Suffolk Pension Fund Treasury Management Strategy 2025-26

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Introduction

1. The Pension Fund's treasury management activities relate to two operational areas:

   - In-house Cash: The day-to-day management of the Pension Fund's cash flows and associated short term cash investments known as "In house cash". These activities are undertaken by the County Council.
   - Custodian Cash: The cash held and managed by the Fund's Custodian, Northern Trust, as part of the Fund's investment strategy. Longer term investments are administered separately by external fund managers and these activities are covered in the Pension Fund's Investment Strategy Statement.

In House Cash Management Arrangements

2. In undertaking the treasury management activities for the Suffolk Pension Fund, Suffolk County Council will comply with the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, 2021 edition, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). A fundamental aim of treasury management is to effectively control the risks associated with treasury management activities and to pursue value for money, in so far as this is consistent with the effective management of risk. The 2021 Code requires the following:

   - A policy statement which states treasury management policies, objectives and approach to risk management.
   - Treasury Management Practices (TMPs) which set out how the organisation will seek to achieve those policies and objectives and prescribes how these activities will be managed and controlled. The Pension Fund has adopted the County Council's Treasury Management Practices, subject to the specific requirements in relation to lending and borrowing that are set out in this document and the management of cash held with the Pension Fund's custodian.
   - An annual Treasury Management Strategy that outlines the expected treasury activity. The strategy must define the organisation's policies for managing its investments and for giving priority to the security and liquidity of those investments.

Treasury Policy Statement

3. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

4. Suffolk County Council has adopted the following in its Treasury Management Strategy Statement which is applied to the Suffolk Pension Fund:

   a) The Council defines its treasury management activities as:

   - the management of the organisation's investments and cash flows, its banking, money market and capital market transactions;
   - the effective control of the risks associated with those activities;
   - and the pursuit of optimum performance consistent with those risks.

   b) The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered, to manage these risks.

   c) The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Key objectives

5. Treasury risks present themselves in many forms, from failure to optimise performance by not taking advantage of opportunities, to managing exposure to changing economic circumstances. The Council seeks to manage its risks regarding credit and counterparty risk, liquidity risk, interest rate risk, refinancing risk, legal and regulatory risk, fraud, error and corruption, contingency management and market risk. The risk appetite of the Council is low, with security and liquidity of investments taking precedence over the rate of return.

6. The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike

an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

7. Where the Bank Rate is set at or below zero, this is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

8. Under the new IFRS 9 standard investments can be held in the accounts at either the amortised cost of the investment, or at fair value, which may be higher or lower than the price paid for investments depending on market conditions. This treatment is dependent on how the Council manages its' investments. The Councils' aim is to achieve value from its investments by collecting contractual cashflows, such as dividends and interest, as opposed to trading in the underlying instruments. Therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Liquidity

9. Liquidity is defined as having adequate, but not excessive cash resources, borrowing arrangements and overdraft or standby facilities to ensure that funds are available, for the achievement of the Pension Fund's objectives. In this respect, the Pension Fund will seek to maintain a contingency of around £10m of cash available at less than one week's notice in order to meet any short-term requirements arising from expected cash flows.

Fixed and Variable Interest Rates

10. Given the short-term nature of "In-house cash", no specific limits are proposed on the maximum proportions subject to fixed or variable rates of interest.

Borrowing

11. The administering authority does not have the power to borrow on behalf of the Pension Fund, other than temporary borrowing for the following specific purposes detailed in section 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 :-

- paying benefits due under the Scheme, or
- to meet investment commitments arising from the implementation of a decision by the Fund to change the balance between different types of investment.

12. In the context of this strategy, short term borrowing will only be undertaken in exceptional circumstance to manage unexpected cash flow fluctuations which occur as a result of the above circumstances. If short term borrowing is necessary, this will be secured by borrowing from the money markets or other local authorities.

Treasury Management Advisors

13. The County Council employs the services of a specialist treasury management advisor, Link Group who provide a range of services, including technical advice on treasury management, interest rate forecasts and information on credit worthiness of potential counterparties. While Link Group will provide advice to the Council, the responsibility for investment decisions in relation to Pension Fund cash remains with the Pension Fund Committee, with day-to-day decision making delegated to the Chief Financial Officer (S151).

Custodian Cash Management Arrangements

14. One of the services provided to the Pension Fund by the Fund's custodian, Northern Trust, is a banking service. A separate bank account has been opened for each private equity, infrastructure, illiquid debt and timberland mandates to receive distributions and to pay capital calls. Surplus funds are automatically transferred into the Suffolk Pension Fund inhouse account.

15. A bank account and money market fund account has been set up for CBRE to use to manage the cashflow within the property mandate.

16. US Dollar and sterling balances held in the Inhouse and Schroders account are swept in increments of whole thousands into money market funds each day. The Northern Trust money market fund maintains a P-1 rating from Moody's and an equivalent rating of A-1+ from Standard & Poor.

17. The Pension Fund has a business as usual cash requirement for the inhouse account of up to £50m, to manage long term capital commitments, which are funded through distributions. There are times when additional cash holdings may be held:

    - When investment decisions are implemented, there are circumstances when surplus cash may be held due to the timings of trade and settlement dates.
    - When larger long-term commitments are on the horizon and it does not make economic sense to invest the money on a short-term basis.
    - When it is not deemed an appropriate time to rebalance the assets holdings.