

By: Chairman Superannuation Fund Committee
Director of Finance

To: Superannuation Fund Committee – 18 September 2009

Subject: **TREASURY STRATEGY**

Classification: Unrestricted

Summary: To make proposals for the Fund's treasury strategy.

FOR DECISION

INTRODUCTION

1. The Fund's cash balances have historically been managed by KCC and invested in accordance with the KCC's Treasury Strategy. This paper proposes options for how the Cash should be managed moving forwards.

BACKGROUND

2. Prior to September 2007 the Fund held only transactional Cash, basically excess of income over expenditure from scheme employers and other income such as rents. The average balance 2002-03 to August 2007 was:

	£m
2002-03	21.1
2003-04	13.0
2004-05	11.4
2005-06	10.0
2006-07	11.8
2007 (to August)	19.9

Cash was passed out to the investment managers on a quarterly basis.

3. In September 2007 the Committee decided to hold Cash as a deliberate investment decision – this was supplemented by the £55m proceeds from the withdrawal from the Goldman Sachs Global Tactical Asset Allocation Fund.
4. At the beginning of October 2008 the Fund had a cash holding of £160m and £16m was in Icelandic banks. We have now received around £1m back in the first Heritable dividend payment. Anticipated recoveries are around £13m. At 31 July Cash held was £131.5m – despite £70m being put back into equities earlier in the year. The issue of the amount of Cash held is addressed in item .
5. The Fund Cash has been held co-mingled with KCC Cash up to now. Since October 2008 KCC has put all new and maturing monies in the Government Debt

Management Office. Since September 2007 the Fund has received a pro rata share of actual interest earned as opposed to the LIBID rate previously received.

CASH MANAGEMENT OPTIONS

6. The rationale for Fund Cash being co-mingled with KCC Cash in that as can be seen in paragraph 2 it was relatively small and a separate Fund Treasury Strategy was not required. The Committee now has the choice of whether to continue to co-mingle with KCC (but receive actual interest) or set up its own cash management arrangements.

7. **Manage with KCC Cash**

(1) The Chairman is a member of the newly established Treasury Advisory Group which will advise KCC's Director of Finance and Cabinet Member for Finance on treasury issues. At a meeting on 3 September TAG received a report proposing the following:

- The use of cash deposits, call accounts and fixed deposits, with selected financial institutions and the DMO.
- The criteria for selecting financial institutions were:
 - Access to the UK Government Credit Guarantee Scheme
 - Credit rating / other information
 - Reputational issues – in the event of failure how could their use be justified.
 - Managed exposure to other parts of the same banking group.
- The available institutions were then Abbey National, HSBC, HBOS / Lloyds TSB, Royal Bank of Scotland and Barclays.
- The 5 institutions would have a maximum limit each of £40m. Other deposits would only be placed with the DMO.
- Deposits could not be made for longer than 6 months.

This proposal will now go forward to Cabinet which will agree any significant changes to it.

Internal control processes and governance arrangements have been strengthened. These proposals have been worked up with support from a different firm of treasury advisors, Arlingclose, and KCC is out to tender for treasury advisers.

- (2) The Fund therefore has the options of its funds being managed on a co-mingled basis against the parameters set out above. In-addition to the Chairman's involvement through TAG a quarterly report would be made to Committee.

8. **Segregated Cash Portfolio**

- (1) A totally segregated portfolio could be set up with separate bank accounts. The Committee would have to take decisions on:
- Asset classes
 - Criteria for selecting counterparties.
 - Counterparty limits
 - Duration of deposits
- (2) Given that the Cash is only being held short term External Managers are not a practical option for managing the Cash.

RECOMMENDATION

9. Members are asked to decide whether they want Cash managed with KCC funds or a segregated cash portfolio.

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