

**REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE &  
IMPROVEMENT**

**PENSION FUND TREASURY MANAGEMENT OUTTURN 2021/22**

**Purpose of the Report**

1. To provide a review of the Pension Fund's treasury management activities for the year to 31 March 2022.

**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 2021/22.
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 2021/22, 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.

- Over the course of the year the Fund earned 0.06% on its cash investments, exceeding the adjusted average Sterling Overnight Index Average (SONIA) rate for 2021/22 which was 0.02%.

### Outturn Treasury Position

- The Fund's Treasury Management strategy and associated policies and practices for 2021/22 were approved in March 2021 by Pension Fund Committee. The Service Director (Finance, Infrastructure & Improvement) complied with the strategy throughout the financial year.
- 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.
- The Fund's lending of temporary cash balances over the year is summarised in Table 1 below.

<b>Table 1</b> <b>Lending of temporary cash balances</b>	<b>£m</b>
Outstanding 31 March 2021	209.8
Amount lent during 2021/22	702.4
Amount repaid during 2021/22	-766.9
Outstanding 31 March 2022	145.3

- Table 2 below shows the various investment commitments that the Fund's cash balance is required to cover, over and above the required monthly pension payments. Although the total commitment as at 31 March greatly exceeds the £145.3m cash balance, the drawdowns for Private Equity and Infrastructure commitments are usually made over a number of years. It is therefore unlikely that 100% of this commitment will be called at short notice.

<b>Table 2</b> <b>Commitment as at 31 March 2022</b>	<b>£m</b>	<b>When required</b>
Schroders cash balance	50.5	Immediately
Aberdeen Standard Investments	24.3	As required for property purchases
Private Equity commitments	90.9	Unpredictable
Infrastructure commitments	154.0	Unpredictable
<b>Total</b>	<b>319.7</b>	

- As part of the Council's wider treasury management strategy the Fund uses the following prudential indicator, which relates to fixed-term investments made for periods in excess of 1 year, in order to manage liquidity risk:

<b>Table 3 Treasury Management Prudential Indicator 2021/22</b>	<b>Approved maximum limit</b>	<b>Position at 31 March</b>
Upper limit for principal sums invested for over 365 days as at 31 March	£20m or 15% or cash balance, which is higher	£0m

11. The Fund's average cash deposits over 2021/22 totaled £164.7m (compared with £229.0m in 2020/21). The return achieved on this balance over the course of the year was 0.06%, exceeding the adjusted (see paragraph 13) average SONIA rate over the same period, which was 0.02%.
12. Members should note that the Sterling Overnight Index Average (SONIA) replaced the previous London Interbank Offered Rate (LIBOR) and London Interbank Bid Rate (LIBID) as short-term interest rate benchmarks in December 2021. Unlike LIBOR and LIBID, which were based on theoretical borrowing costs, SONIA is based on actual market transaction data, and is thus perceived to be at lower risk of manipulation by market players.
13. It should also be noted that the Council has for the present retained the adjustment factor of '-0.125%' (universally applied in the derivation of LIBID from LIBOR) and has applied this to SONIA to derive its own returns benchmark, as being the closest match to LIBID. The retention or amendment of this adjustment will be considered at the next Treasury Management Group meeting.
14. Investment rates available in the market remain very low. Table 4 below shows the returns achieved by type of deposit. The Fund made no fixed-term deposits during 2021/22, as part of its strategy of keeping cash balances liquid and ready for investment in its main portfolios.

<b>Table 4 Rate of return on deposits</b>	<b>Average Balance £m</b>	<b>Interest Earned £000</b>	<b>Average Return %</b>
Fixed Term Investments	0.0	0.0	n/a
Call Accounts / Money Market Funds	164.7	97.4	0.06%

## **Statutory and Policy Implications**

15. 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**

16. 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 28/03/2022)**

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

### **Financial Comments (TMR 13/04/2022)**

18. 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.

- 2017 CIPFA Code of Practice on Treasury Management