



## **PENSIONS COMMITTEE**

**23 FEBRUARY 2022**

<b>REPORT TITLE:</b>	<b>TREASURY MANAGEMENT POLICY FOR 2022/23 AND ANNUAL REPORT FOR 2020/21</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF PENSIONS</b>

### **REPORT SUMMARY**

The purpose of this report is to request that Members approve the treasury management policy statement and the treasury management practices for Merseyside Pension Fund (MPF) for the year 2022/23.

### **RECOMMENDATION/S**

The Pensions Committee is recommended to approve the treasury management policy statement and the treasury management practices for Merseyside Pension Fund for the financial year 2022/23.

## **SUPPORTING INFORMATION**

### **1.0 REASON/S FOR RECOMMENDATION/S**

- 1.1 The approval of the treasury management policy statement and the treasury management practices for Merseyside Pension Fund by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund.

### **2.0 OTHER OPTIONS CONSIDERED**

- 2.1 Not relevant for this report. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services requires Pensions Committee to receive an annual report on the strategy and plan to be pursued in the coming year.

### **3.0 BACKGROUND INFORMATION**

- 3.1 Treasury management activities are defined as: the management of the Fund's cash flows, its banking, money market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- 3.2 The Treasury Management Policy relates to money managed in-house. It excludes cash balances held by investment managers in respect of the external mandates and the internal equity investment managers.
- 3.3 The Fund does not borrow and therefore the policy is concerned with cash deposits only.
- 3.4 The main aims when managing liquid resources are the security of capital; the liquidity of investments; matching inflows from lending to predicted outflows; an optimal return on investments commensurate with proper levels of security and liquidity.
- 3.5 Effective management and the control of risk are prime objectives of the treasury management policy and practices.
- 3.6 The Fund will run minimal cash balances to pay pensions and meet other obligations. The core position is 1% of Fund assets as agreed within the strategic asset allocation approved on 3 February 2020.
- 3.7 Internally managed investment cashflows will continue to be channelled through the Custodian, to maximise benefits and efficiencies agreed under the contract.
- 3.8 Counterparties are reviewed on a regular basis using a range of information sources, including credit rating agencies, internal research (both from the treasury team and internal investment managers), information from brokers, advice given by the treasury management consultants, information on Government support for banks and the credit ratings of that Government support. The Fund is in a position to use a wide range of research from its investment activities to support this and achieve the

aim set on the CIPFA guidance to place a greater emphasis on acceptable credit quality rather than purely credit ratings for counterparts.

- 3.9 The Fund's cash flows for dealings with members have moved negative with outflows to pensioners exceeding income from contributions. With the 2019 triennial valuation's improved results reducing deficit payments, this has reduced contribution income further. The impact of COVID on the Fund's cashflows has been and will continue to be closely monitored throughout 2022/23. In an environment where a significant proportion of investment income is directly re-invested, the levels of liquid resources held need to be adequate and needs effective management with daily cashflows and regular reporting being essential.
- 3.10 The rate at which MPF can invest money continues to be low; the Bank of England base rate was increased from 0.10% to 0.25% in December 2021. Although further increases are expected short-term money market rates and bank deposit rates are likely to remain at low levels for an extended period which will have an impact on investment income.
- 3.11 MPF will comply with the twelve treasury management practices set out in the treasury management policy statement.
- 3.12 The policy statement for 2022/23 is attached as Appendix 1 to this report. There are no changes to the policy approved by Pensions Committee for 2021/22.

## **Annual Report 2020/21**

- 3.13 In accordance with the Treasury Management Policy for 2020/21, the following items provide a report on treasury management activities for that year:
- Managing counterparty risk continued to be the overarching investment priority.
  - Managing liquidity risk was heightened during the period due to the pandemic. To manage this risk and as part of the Fund's continuity planning arrangements, additional cash balances were held over the period and the limit for holding monies with our present bank and the Custodian was increased, in order to minimise potential liquidity issues.
  - Investments during the year included call (instant access) accounts and deposits with UK banks, and investments in AAA rated money market funds with a constant Net Asset Value.
  - Over the twelve-month period, Northern Trust calculated the cash performance to be -1.59% against a benchmark performance (7-day LIBID) of -0.07%.
  - The Fund was compliant with the Treasury Management Policy throughout 2020/21. However, the Treasury Team did seek permission, in accordance with the policy, to exceed the deposit limit with the Fund's current bankers, Lloyds, above the business continuity plan limit. Permission was sought, as the Fund was anticipating receipt of significant funds for onward investment.

## **4.0 FINANCIAL IMPLICATIONS**

- 4.1 As set out in the report.

## **5.0 LEGAL IMPLICATIONS**

5.1 There are no implications arising directly from this report. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services requires Pensions Committee to receive an annual report on the strategy and plan to be pursued in the coming year.

## **6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS**

6.1 There are none arising directly from this report.

## **7.0 RELEVANT RISKS**

7.1 The treasury management policy statement is concerned mainly with the mitigation of risks.

## **8.0 ENGAGEMENT/CONSULTATION**

8.1 There has been no consultation undertaken or proposed for this report. There are no implications for partner organisations arising from this report.

## **9.0 EQUALITY IMPLICATIONS**

9.1 The content and/or recommendation contained within this report have no direct implications for equality.

## **10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS**

10.1 There are no environmental or climate implications arising from this report.

## **11.0 COMMUNITY WEALTH IMPLICATIONS**

11.1 The content and/or recommendation contained within this report have no direct implications for community wealth.

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## **APPENDICES**

The Treasury Management Policy Statement 2022/23 is attached as appendix 1 to this report

## **BACKGROUND PAPERS**

CIPFA Treasury Management Code of Practice and Guidance Notes.

**SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
<b>Pensions Committee</b>	<b>2 February 2021</b> <b>3 February 2020</b> <b>16 July 2019</b> <b>21 January 2019</b>