

**ITEM No ...12.....**

**REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD – 20 MARCH 2023**

**REPORT ON: TREASURY MANAGEMENT STRATEGY 2023/2024**

**REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**REPORT NO: 94-2023**

**1 PURPOSE OF REPORT**

This report reviews the Treasury Management Strategy for Tayside Pension Fund.

**2 RECOMMENDATIONS**

The Sub-Committee is asked to approve the Treasury Management Strategy.

**3 FINANCIAL IMPLICATIONS**

None

**4 BACKGROUND**

From 1 December 2009, as a requirement of legislation in order to ensure greater transparency of Pension Fund monies, Tayside Pension Fund has operated a separate bank account from that of Dundee City Council.

Although the Pension Fund's investments are all managed externally there are frictional cash balances which are held internally. These arise from timing differences between receipt of pension contributions and payment of pensions within the month.

The previous Treasury Management Strategy for the Pension Fund (Article XII of the Minute of Meeting of the Pension Sub-Committee of Policy and Resources Committee & Pension Board of 21 March 2022, report no. 90- 2022 refers) reviews this strategy.

**5 TREASURY MANAGEMENT STRATEGY 2023/2024**

The Pension Fund's Treasury Management Strategy is based on cash flow management to ensure that sufficient funds are held to make all necessary payments with the primary concern of ensuring security and accessibility of cash to allow the capital to be preserved.

**6 POLICY IMPLICATIONS**

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

**7 CONSULTATION**

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

**8 BACKGROUND PAPERS**

None

**ROBERT EMMOTT  
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**10 MARCH 2023**

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**TREASURY MANAGEMENT STRATEGY  
2023-2024**

**Executive Director of Corporate Services  
Dundee City Council, Administering Authority  
March 2023**

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## 1. INTRODUCTION

### 1.1 Background

From 1 December 2009, Tayside Pension Fund has operated a separate bank account from that of Dundee City Council. This is a requirement of legislation and ensures greater transparency of Pension Fund money.

Although the Pension Fund's investments are all managed externally there are frictional cash balances which are held internally. These arise from timing differences between receipt of pension contributions and payment of pensions within the month.

Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

### 1.2 Treasury Management Strategy for 2023/24

The strategy for 2023/24 covers the following Treasury Management areas:

- investment strategy;
- investment interest risk

These elements cover requirements of the Local Government in Scotland Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and Scottish Government Investment Regulations not included in the Treasury Policy.

## 2. ANNUAL INVESTMENT STRATEGY

### 2.1 Investment strategy

**In-house funds** - Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

**Investment returns expectations** - The current forecast is for Bank of England base rate to reach 4.5% in Q2 2023. Base rate forecasts for financial year ends (March) are:

2023/24	4.25%
2024/25	4.00%
2025/26	2.75%
2026/27	2.50%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 3 months during each financial year are as follows:

2022/23 (remainder)	4.00%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 - 10	2.80%
Years 10+	2.80%

For its cash flow generated balances, the Fund will seek to utilise its money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

## 2.2 Investment interest risk

The Fund holds relatively low levels of cash internally which allows fund managers to actively manage the majority of cash balances. The table below details projections for investment cash balance (31 March), the average investment cash balance, investment interest along with an average interest rate.

<b>£000s</b>	<b>Actual 2021/22</b>	<b>Outturn 2022/23</b>	<b>Estimate 2023/24</b>	<b>Estimate 2024/25</b>	<b>Estimate 2025/26</b>
Investment cash balance (31 March)	2,700	5,000	5,000	5,000	5,000
Average investment cash balance	7,635	15,200	5,000	5,000	5,000
Investment interest	5	258	220	165	130
Average interest rate	0.06%	1.70%	4.40%	3.30%	2.60%

The above investment interest is generated from either Money Market Funds or call accounts. We are currently expecting around £258,000 of estimated income this financial year based on an average interest rate of 1.70% and an average cash balance of £15.2m.