

## **Pensions Committee**

**26 April 2024**

### **Treasury Management Report**

#### **Report by Director of Finance and Support Services**

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#### **Summary**

The Director of Finance and Support Services recommends a continuation of the current treasury management strategy in 2024/25 (as originally approved by the Pensions Committee at their January 2023 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 2024/25 Treasury Management Strategy as set out in Appendix A.
  - (2) The Committee notes the treasury activity undertaken during 2023/24.
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### **Treasury Management Report**

#### **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 West Sussex 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 March 2024) for UK Bank Rate:

**Table 1: Link Group's UK Bank Rate Forecast**

Rate (%)	Jun 2024	Sep 2024	Dec 2024	Mar 2025	Jun 2025	Sep 2025	Dec 2025	Mar 2026	Jun 2026	Sep 2026	Dec 2026	Mar 2027
UK Bank Rate (Link Forecast)	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00

- 2.2 At its March 2024 meeting, the Bank of England's Monetary Policy Committee (MPC) kept rates on hold for the fifth time in a row (at 5.25%) but is now firmly in the camp of preparing the market for near-term interest rate cuts. The vote in favour of keeping rates on hold was 8-1, with one member voting for an immediate 0.25% rate cut.
- 2.3 With inflation expected to continue falling over the coming months, the market has taken a view that the Bank of England is more than likely to make downward changes to its inflation forecasts at the start of May. However, in the interim, the MPC have noted that "the restrictive stance of monetary policy is weighing on activity in the real economy (and this) is leading to a looser labour market and is bearing down on inflationary pressures". Governor Bailey added that "we are not yet at the point we can cut rates, but things are moving in the right direction". Moreover, the MPC also stated that policy will be "restrictive for sufficiently long" and "restrictive for an extended period".
- 2.4 The best estimate, therefore, remains that the first Bank Rate cut will come in August 2024, with the actual timing of future cuts depending primarily on when the Consumer Price Index (CPI) inflation measure dips significantly below 2%, and whether pay data is supportive of rate cuts in the interim. It may also be the case that international factors such as monetary policy developments in both the US and Europe, as well as the on-going conflicts between Russia and Ukraine, and Gaza and Israel, may impact future UK Bank Rate decisions.
- 2.5 In conclusion, Link Group has left its March 2024 interest rate forecast unchanged from January. Link still forecast Bank Rate to be cut to 4.25% by the end of 2024 and 3% by the end of 2025. The low point of the interest rate cycle is also expected to be 3%. UK economic growth is expected to remain tepid, with 2024 GDP forecast to be 0.5% and 2025 GDP to progress to 1.5%.

## 3 Treasury Management Strategy (2024/25)

- 3.1 The Director of Finance and Support Services recommends a continuation of the current treasury management strategy in 2024/25 (*as originally approved by the Pensions Committee at their January 2023 meeting*) with internally managed cash balances 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 2024/25 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 (*up to the actual deposit amount held per unsecured investor in the impacted bank*).

#### 4 Treasury Management Performance (2023/24)

- 4.1 On 31 March 2024 the Pension Fund’s internally managed cash, excluding balances held in EUR/USD bank accounts, amounted to £48.2m (£28m on 31 March 2023). Throughout 2023/24 the Pension Fund held an average internally managed GBP cash balance of £45m (£37.9m for 2022/23).
- 4.2 The Director of Finance and Support Services confirms that there were no breaches of the approved Treasury Management Strategy regarding internally managed cash during 2023/24. Throughout this period internally managed cash was held in a Lloyds’ 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 2023/24 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 March 2024 the total amount of foreign currency held was valued in GBP at £3.9m (based on 31 March exchange rates as provided by Northern Trust):

**Table 2: Foreign Currency Held (2023/24)**

Bank Account	Balance at 31/03/24	Average Balance
Lloyds - Euro Account	€2.931m	€1.417m
Lloyds - US Dollar Account	\$1.811m	\$5.738m

- 4.4 In accordance with the investment strategy approved in January 2023 (internally managed cash balances) the Pension Fund received interest totalling £2.5m during 2023/24 (£0.7m for 2022/23), including £0.2m interest received relating to balances held in the Pension Fund’s Lloyds USD bank account. The rate of return achieved on GBP balances held during the period was 5.03% (1.86% for 2022/23) reflecting the prevailing interest rates applicable on instant access GBP investments.

**Table 3: Investment Performance (2023/24)**

Counterparty	Average Balance £'m	Interest Received £'m	Rate of Return %
Lloyds-Current Account (GBP)	6.4	0.3	4.98
Short-Term Money Market Funds	38.6	2.0	5.04
<b>Total (GBP Deposits)</b>	<b>45.0</b>	<b>2.3</b>	<b>5.03</b>
Lloyds-USD Bank Account		0.2	
<b>Total Interest (2023/24)</b>		<b>2.5</b>	

- 4.5 During the same period West Sussex County Council achieved a rate of return of 4.75% on its invested cash balances, with some fixed-term cash deposits (having durations of up to 12-months) proving to be a drag on overall investment performance given the rapid pace of Bank of England Bank Rate rises (in combatting UK inflationary pressures) during the period.

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**Appendices**

Appendix A – Treasury Management Strategy (2024/25)

**Background Papers**

None