
Pensions Committee

30 January 2023

Treasury Management Review 2022/23 and 2023/24 Strategy

Report by Director of Finance and Support Services

Summary

The Director of Finance and Support Services recommends a continuation of the current treasury management strategy in 2022/23 (as originally approved by the Pensions Committee at their February 2022 meeting) with internally managed cash only being deposited into high creditworthy banks (that offer instant access bank account facilities) and a series of high creditworthy short-term (instant access) Money Market Funds.

Given the strategy of maintaining a highly liquid investment portfolio held exclusively in bank unsecured deposits, the Pension Fund's internally managed cash will remain subject to bail-in risks under UK Banking Directives.

Recommendations

- (1) The Committee approves the 2023/24 Treasury Management Strategy as set out in Appendix A.
 - (2) The Committee notes the treasury activity undertaken during 2022/23 (1 April to 31 December 2022).
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1 Background

- 1.1 The CIPFA "Treasury Management Code of Practice" requires the West Sussex Pension Fund to determine a treasury management strategy on an annual basis regarding the investment of its internally managed cash balances. The strategy includes the "Annual Investment Strategy" (AIS) that is a requirement of the Department for Levelling Up, Housing and Communities (DLUHC) "Investment Guidance".
- 1.2 The CIPFA Code also requires reports detailing compliance and performance against approved treasury strategies to be reviewed by the Pensions Committee.

2 Economic Summary

- 2.1 The County Council has appointed Link Group (Link Treasury Services Ltd) as its treasury advisor and part of their service is to assist the authority in formulating a view on interest rates. The following table gives their current forecast (updated December 2022) for UK Bank Rate:

Table 1: Link Group's UK Bank Rate Forecast

Date	Rate (%) UK Bank Rate (Link Forecast)
March 2023	4.25
June 2023	4.50
September 2023	4.50
December 2023	4.50
March 2024	4.00
June 2024	3.75
September 2024	3.50
December 2024	3.25
March 2025	3.00
June 2025	2.75
September 2025	2.50
December 2025	2.50

- 2.2 Link Group's forecast reflects a view that the Bank of England's Monetary Policy Committee (MPC) will be keen to demonstrate its anti-inflation credentials by delivering a succession of rate increases over the coming months. This has happened throughout 2022, but the UK Government's current policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.
- 2.3 Further down the road, Link anticipate the Bank of England will then be keen to loosen monetary policy when the worst of the inflationary pressures have lessened – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged. Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started but will focus on the short to medium end of the yield curve for the present. This approach will prevent any further disruption to the longer end of the curve following on from the short-lived effects of the UK Government's Mini-Budget in September 2022.
- 2.4 The Consumer Price Index (CPI) measure of inflation will have likely peaked at close to 11% during the fourth quarter of 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank of England will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market. On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the current challenges. However, most of those are held

by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

- 2.5 Over the upcoming months, Link's Bank Rate forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the UK Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.

3 Treasury Management Strategy (2023/24)

- 3.1 The Director of Finance and Support Services recommends a continuation of the current treasury management strategy in 2023/24 (*as originally approved by the Pensions Committee at their February 2022 meeting*) with internally managed investments only being deposited into high creditworthy banks (that offer instant access bank account facilities) and a series of high creditworthy short-term (instant access) Money Market Funds. The recommended 2023/24 Treasury Management Strategy is attached at Appendix A.
- 3.2 Given the strategy of maintaining a highly liquid investment portfolio held exclusively in bank unsecured deposits, the Pension Fund's internally managed cash will remain subject to bail-in risks under UK Banking Directives (which regulates that unsecured investors in a failing bank, including local authorities and local authority pension funds, would be liable in rescuing the bank instead of UK taxpayers).

4 Treasury Management Performance (2022/23)

- 4.1 On 31 December 2022 the Pension Fund's internally managed cash, excluding balances held in EUR/USD bank accounts, amounted to £13.3m (£16.4m on 31 March 2022). Between 1 April 2022 and 31 December 2022 the Pension Fund held an average internally managed GBP cash balance of £41m (£55.5m for 2021/22; to 31 December 2021).
- 4.2 The Director of Finance and Support Services confirms that there were no breaches of the approved 2022/23 Treasury Management Strategy regarding internally managed cash during the period 1 April 2022 to 31 December 2022. Throughout this period internally managed cash was held in a Lloyd's business account and a series of short-term (AAA credit rated) sterling Money Market Funds in compliance with the approved creditworthiness policy as set out in the 2022/23 Treasury Management Strategy.
- 4.3 The Director of Finance and Support Services also confirms that in addition to GBP cash balances held, foreign currency (EUR/USD) balances were held in attempting to achieve the most beneficial rates when exchanging back into Sterling and/or in anticipation of future Private Debt Fund payments. On 31 December 2022 the total amount of foreign currency held was valued in GBP at £17m (based on 31 December exchange rates as provided by Northern Trust):

Table 2: Foreign Currency Held (2022/23)

Bank Account	Balance at 31/12/22	Average Balance
Lloyds - Euro Account	€0.103m	€1.160m
Lloyds - US Dollar Account	\$20.355m	\$3.269m

- 4.4 In accordance with the investment strategy approved in February 2022 (internally managed cash balances) the Pension Fund received interest totalling £0.445m during the period 1 April 2022 to 31 December 2022 (*£0.007m for 2021/22; to 31 December 2021*). The rate of return achieved on GBP balances held during the period was 1.44% (*0.02% during the same period in 2021/22*) reflecting the prevailing interest rates applicable on instant access GBP investments.

Table 3: Investment Performance (2022/23)

Counterparty	Average Balance £'m	Interest Received £'000	Rate of Return %
Lloyds-Current Account (GBP)	5.1	61.1	1.58
Short-Term Money Market Funds	35.9	383.9	1.42
Total	41.0	445.0	1.44

- 4.5 During the same period West Sussex County Council achieved a rate of return of 1.83% on its invested cash balances. The higher yield reflects the County Council's treasury management strategy of investing a proportion of its cash balances for periods up to 365 days and beyond (including long-term externally managed pooled investment funds) at interest rates higher than those available on the instant access accounts used by the Pension Fund.

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Appendices

Appendix A – Treasury Management Strategy (2023/24)