

Essex Pension Fund Investment Steering Committee	ISC 04
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Essex Pension Fund Treasury Management Strategy 2021/22

Report by the Interim Director for Essex Pension Fund

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1. Purpose of the Report

- 1.1 To present the 2021/22 Essex Pension Fund Treasury Management Strategy.

2. Recommendation

- 2.1 That the new look 2021/22 Essex Pension Fund Treasury Management Strategy be approved.

3. Background

- 3.1 The 2017 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 attached Treasury Management Strategy for the Essex Pension Fund has been prepared having regard to the Treasury Management Code and Statutory Guidance.

4. Essex Pension Fund Treasury Management Strategy

- 4.1 The 2021/22 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.
- 4.2 Section A of the attached Strategy reflects the arrangements in place with Essex County Council in managing 'in house' cash.
- 4.3 The Fund's global custodian is Northern Trust. The principles of the custodian cash management arrangements are highlighted in Section B.
- 4.4 Section C, Cashflow Management Arrangements has been updated to reflect the revised Finance Schedule, attached at Appendix A. The forecast for 2020/21 predicts a surplus of c£63m. This is largely attributable to an increase in employer contribution income following the new rates set at the 2019 Triennial Valuation and reflects the decisions by a number of tax-raising bodies to exercise the option within the Funding Strategy Statement allowing payment of three years' deficit at the start of the valuation period, April 2020. There was also a shift in trend witnessed where for the first time since 2016 the Fund is predicting a net surplus in regard to transfers to the Fund.
- 4.5 The forecast for 2021/22 predicts a surplus for the year. This is largely driven by employer ongoing contribution income and again reflects the new primary rates set out at the 2019 Triennial Valuation.

5. TM Strategy Revisions

- 5.1 Officers have taken the opportunity to revamp the design of the TM Strategy and review its content. Whilst the content is largely unchanged from last year with the exception of revised forecasts, a review of both the Treasury Management Policy Statement (the Statement) and Treasury Management Practices (TMPs) has been completed.
- 5.2 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.
- 5.3 Following Officers review it was concluded that the Statement as approved by the Pension Strategy Board back in 2010 continues to remain appropriate and therefore requires no revision. The TMPs, however, have been revised to reflect newer guidance. Whilst they cover the same 12 practices as previously agreed, TMP1 - Risk management - has been expanded to now cover Exchange rate, Inflation and Refinancing risk management. Both the Statement and the revised TMPs have been incorporated within the new look TM Strategy and are detailed in the new annexes: Annex 1 and Annex 2 respectively.
- 5.4 Following feedback by Members, the Investment Team note providing further background on the Fund's use of the Global Custodian and in particular information on the external money market liquidity funds utilised, along with the investment restriction information has been removed as was felt that it was not required. This information is still available on request should Members wish.

6. Recommendation

- 6.1 That the new look 2021/22 Essex Pension Fund Treasury Management Strategy be approved.

7. Financial and Resource Implications

- 7.1 The cost of Essex County Council providing Treasury Management provision for the Fund for 2021/22 will be met within the 2021/22 Budget. The cost of this provision is £28k for 2021/22 (£28k, 2020/21).

8. Background Papers

- 8.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- 8.2 2017 Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code) issued by CIPFA.
- 8.3 Northern Trust Global Funds PLC prospectus November 2018.
- 8.4 BNP Paribas Insticash prospectus August 2020.
- 8.5 Finance Schedule updated March 2021 (Appendix A).

Appendix A

Finance Schedule

		2019/20 actual £ (000)	2020/21 estimate £ (000)	2021/22 forecast £ (000)
EXPENDITURE	Retirement Pensions	211,869	219,232	226,905
	Retirement Lump Sums	41,130	30,444	32,497
	Death Benefits	7,178	5,526	6,078
	Leavers benefits	24,233	11,576	12,155
	Expenses	3,704	3,566	3,791
	Pooling expenses	74	88	113
TOTAL		288,188	270,432	281,539
INCOME	Employees Contributions	60,772	61,306	64,462
	Employers Contributions			
	Ongoing	154,216	192,575	196,389
	Deficit	33,141	53,859	5,995
	Financial Strain	4,363	2,172	2,281
	Transfer Values in	12,253	21,357	22,425
	Other income	2,318	3,016	3,167
TOTAL		267,063	334,285	294,719
Net cash flow excl. Investment Income		(21,125)	63,853	13,180