

# **NESPF Cash Management Statement**

## **Introduction**

Aberdeen City Council as the administering authority for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund (NESPF's) has prepared this policy statement.

## **Background**

The NESPF's maintain a balance of cash arising from the receipt of employer and employee contributions, and externally managed investments exceeding the amount of pension and other payments made on behalf of the Fund.

The Pension Fund defines its cash management activities as:-

- The management of the Pension Fund's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks
- NESPF regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its cash management activities will be measured. Accordingly, the analysis and reporting of cash management activities will focus on their risk implications for the Pension Fund.
- NESPF also acknowledges that effective cash management should provide support towards the achievement of the Pensions Fund funding objectives. It is therefore committed to the principles of achieving best value in cash management, and to employing suitable performance measurement techniques, but always in the context of effective risk management.

## **Compliance**

NESPF adheres to the 'Aberdeen City Council Treasury Management Manual' which states: *'Consideration must at all times be given to the CIPFA Code of Practice for Treasury Management in the Public Services, the CIPFA Prudential Code for Capital Finance in Local Authorities, the Council's Treasury Policy Statement, the Council's Treasury Management Practices and the London Code of Conduct'*

## **Management of Internal Cash Balances**

## **Appendix VII**

The cash managed in-house by the Administering Authority, provides a working balance for the Funds to meet short term commitments and forms part of the Funds' strategic asset allocation to cash.

The Funds' internal cash balances are managed by the Council's Treasury Management team. Internal cash balances are reviewed on a daily basis and withdrawals and deposits arranged in accordance with the pension fund requirements. Pension Funds' cash deposits are held separately from the City Council's cash.

Cash balances will be held predominantly in short-term instruments such as notice accounts, money market funds and short-term fixed deposits. Approved instruments for pension fund cash deposits will be the City Council's list of specified investments for maturities up to 1 year, The City Council's current approved list of specified investments is contained within the 'Treasury Management Manual' and reviewed at least annually.

## **Borrowing**

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 gives administering authorities a limited power to borrow on behalf of the pension fund for up to 90 days. The power cannot be used to invest, but only for cash flow management in specified circumstances which should in practice be exceptional, i.e. to ensure that benefits are paid on time, and in transition management situations when the allocation of a pension fund's assets is being amended. Money can only be borrowed for these purposes if, at the time of borrowing, the administering authority reasonably believes that the sum borrowed, and any interest charged as a result, can be repaid out of the pension fund within 90 days of the date when the money is borrowed. Pension Fund management arrangements presume no borrowing normally, but the possibility remains of unexpected pressures occurring and in these circumstances the power would enable the Pension Funds to avoid becoming forced sellers of fund assets due to cash flow requirements.

## **Management of external Cash Balances**

Arrangements will be made for cash balances which are not required for cash flow purposes, to be transferred to the Pension Funds' Investment Managers accounts held at the Global Custodian, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010.

## **Investment of External Cash Balances**

The Pension Funds cash investment policies and procedures will be in line with those of the administering authority. Priorities for the investment of cash will be:-

(a) The security of capital and

(b) The liquidity of investments

(c) Optimum return on investments commensurate with proper levels of security and liquidity Investment of Pension Fund Cash

The cash balances are regularly monitored and reviewed as part of a regular rebalancing exercises undertaken by officers and the external service provider

In general a minimum cash balance of £10 million will be retained following a fund rebalancing exercise, to meet cash flow requirements such private equity investment transactions. This sum will be equitized

- to ensure maximum return at an acceptable level of risk.
- seeks to reduce slippage due to frictional cash, inefficient cash flow management, asset allocation mismatch, unintended structural biases and implementation delay. and
- reduce administrative burden associated with monthly cash flows

The level of cash balances will fluctuate on a daily basis and may be considerably higher than the minimum balance dependent upon the timing of transactions and strategic asset allocation decisions.

### **Segregation of Cash Management Duties**

There is adequate segregation of duties. In general terms duties are segregated as follows:

**1. Policy formulation and Cash management advice and authorisation**

Pensions Manager, Investment Manager

**2. Cash Processing**

Senior Pension Officer Investment, Pension Officer Governance,  
Senior Pension Officer Employer Relations

**3. Recording and administration**

Accounting Manager and Pension Officer Accounting

## **Variation from the Aberdeen City Council 'Treasury Management Manual'**

### **1. Pension Lump Sum Payments**

Pension Fund lump sums paid on retirement or in the event of the death grant will be generally in excess of £10,000. Identification requirements by the Pension Fund are as follows:

- Birth certificate
- Spouses/partner birth certificate
- Marriage certificate

### **2. Cash balances held by third parties**

Balances greater than £50m may be held on the balance sheet of Fund's Global Custodian due to the investment activity of underlying asset managers.