined annually in advance and periods of investments, determined by the forecast interest rate movements, and the need to hold cash to meet contingencies. However, because of the short term nature of the Fund's cash balances (the allocation in the benchmark presumes that the Fund will normally be fully invested in the stock markets etc.) these decisions are taken as part of the

greater asset allocation exercise which considers the Fund's overall disposition. This is under constant review within the constraints laid down by the customised benchmark. Therefore, most deposits under normal circumstances are fixed for periods of not more than three months. The majority of monies are invested on call, weekly or monthly terms. If market conditions suggest that it would be beneficial for the Authority to lend longer, such loans are directly related to account settlement, real estate or payroll requirements or liabilities i.e. are determined by overall Fund requirements rather than money market considerations. The maximum length of temporary investments will not, in any case, exceed 364 days. The borrowing of monies purely to invest or on-lend and make a return is unlawful and will not be engaged in.

2.5 Officers employed in treasury management activities have proper working relationships with external advisors and brokers and have the appropriate level of experience. Members involved in the scrutiny of treasury management issues are encouraged to avail themselves of relevant training wherever possible.

2.6 Quarterly updates on treasury management matters are presented to the Authority as part of the Corporate Plan update.

3) Approved Instruments and Organisations for Investment

3.1 The Authority manages its monies in compliance with the statutory requirements. Within the MHCLG guidance there are definitions of "local authority", "investment", "long-term investment" and "specified investment".

3.2 Under Government guidance, specified investments are categorised as those offering both high security and high liquidity and must be sterling dominated, maturing in less than one year and be made either with UK Government, local authorities or institutions with high credit ratings as determined by the Authority.

3.3 A non-specified investment is one not covered by the previous definition and is subject to greater potential risk. MHCLG has confirmed that building societies and similar investments are covered by this paragraph and has stated that there is no intention to discourage authorities from using non-specified investments. The aim is simply to ensure that proper procedures are in place for undertaking risk assessments of investments made for longer periods or with bodies that are not highly credit-rated.

3.4 The Authority uses the creditworthiness service provided by Capita Asset Services. The service does not only rely on the current credit ratings of counterparties but also uses the following as overlays:-

- Credit watches and credit outlooks from credit rating agencies
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This is a service which the Authority would not be able to replicate using in-house resources.

3.5 This service provides an independent assessment by professionals of the overall credit quality of an institution. Weekly reviews of the credit ratings ensure that the Authority's criteria are maintained and the Authority is alerted to changes on a daily basis. Officers also access other rating information supplied by other providers.

- 3.6 The Authority can currently utilise the following instruments:-
- Deposits with banks, building societies, Debt Management Office or local authorities (and certain other bodies) for up to 364 days
 - Certificates of deposits (CDs) with banks and building societies for up to 364 days
 - Money market funds.

The Authority itself does not lend its own monies: all lending is Fund money.

- 3.7 The borrowers dealt with from April 2018 to February 2019 are shown in Appendix IV.

- 3.8 The amount invested with any one institution is limited. All loans must take due cognisance of the amount involved and the quality of the borrower in both absolute and relative terms to the whole lending book. The lending limit for specified investments with a short term credit rating of F1 or better is £40m. A unit limit of £10m applies to non-specified investments i.e. the Authority can lend to the top twenty Prudential Regulatory Authority (or equivalent FATF regulator) regulated building societies, or those with assets in excess of £1bn. The Authority's principal bankers (i.e. Lloyds and HSBC) both have a short term credit rating of F1 or better and so have a lending limit of £40m. In exceptional circumstances this is increased to no more than £50m for short term placing of excess funds pending market settlements. These levels are set relative to the whole lending book and were revised in January 2018. Current cash levels are relatively high due to investment activity. These levels are reviewed regularly and any changes during the year are reported to Authority for approval. Officers regularly review the credit rating criteria the Authority uses and have concluded that the present approach is fit for purpose.

- 3.9 The Authority has a deposit facility with the UK Debt Management Office which is an executive agency of HM Treasury. This facility has no limit on deposit size but internal procedures require that should the facility be used for sums over £50m such use be reported at the next update to the Board.

- 3.10 The Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 [SI No 534] clarified the use of money market funds and MHCLG has confirmed that this Authority is eligible to utilise them. The Authority has approved investment in such funds up to a maximum limit of £50m into any one fund and up to a maximum of 50% of total lent monies at any one time.

- 3.11 Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016: SI 2016/946 the administering authority has a power to borrow on behalf of the LGPS fund it administers in certain circumstances.

4) Overdraft

- 4.1 The current overdraft limit of £100,000 is with the Authority's clearing bank, Lloyds, and is available until 31 August 2019. The current interest rate on authorised overdrafts is officially 2% above the Base Rate. This facility is very rarely used. It is a contingency for unexpected events or to facilitate short term allocations and is subject to immediate termination.

4.2 I can report that the Authority has had no difficulty in terms of overdraft limits formerly set, nor are any difficulties envisaged for current or future years. This view takes into account current commitments, existing plans and proposals in the approved budget. Accordingly, it is intended to seek renewal of the facility from 1 September 2019.

5) Delegated powers

5.1 The Authority's Standing Orders and Financial Regulations have delegated to the Treasurer the responsibility for all aspects of the operation of the Authority's bank accounts. This includes the opening and closing of accounts. The Treasurer is also authorised to invest any monies belonging to or under the control of the Authority subject to the Authority's general directives. The Treasurer may delegate this power to members of his staff.

5.2 The Authority should approve the Annual Investment Strategy annually and before the start of the financial year.

5.3 The Affordable Borrowing Limit must be approved for each financial year and must be determined by the Authority. It should not be delegated to a committee and cannot be delegated to officers. It has to be kept under review.

5.4 It is the Treasurer's responsibility to implement and monitor the Strategy and Limit once set. The Treasurer should consider revising and resubmitting it as and when required, draft a strategy report for annual consideration by the Authority and monitor and report upon any material divergence from the strategy and recommend revisions if and when required.

B Implementation

6) 2019/20 Immediate Considerations

6.1 The factors expected to affect treasury matters during the forthcoming year are:-

	£M	%
Borrowing Requirement 2019/2020	None	
Current Bank of England Bank Rate (changed 2 Aug 18)		0.75%
Current Investment Rates estimated average (overnight) for £10m deposit size		0.68%

7) Prospects for Interest Rates

The prospects for interest rates in the UK are expected to be as follows:-

a) Short Term Interest Rates

Bank Rate increased by 0.25% to 0.75% in August 2018. The previous rate of 0.5% had applied since November 2017. The Bank of England has indicated that any further rise in the foreseeable future will be limited and gradual. Inflation has fallen from 3.0% in December 2017 to a current rate of 1.8% with a target rate of 2%. CPI inflation is projected to remain around 2% in the next few years. In the short term there is likely to be reaction to Brexit and whether the UK leaves the EU on the 29th March with a deal on the table.

b) Longer Term Interest Rates

Given the nature of the Authority's portfolio and liquidity requirements forecasting longer term interest rates is a low priority for this function. However, the Bank of England's view appears to be that inflation will remain around 2% over the next two years. It judges that Bank Rate should also remain stable over that period.

8) Short term considerations

8.1 Capital Finance

The Authority may have a requirement to finance capital expenditure in relation to the acquisition of new software licences or similar. Such expenditure will ultimately be financed from the Fund.

8.2 Debt Rescheduling

The Authority has no debt.

8.3 Temporary Investments

Cash flow requirements and changes in base rates will be closely monitored and investments made accordingly:

- a) kept short if it is anticipated that interest rates will rise, enabling returns to be compounded more frequently
- b) weighted to longer periods, with a view to enabling returns to be maintained, in a falling market.

Investments will be restricted to those funds and institutions which meet the criteria laid down in the Annual Investment Strategy.

8.4 Utilisation of Amounts Set Aside for Debt Redemption

The Authority has no debt.

8.5 Other issues

8.5.1 As indicated in para 7 the UK is due to leave the EU on 29th March 2019 and the impact of this on interest rates and inflation is really uncertain.