


Essex Pension Fund Investment Steering Committee	ISC 04	
Date: 23 February 2022		

Essex Pension Fund Treasury Management Strategy 2022/23

Report by the Director for Essex Pension Fund

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This Report requires a decision

Executive Summary

The Essex Pension Fund Treasury Management Strategy has been updated in line with the 2021 CIPFA Treasury Management Code. The Strategy's content is largely unchanged from last year. However, the following can be observed:

- Minor revisions have been made to the Treasury Management Practices (TMPs);
- Temporary Global Liquidity Fund limits increased from £200m to £220m in line with the appreciation of the Fund Value; and
- Forecasts have been revised throughout with a surplus cashflow projection for both 2021/22 and 2022/23.

1. Purpose of the Report

- 1.1 To present the 2022/23 Essex Pension Fund Treasury Management Strategy.

2. Recommendation

- 2.1 That the 2022/23 Essex Pension Fund Treasury Management Strategy be **approved**, and the content of the report be noted.

3. Essex Pension Fund Treasury Management Strategy

- 3.1 The 2021 CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (referred to as the Treasury Management Code) and Statutory Guidance requires an annual Treasury Management Strategy to be agreed. The Treasury Management Strategy for the Essex Pension Fund has been prepared having regard to the Treasury Management Code and Statutory Guidance.
- 3.2 The 2022/23 Treasury Management Strategy for the Essex Pension Fund, attached at Appendix B, replicates to a large extent the Treasury Management Strategy already approved for Essex County Council but has been adapted to reflect the limited borrowing requirements, use of global custodian and the separate governance arrangements of the Pension Fund.
- 3.3 Section A of the attached Strategy reflects the arrangements in place with Essex County Council in managing 'in house' cash.
- 3.4 The Fund's global custodian is Northern Trust. The principles of the custodian cash management arrangements are highlighted in Section B.
- 3.5 Section C, Cashflow Management Arrangements has been updated to reflect the revised Finance Schedule, attached at Appendix A. The forecast for 2021/22 predicts a surplus of c£15m. This is largely attributable to an increase in employer contribution income following the new rates set at the 2019 Triennial Valuation, offset by an increase in the estimated costs of retirement pensions as well as the expected reduction in employer deficit payments.
- 3.6 The forecast for 2022/23 predicts a surplus for the year. This is largely driven by employer ongoing contribution income and again reflects the new primary rates set at the 2019 Triennial Valuation, partially offset by an increase in the estimated costs of retirement pensions.

4. TM Strategy Revisions

- 4.1 CIPFA published an updated Code in December 2021. Officers have taken the opportunity to amend the Pension Fund's Treasury Management Strategy in line with the updated Code. Whilst the content is largely unchanged from last year, with the exception of revised forecasts and Global Liquidity Funds temporary limits, a review of both the Treasury Management Policy Statement

(the Statement) and Treasury Management Practices (TMPs) has been completed.

- 4.2 The Statement sets out the treasury management activities, the policies and objectives around these activities and the TMPs outlines the manner in which the Fund will seek to manage and achieve these policies and objectives.
- 4.3 Following Officers review of the updated Code it was concluded that the TMPs, needed some minor revisions to reflect the 2021 Guidance. Whilst they cover the same 12 practices as previously agreed, where necessary minor amendments have been made to their contents. In particular *TMP1 - Risk management – Credit and counter party risk management* has been expanded to take into account environmental, social and governance (ESG) considerations.
- 4.4 Both the Statement and the revised TMPs have been incorporated within the TM Strategy and are detailed in the annexes: Annex 1 and Annex 2 respectively.
- 4.5 As the value of the Fund's assets have been increasing steadily over 2021/22 and currently stands at c£9.5bn. Officers recommend that the temporary Global Liquidity Funds (GLF) limits be increased to £220m (previously £200m) in line with the Fund's asset value appreciation, to facilitate the redeployment of assets in line with the Fund's de-risking programme.

5. Recommendation

- 5.1 That the 2022/23 Essex Pension Fund Treasury Management Strategy be approved.

6. Financial and Resource Implications

- 6.1 The cost of Essex County Council providing Treasury Management provision for the Fund for 2022/23 will be met within the 2022/23 Budget. The cost of this provision is estimated to be £29k for 2022/23 (£28k for 2021/22).

7. Background Papers

- 7.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- 7.2 2021 Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code) issued by CIPFA.
- 7.3 Northern Trust Global Funds PLC prospectus November 2018.
- 7.4 BNP Paribas Insticash prospectus December 2021.
- 7.5 Finance Schedule updated February 2022 (Appendix A).
- 7.6 Treasury Management Strategy 2021/22.

Appendix A

Finance Schedule

		2020/21 actual £ (000)	2021/22 estimate £ (000)	2022/23 forecast £ (000)
EXPENDITURE	Retirement Pensions	219,711	224,275	231,228
	Retirement Lump Sums	30,649	35,132	35,636
	Death Benefits	6,948	4,350	4,568
	Leavers benefits	11,120	16,096	16,901
	Expenses	4,665	4,315	4,321
	Pooling expenses	93	97	124
TOTAL		273,186	284,265	292,778
INCOME	Employees Contributions	64,677	64,136	64,042
	Employers Contributions			
	Ongoing	194,738	201,646	212,773
	Deficit	52,094	6,386	6,341
	Financial Strain	2,217	1,934	2,031
	Transfer Values in	21,226	22,364	23,482
	Other income	2,533	3,024	3,175
TOTAL		337,485	299,490	311,844
Net cash flow excl. Investment Income		64,299	15,225	19,066

Note: cashflow positive /(cashflow negative)