Brent	**Pension Fund Sub-Committee** 08 November 2016 **Report from the Chief Finance Officer**
For Decision-Making	Wards affected: ALL

Short Term Cash Investment

1.0 Summary

1.1 The purpose of this report is to address the challenge of having large cash balances on-hand awaiting investment decisions, achieving very low or nil returns, while being placed with a single bank. It will also allow the Pension Fund to be able to invest short-term quickly and reduce the risk of having up to 10% of the Fund at risk due to being held by a single bank.

2.0 Recommendations

2.1 The Pension Fund Sub-Committee agrees that the Pension Fund makes use of the Treasury Management function to make short-term investments and utilises Brent Council's existing framework to protect the cash.

2.2 The Committee delegates to the Chief Finance Officer responsibility for short-term cash investment decisions.

3.0 Detail

3.1 The Pension Fund has higher than anticipated cash balances. This is due to delays within the Collective Investment Vehicle (CIV) through which it plans to invest the majority of its funds in the near future. While the Pension Fund may consider its options if an appropriate investment becomes available externally, preferably one that shows a strong likelihood of being on-boarded into the CIV, this does not tackle the short-term issue of investing excess cash. This is why the Pension Fund wants to make use of the existing Treasury Management facility within the Council to ensure this short-term cash issue is dealt within appropriately.

3.2 The Pension Fund has a long-term horizon and focusses on making long-term investments and so inevitably will have periods of strategic re-allocation when large amounts of cash are held. The current 1% strategic allocation into cash refers solely to the long-term allocation of the Pension Fund. It does not reflect the short-term cash that may be held temporarily and that needs to be protected in order to pay for long-term investments.

3.3 While the Pension Fund seeks long-term returns and therefore anticipates higher levels of risk than the Council, it is important to make decisions for the long-term and not incur unnecessary transaction costs. Moving in and out of investments would be very expensive as entry and exit fees can be over a 1% of the value of the investment in instances. The Pension Fund expects to be in individual investments potentially for over a decade and so transaction costs are a fairly minor item in this timespan but not over a few months while waiting for appropriate investments to become available. Investing in equity choices outside the CIV would not benefit the Pension Fund as much as inside the CIV in most instances due to the fee savings that could be generated from economies of scale.

3.4 The Pension Fund anticipates making significant investments following the next three Pension Fund sub-committees, as this links to the current up-dated time-scales of the options highlighted within the briefing paper on the CIV. Therefore, holding cash in the short-term makes sense but it is important to invest it to protect the principal and generate a return when possible.

3.5 It is important that the Pension Fund has a robust approach to protecting its principal in such short-term investments. The Council has an existing Treasury Management strategy that is prudent and low-risk. It also has an existing framework and set of processes to manage such risk, therefore, this should protect the Pension Fund.

3.6 The Pension Fund will still consider investing with the Debt Management Office as that is currently very low risk but very low return, as that may the most appropriate option in many circumstances. However, with the cost of loaning out to appropriate bodies being covered within existing arrangements and an existing Treasury Management Strategy to manage risk, there is no reason that the Pension Fund cannot obtain some return from its short-term cash position. Particularly, with the inevitable re-alignment of the Pension Fund to achieve its strategic allocation target, there may be more cash on-hand than normal and a small rate on a large amount of cash even for a short period of time should produce a meaningful amount of interest.

3.7 This change would produce more benefit the Pension Fund more in a high interest environment. While that does not appear to be immediately likely, this option is another tool available to the Pension Fund.

3.8 As the Pension Fund would not be investing its monies in Brent Council but rather making use of Brent Council's existing Treasury function to loan its funds to other organisations, there is no anticipated increase in cost to the

Pension Fund nor conflict of interest.

3.9 Currently, the Pension Fund anticipates making loans via Brent's Treasury Function and being the sole owner of loans. As such, any risk would be borne directly by the Pension Fund.

3.10 An alternative option would be to loan to the Council and take a share of the interest from the shared amount of monies invested, this would change how risk was managed. Potentially, this would be simpler but it would mean that the Pension Fund would take a corresponding share of risk.

3.11 In such an instance, the risk would be shared in all investments on a straight-line basis relative to the size of the differing investment shares.

3.12 The first option of investing directly is preferred as it keeps the Council and the Pension Fund cash clearly separate. It is entirely conceivable that the Pension Fund might simply use the Treasury Management function to deposit its funds with the Debt Management Office, if rates dropped any lower.

4.0 Financial Implications

4.1 The Financial Implications are that the Pension Fund will benefit from the ability to invest short-term amounts of cash quickly at low risk, as the Council's policy to protect the principal rather than to generate significant returns.

4.2 Reduction of risk is dealt within the main body of the report.

4.3 There is no additional anticipated cost to using this facility as this is currently covered by the current charge to the Pension Fund for use of officer time.

5.0 Legal Implications

5.1 There are no direct legal implications from expanding the use of an existing relationship with the Council to invest directly in short-term investment with low risk profiles. As the risk is taken by the Pension Fund and the Treasury Management function solely its agent, the roles and responsibilities remain separate.

5.2 Choosing to invest through the Council by loaning it money to invest on its behalf would change the nature of the relationship between the entities. It would be necessary to agree a formal legal arrangement between the two legally separate bodies that came to an agreement on risk-sharing. Further legal advice would be needed if the Pension Fund chose the option detailed in 3.10 and 3.11.

6.0 Diversity Implications

6.1 Not Applicable

7.0 Staffing/Accommodation Implications (if appropriate)

7.1 Not applicable.

Background Papers

Brent Council Treasury Management Strategy (February 2016)

Contact Officers

Persons wishing to discuss the above should contact Gareth Robinson, Head of Finance, on 020 8937 6567, Gareth.Robinson at Brent Civic Centre