

TREASURY MANAGEMENT STRATEGY 2016/17

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendations: That the Committee:

- (a) adopts the revised Treasury Management Clauses, Treasury Management Policy and Treasury Management Practices as set out in Appendix 1;**
- (b) adopts the Treasury Management Strategy for 2016/17 as set out in Appendix 2.**

1. Introduction

- 1.1 In February 2012 the Pension Fund, in accordance with the revised CIPFA Code of Practice for Treasury Management in the Public Services, adopted a Treasury Management Policy Statement together with a statement of its 'Treasury Management Practices' (TMPs).
- 1.2 Following changes made to Devon County Council's 2015/16 Treasury Management Strategy, and in line with good practice, these policies have been reviewed for 2016/17. An amended version of the Treasury Management Policy Statement and TMPs are therefore being brought to the Committee for approval.
- 1.3 The policy requires the Investment and Pension Fund to consider a treasury strategy report, setting out the strategy and plans to be followed in the coming year.

2. Treasury Management Policy Statement and TMPs

- 2.1 The revised Treasury Management Policy Statement and Treasury Management Practices are shown at Appendix 1. Treasury Management Practices (TMPs) set out the manner in which both Devon County Council and the Devon Pension Fund will seek to achieve their treasury management policies and objectives and how it will manage and control those activities. In some sections they will not relate directly to the Pension Fund but have been reported in their entirety.
- 2.2 The key changes relate to the decision taken by the Devon County Council Cabinet in October 2015 to invest in the CCLA Property Fund. As a result changes have been made to TMP1 Treasury Risk Management, specifically the section on market risk management, and TMP4 Approved Instruments, Methods and Techniques. However, these will have no impact on the Pension Fund, as it is not envisaged that the

Pension Fund will invest in property funds as part of its treasury management.

- 2.3 The opportunity has been taken to tidy up some other minor issues, to reflect changes in processes where the software systems used to process transactions have been updated.

3. Treasury Management and Investment Strategy

- 3.1 The Treasury Management and Investment Strategy is shown in draft at Appendix 2. It sets out the current treasury position, cash investments, prospects for interest rates and the investment strategy.
- 3.2 The strategy includes the following changes from the 2015/16 Treasury Management Strategy:
- The ability to continue to use a counterparty with a short term rating one notch below the stated criteria, subject to the counterparty meeting the long term rating criteria and subject to the advice of our external advisors (Capita) who take into account a range of other metrics in arriving at their advice.
 - The ability to use a counterparty where it is only rated by two of the major ratings agencies, based on the lowest rating published by either of the two agencies.
 - Reintroduction of the use of money market funds.
- 3.3 The first two changes were discussed at the November meeting of the Committee, and would have the effect of allowing Barclays Bank back onto the counterparty list, plus the addition of the Leeds and Coventry Building Societies. Members were concerned to understand how this fitted into the Pension fund's overall treasury management strategy and deferred a decision. Appendix 2 shows the proposed 2016/17 strategy in full, and provides the context for members to consider this amendment.
- 3.4 During the financial crisis it was decided to suspend the use of money market funds, and the Investment Strategy in subsequent years has stated that they are "not in use". However in an environment where banks are now seen as more risky, a money market fund which diversifies its investment between a large number of counterparties could be seen as a lower risk investment.
- 3.5 The new regulatory environment also means that banks and building societies are reducing the rate they are prepared to offer for call accounts. Investment in a money market fund with a constant net asset value will protect capital and provide liquidity at a yield that is likely to match or exceed that provided by a call account with any of the banks on the Pension Fund's counterparty list. It is therefore proposed to reintroduce the use of money market funds in the Pension Fund's investment strategy.
- 3.6 In order to implement this change, four money market funds will be added to the Pension Fund's counterparty list. The funds have to be AAA rated to meet the lending criteria, and have been selected based on criteria such as size of fund, diversification of risk and the income yield available, as advised by the Pension Fund's treasury advisors (Capita Asset Services).

- 3.7 The target return for treasury investments has been reduced to 0.40%. This is lower than the County Council's target, but reflects the fact that cash balances are being kept at the minimum level required for liquidity, and the Pension Fund's cash deposits do not therefore benefit from the higher rates on offer for longer term deposits.

4. Conclusion

- 4.1 The Committee is asked to approve the adoption of the revised Treasury Management Clauses, Treasury Management Policy and TMPs as set out in Appendix 1, and the Treasury Management Strategy for 2016/17 as set out in Appendix 2.

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Electoral Divisions: All

Local Government Act 1972

List of Background Papers – Nil

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