Nottinghamshire County Council

Report to Pension Fund Committee

7 March 2024

Agenda Item: 6

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

PENSION FUND TREASURY MANAGEMENT STRATEGY STATEMENT 2024/25

Purpose of the Report

1. The Pension Fund Treasury Management Strategy covers the management of the Fund's cash balances, which are maintained to ensure that liquidity is maintained in between other cash inflows (eg. dividends on long-term investments) and outflows (eg. monthly pension payroll) experienced by the Fund.

2. Responsibility for the Treasury Management Strategy of the Pension Fund was delegated to the Pension Fund Committee at Full Council in February 2020. The purpose of this was to improve the clarity of the governance of the Pension Fund Committee and enable the Strategy, reviewed annually, to be amended more quickly in response to changes to the Fund's Investment Strategy or to any long-term changes in the money markets. This report lays out the Strategy to be approved for 2024/25.

3. In addition to an annual Strategy Report, the Pension Fund Committee will receive a Treasury Management Mid-year report in the autumn and a year-end Treasury Management report after accounts closure.

Information

4. Nottinghamshire County Council, in line with the CIPFA Treasury Management in the Public Services Code (2021 edition), defines treasury management activities as:

   The management of the organisation's borrowing, investments and cash flows, including 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.

5. The Council is an administering authority in the Local Government Pension Scheme and is required, under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, to invest any fund money that is not needed immediately to make payments.

6. Pension Fund cash is separately identified from the Council's cash. Regarding cash investments and cashflows relating to the Pension Fund, the Council has delegated responsibility for identifying, monitoring and controlling such risk to the Pension Fund

Committee. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Pension Fund.

7. The Pension Fund Committee acknowledges that effective treasury management will provide support towards achieving its objectives. It is therefore committed to the principles of achieving value for money in treasury management within the context of effective risk management.

8. The Pension Fund Committee delegates responsibility for the implementation, scrutiny and monitoring of its treasury management policies and practices to the *Treasury Management Group*, comprising:
   - Service Director (Finance, Infrastructure & Improvement)
   - Group Manager (Financial Services)
   - Senior Accountant (Financial Strategy & Accounting)
   - Senior Accountant (Pensions & Treasury Management)
   - Investments Officer

9. The Pension Fund Treasury Management Strategy will be implemented through the following Treasury Management Practices (TMPs). The responsible officer for the execution and administration of treasury management decisions is the Senior Accountant (Pensions & Treasury Management), who will act in accordance with the strategy statement and TMPs.

TMP1 - Risk management

10. The Senior Accountant (Pensions & Treasury Management) will design, implement and monitor all arrangements for the identification, management and control of treasury management risk. Reports will be made on these arrangements in accordance with the procedures set out in *TMP6 Reporting requirements and management information arrangements*. The arrangements will seek to cover each of the following risks.

Credit and counterparty risk

11. This is the risk of failure by a counterparty to meet its contractual obligations to the Pension Fund, particularly because of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the Pension Fund's resources.

12. The Pension Fund regards a key objective of its treasury management activities to be the security of the principal sums it deposits. Accordingly, it will ensure that its counterparties and lending limits reflect a prudent attitude towards organisations with which monies may be deposited and will limit its treasury activities in the market to the instruments, methods and techniques referred to in the following paragraphs.

13. The Local Government Act 2003 gives a local authority power to invest for any purpose relevant to its functions or for the purposes of the prudent management of its financial affairs. In exercising this power, the local authority must have regard to guidance issued by the Secretary of State.

14. The guidance classifies investments between "specified" and "non-specified". Specified investments are those offering high security and high liquidity. All such investments should be in sterling and with a maturity of no more than a year. Such short-term investments made with the UK Government or a local authority will automatically count as specified investments. In

addition, short-term sterling investments with bodies or investment schemes of "high credit quality" will count as specified investments. The Fund's policy is to invest cash surpluses prudently, giving priority to security and liquidity rather than yield and investing in sterling instruments only. The majority of these will be specified investments.

15. The Pension Fund will operate an approved list of counterparties for lending. The approved lending list will comprise institutions with high credit ratings based on minimum ratings from at least 2 rating agencies together with a Fitch support rating for longer term lending. The list reflects a prudent attitude to lending and uses a combination of ratings issued by the 3 main ratings agencies: Fitch, Moody's and Standard & Poor's. Banks will be assessed for inclusion on the basis of long-term, short-term and support ratings; money market funds (MMFs) on the basis of MMF ratings.

16. Short-term ratings assess the capacity of an entity to meet financial obligations with maturity of up to and including 12 months and are based on the short-term vulnerability to default. The long-term ratings cover a period in excess of 12 months. They are useful as a key indicator as they reflect the ability of the financial institution to obtain funds at reasonable cost to maintain their own liquidity.

17. MMFs are mutual funds that invest in cash and short-term money market instruments such as government bonds and commercial paper. They allow investors to participate in a more diverse portfolio than direct investment by spreading capital across a variety of institutions. The highest AAA rating reflects an extremely strong capacity to achieve the 'investment objective of preserving principal and providing shareholder liquidity through limiting credit, market, and liquidity risk'.

18. The Pension Fund will monitor ratings from the main agencies along with general market data. The Fund will also monitor developments in the financial markets including policy announcements by the Government, Bank of England, regulatory bodies and other international bodies. It will use this information to determine if any changes are required to the above methodology.

19. The approved list will include institutions that meet the following criteria from at least 2 rating agencies:

	Long Term	**Short Term**	**Sterling MMFs**
Fitch	A-	F1	AAAmmf
Moodys	A3	P-1	Aaamf
Standard & Poors	A-	A-1	AAAm

Sovereign Rating	AA

20. Within the approved list the following minimum criteria will apply, dependent on the terms of the deposit, from at least 2 ratings agencies:

	Fitch Long term	Fitch Support	Moodys Long term	S&P Long term
Instant access	A-	-	A3	A-
Up to 3 months	A-	-	A3	A-
Up to 364 days	AA-	-	AA3	AA-
365 days and over	A	1 or 2	A2	A

21. All investments (up to 365 days duration) with the counterparties in the approved list are considered specified investments.

22. Exceptions (to be determined by the *Treasury Management Group*) to rating criteria may be made in respect of the following:
    1) UK government
    2) UK local authorities
    3) The Council's bank (currently Barclays Bank)
    4) the Pension Fund's custodian (currently State Street)

23. The lending list will be approved by the *Treasury Management Group* and monitored by the Senior Accountant (Pensions & Treasury Management) in the light of rating changes and market conditions. Individual institutions or countries may be suspended from the list if felt appropriate. The *Treasury Management Group* may add or remove organisations from the approved list subject to maintaining consistency with the approved criteria.

24. The maximum amount to be lent by the Pension Fund to any organisation on the approved list is subject to individual institution limits of £20m. A separate limit of £40m applies to investments in Money Market Funds and the Fund's custodian bank. Only two institutions within the same group may be used at any one time. The *Treasury Management Group* may increase the limit for specific institutions by £10 million for investments in call accounts and MMFs with same day liquidity.

25. Investments with the UK government will have no upper limit but in practice limits will be dependent on the liquidity of those investments and may fall within the definition of specified or non-specified investments. Amounts invested in non-specified investments will be limited to £20 million or 15% of the total invested at the time of the investment, whichever is the higher.

26. The Pension Fund's current account, through which all treasury management activity operates, is held at Barclays Bank.

27. As a result of the second Markets in Financial Instruments Directive (MiFID II), all LGPS pension funds have been treated as 'retail' clients by investment counterparties by default unless they have chosen to opt up to 'professional' client status. The Pension Fund has opted for this with all of its counterparties where required.

Liquidity risk

28. Liquidity risk is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional costs, and that the Pension Fund's objectives will be thereby compromised. This is of especial concern regarding the Pension Fund as a large portion of its cash is either allocated or committed to individual investment managers and may be called by them at short notice.

29. The Pension Fund will ensure it has adequate though not excessive cash resources to always enable it to have the level of funds available to it which are necessary for the achievement of its business/service objectives and its investment strategy.

30. Summarised cash flow forecasts will be provided on a quarterly basis to the *Treasury Management Group*. Daily cash flow forecasts will be maintained by the Loans Officer. These forecasts will be used as the basis for ensuring adequate cash resources are available in order to support the payment of pensions, the cash allocations and commitments to investment managers, and other such outflows.

31. The Senior Accountant (Pensions & Treasury Management) or Investments Officer may approve fixed term investments up to 365 days. Longer periods require permission from either the Service Director (Finance & Procurement), the Group Manager (Financial Strategy & Compliance) or the Group Manager (Financial Management) and must comply with the relevant treasury management limits.

Exchange rate risk

32. This is the risk that fluctuations in foreign exchange rates create an unexpected burden on the Fund's finances, against which it has failed to protect itself adequately.

33. The Fund will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its income levels. Treasury Management exposure will be minimal as the Fund's cash investments are all in sterling.

Legal and regulatory risk

34. This is the risk that the Pension Fund, or a counterparty with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Fund suffers losses accordingly.

35. The Pension Fund Committee will ensure that all of the Pension Fund's treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with which it deals in such activities. In framing its credit and counterparty policy under *TMP1(1) credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the Fund, particularly with regard to duty of care and fees charged.

36. The Pension Fund Committee recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Fund.

Fraud, error and corruption, and contingency management

37. This is the risk that the Pension Fund fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

38. The Fund will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

Market risk

39. This is the risk that, through adverse market fluctuations in the value of the principal sums the Fund invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

40. The Fund will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations. Decisions on investment in tradeable securities, which risk loss of capital due to market fluctuations, will only be authorised by the *Treasury Management Group*.

TMP2 Performance measurement

41. Cash investment returns will be benchmarked against the adjusted average Sterling Overnight Index Average (SONIA) rate each year.

TMP3 Decision-making and analysis

42. The Fund will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were considered at the time.

43. Treasury management processes and practices are documented. Full records are maintained of all treasury management decisions. Where appropriate, decisions are reported to the *Treasury Management Group*.

TMP4 Approved instruments, methods and techniques

44. The Fund will undertake its treasury management activities within the limits and parameters defined in *TMP1 Risk management.* For investing purposes, the Fund may use the following financial instruments:
    a) call or notice accounts
    b) fixed term deposits
    c) callable deposits

d) structured deposits
e) certificates of deposits
f) money market funds
g) UK Treasury Bills
h) UK government bonds

45. For money market funds the Fund will limit their use to those with minimum total assets of £5 billion. For surplus cash invested in UK Treasury bills and UK government bonds the objective will be to hold until maturity, but their tradeability gives the flexibility to realize these instruments earlier for liquidity purposes or in the event of significant capital gains. The Fund will use forward dealing for investing where market conditions indicate this approach to offer better value for money.

TMP5 Organisation, clarity and segregation of responsibilities and dealing arrangements

46. The Pension Fund Committee considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is always clarity of treasury management responsibility.

47. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly regarding the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

48. If the Committee intends, because of lack of resources or other circumstances, to depart from these principles, the Senior Accountant (Pensions & Treasury Management) will ensure that the reasons are properly reported in accordance with *TMP6 Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

49. The Senior Accountant (Pensions & Treasury Management) will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Senior Accountant (Pensions & Treasury Management) will also always ensure that those engaged in treasury management shall follow the policies and procedures set out.

50. The Senior Accountant (Pensions & Treasury Management) will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

51. The current responsibilities are outlined below.
    - Treasury management policies and practices are set by the Pension Fund Committee.
    - Responsibility for the implementation, scrutiny and regular monitoring of the treasury management policies and practices is delegated to the *Treasury Management Group*.
    - The responsible officer for the execution and administration of treasury management decisions is the Senior Accountant (Pensions & Treasury Management), who will act within the parameters set by the Treasury Management Policy Statement and TMPs

and decisions of the *Treasury Management Group*. The Investments Officer will act as deputy to the Senior Accountant (Pensions & Treasury Management) in his or her absence.

52. The current procedures are outlined below.
    1. Daily cash flow forecasts will be maintained by the Loans Officer. Annual cash flow forecasts will be provided to the *Treasury Management Group* on a quarterly basis.
    2. The daily procedures for cash flow monitoring, placing deals, transmission of funds and documentation are set out in the Treasury Management Procedure Manual. These are usually carried out by the Loans Officer with absences covered by another officer under the responsibility of the Senior Accountant (Pensions & Treasury Management).
    3. The officer dealing on the money market each day must prepare a cash flow forecast for that day based on the most up-to-date information available and this must be checked by the Senior Accountant (Pensions & Treasury Management), or another officer under the responsibility of the Senior Accountant (Pensions & Treasury Management), before that day's deals are carried out. Before conducting a deal, the officer will confirm that the credit ratings of the counterparty are in line with the approved policy.
    4. Deals must be within the limits set out in *TMP1 Risk management*. Dealing staff must be aware of the principles set out in the Bank of England's UK Money Markets Code 2021, which are 'intended to promote an open, fair, effective and transparent market'. Documentation must be kept in accordance with the Treasury Management Procedure Manual.
    5. The transfer of funds will normally be actioned by CHAPS transfer through the banking system operated by the Fund's bank (currently Barclays).

53. Individual deal limits specified in *TMP1 Risk management* apply to all staff placing deals. Any lending for periods greater than 365 days may only be actioned on the authority of the Senior Accountant (Pensions & Treasury Management) and either the Service Director (Finance, Infrastructure and Improvement) or the Group Manager (Financial Services). Money may only be lent to institutions or funds on the *Approved List*.

TMP6 Reporting requirements and management information arrangements

54. The Service Director (Finance, Infrastructure and Improvement) will ensure that regular reports are prepared and considered on the implementation of the Pension Fund's treasury management policies.

55. The *Treasury Management Group* will receive regular monitoring reports on treasury management activities and risks and on compliance with and suggested revisions to policy. Members of the *Treasury Management Group* will be informed of any breach of the principles contained in TMP5.

TMP7 Accounting and audit arrangements

56. The Pension Fund accounts for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

57. Systems and procedures are subject to both internal and external audit and all necessary information and documentation shall be provided on request.

TMP8 Cash and cash flow management

58. Unless statutory or regulatory requirements demand otherwise, all monies in the Pension Fund will be under the control of the Service Director (Finance, Infrastructure & Improvement), and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Service Director (Finance, Infrastructure & Improvement) will ensure that these are adequate for the purposes of monitoring compliance with *TMP1(2) liquidity risk management*.

59. As outlined in TMP5, daily cash flow forecasts are to be prepared in accordance with the Treasury Management Procedure Manual, and summarised weekly and annual activity reports are regularly provided to the *Treasury Management Group*.

TMP9 Money laundering

60. The Pension Fund Committee is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this are properly trained.

61. All treasury management activity with banks other than the Fund's own bank is actioned through CHAPS transfers to/from nominated accounts. Suspicions that a third party is attempting to involve the Pension Fund in money laundering will be reported to the Service Director (Finance, Infrastructure & Improvement).

TMP10 Training and qualifications

62. The Pension Fund Committee recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

63. The person specifications for the Senior Accountant (Pensions & Treasury Management) and the Investments Officer require a UK chartered accountancy qualification and other members of the treasury team have the option to be supported to attain professional qualifications from the Association of Accounting Technicians, the Chartered Institute of Public Finance & Accountancy, or the Association of Corporate Treasurers (ACT). The members of the *Treasury Management Group* are also required to be chartered accountants or ACT qualified.

64. Professional qualifications will be supplemented by relevant training courses, attendance at seminars and conferences and access to CIPFA's Treasury Management Network and Technical Information Service for all team members. The Senior Accountant (Pensions & Treasury Management) will recommend and implement the necessary arrangements. Requests and suggestions for training may be discussed at any time with the Senior Accountant (Pensions & Treasury Management) and also feature as part of the personal development review process.

65. The *Treasury Management Group* will ensure that Committee members tasked with treasury management responsibilities have access to training relevant to their needs and those responsibilities. Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to undertake their role effectively.

TMP11 Use of external service providers

66. The Pension Fund Committee recognises that ultimate responsibility for treasury management decisions cannot be outsourced. It also recognises that there may occasionally be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. However, it does not currently employ the services of any specialist treasury management advisers.

67. In the employment of such service providers, the Committee will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review. It will also ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will be observed. The monitoring of such arrangements rests with the responsible officer.

68. The Fund makes use of broking companies to act as intermediaries in lending activity although it will also carry out this activity directly with counterparties when opportunities arise and when settlement details can be adequately verified.

TMP12 Corporate governance

69. The Pension Fund Committee is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity, and accountability.

70. As part of the Council, the Committee has adopted and implemented the key provisions of the CIPFA Treasury Management in the Public Services Code (2021 edition) and reports are made in accordance with the approved policy. The Council's constitution includes schemes of delegation covering treasury management activities.

71. These measures are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if necessary, report upon the effectiveness of these arrangements.

Statutory and Policy Implications

72. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

1. That Pension Fund Committee members approve the Strategy Statement as set out in the report.

Nigel Stevenson
Service Director for Finance, Infrastructure & Improvement and Section 151 Officer

For any enquiries about this report please contact: Ciaran Guilfoyle

Constitutional Comments (KA 05/02/2024)

73. The proposal in this report is within the remit of the Nottinghamshire Pension Fund Committee (Constitution - Section 7, Part 2 – Nottinghamshire Pension Fund Committee - Terms of Reference).

Financial Comments (TMR 07/02/2024)

74. There are no financial implications arising directly from this report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- CIPFA Treasury Management in the Public Services Code (2021 edition)
- The UK Money Markets Code 2021