

27 April 2023**Agenda Item: 8****REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE &
IMPROVEMENT****PENSION FUND TREASURY MANAGEMENT OUTTURN 2022/23****Purpose of the Report**

1. To provide a review of the Pension Fund's treasury management activities for the year to 31 March 2023.

Background

2. Treasury management is defined as 'the management of the council's investments and cashflows; 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'.
3. Responsibility for the treasury management 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 to recognise the role of cash investments as part of the Fund's wider investment strategy. This report summarizes pension fund cash investment activity for the year 2022/23.
4. Responsibility for the implementation, scrutiny and monitoring of treasury management policies and practices is delegated to the *Treasury Management Group*, comprising:
 - the Service Director (Finance, Infrastructure & Improvement)
 - the Group Manager (Financial Services)
 - the Senior Accountant (Pensions & Treasury Management)
 - the Senior Accountant (Financial Strategy & Accounting)
 - the Investments Officer.
5. During 2022/23, cash investment activities were in accordance with the approved limits as set out in the Fund's Treasury Management Policy and Strategy. The main points from this report are:
 - All treasury management activities were carried out by authorised officers within the limits agreed by the Pension Fund Committee.

- All investments were made to counterparties on the Fund’s approved lending list.
- At 31 March long-term cash deposits were zero - within the limit agreed as a Fund Prudential Indicator, namely £20m or 15% of the cash balance, whichever is higher.
- Averaged over the year the Fund earned 2.01% on its cash investments, slightly below the adjusted average Sterling Overnight Index Average (SONIA) rate for 2022/23 which was 2.11%.

Outturn Treasury Position

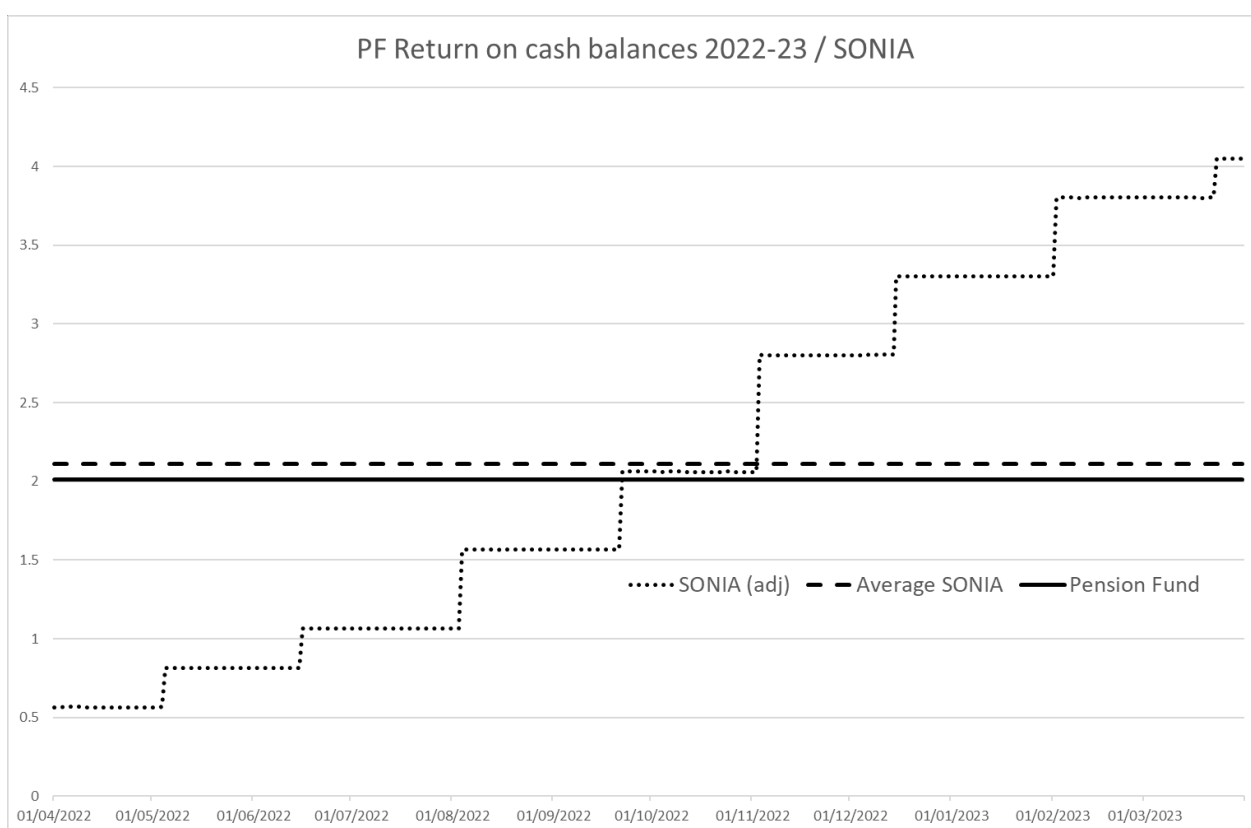
6. The Fund’s Treasury Management strategy and associated policies and practices for 2022/23 were approved in March 2022 by Pension Fund Committee. The Service Director (Finance, Infrastructure & Improvement) complied with the strategy throughout the financial year.
7. The Fund manages its cash flows through lending activities on the wholesale money markets. The Fund has an approved list of counterparties for investment and aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity.
8. The Fund’s average cash balance over 2022/23 was £153.4m (compared with £164.7m in 2021/22), and the table below shows a summary of the deposit/recall activity underlying this:

	Balances b/f	Total Raised	Total Repaid	Balances c/f
	£000	£000	£000	£000
BANK OF SCOTLAND	20,000	0	-20,000	0
LLOYDS BANK	20,000	0	-20,000	0
INSIGHT MMF	40,000	40,100	-80,100	0
LGIM MMF	2,500	55,800	-41,600	16,700
BLACK ROCK	22,750	147,500	-134,650	35,600
JP MORGAN	0	64,750	-63,900	850
ABERDEEN STANDARD	0	94,740	-54,740	40,000
FEDERATED	40,000	34,550	-60,950	13,600
	145,250	437,440	-475,940	106,750

9. The table below shows some of the larger investment commitments that the Fund’s cash balance is required to cover, over and above the required monthly pension payments. Although the total commitment at 31 March greatly exceeds the £106.75m cash balance, the anticipated drawdowns for Private Equity and Infrastructure commitments will be made over a number of years. Furthermore, any property purchase made by abrdn usually has a long enough lead-in to be comfortably covered.

Commitment estimates as at 31 March 2023	£m	When required
Schroders cash balance	20.8	Immediately
Private Equity commitments	72.5	Unpredictable
Infrastructure commitments	133.4	Unpredictable
Total	226.7	

10. As can be seen in the chart below, interest rates available in the market increased markedly during 2022/23. The Fund made use of Money Market Funds as part of its strategy of keeping cash balances available for investment in its main portfolios. The return achieved on Pension Fund cash balances over the course of the year was 2.01%, slightly below the adjusted average Sterling Overnight Index Average (SONIA) rate over the same period, which was 2.11%.



11. The rate of return on Pension Fund cash is in keeping with the Council's quite conservative Treasury Management strategy for all its cash deposits. For comparison, the average rate of return on the Council's non-Pension Fund deposits over the same period was 2.13%, slightly higher than the Pension Fund due to the Council having:

- (a) a higher average balance (£211m) and so making use of 3-month fixed deposits.
- (b) less of a requirement to keep a high proportion of its deposits liquid (as highlighted in paragraph 9).

12. One other pension fund within the LGPS Central group has informed us that it averaged 2.12% on its cash deposits (1.81% on its non-PF deposits). No other fund to had calculated

its own average at the time of compiling this report, but we are continuing to gather returns as they become available.

Statutory and Policy Implications

13. 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

14. That Pension Fund Committee members approve the Outturn 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 (KK 18/04/2023)

15. The proposal in this report is within the remit of the Nottinghamshire Pension Fund Committee.

Financial Comments (TMR 18/04/2023)

16. 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 Code, Treasury management in the public services, 2021