

# Gloucestershire Pension Fund Cash Management Strategy 2023/24

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## **Introduction**

The Gloucestershire Pension Fund (“the Pension Fund”), maintains a balance of cash arising from the receipt of employer and employee contributions, income received back from the Fund’s investments, and capital distributions from the Fund’s private market commitments. This cash balance is used to pay member benefits, private market capital calls, and other outgoings.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”) state that administering authorities must hold in a separate bank account all monies held on behalf of the Fund. The Regulations also state that the administering authority must formulate an investment strategy to govern how the Pension Fund invests money that is not needed immediately to make payments from the Fund. This document sets out the strategy for managing cash for the financial year 2023/24.

## **Investment Strategy**

The Pension Fund cash investment policies and procedures will be in line with those of the administering authority. Priorities for the investment of cash will be:

- The security of capital
- The liquidity of investments
- Optimum return on investments commensurate with proper levels of security and liquidity

## **Management Arrangements**

The Fund’s cash balances are managed by the Council’s Treasury Management Finance Team and the Pension Fund Investments Team. Cash balances are reviewed daily, and withdrawals and deposits arranged in accordance with the current strategy. The Pension Fund uses the Administering Authorities bankers, which is Lloyds plc. As required by the Regulations, the Fund has a separate bank account to the Administering Authority and all monies held on behalf of the Pension Fund are kept separate.

## **In House Cash Management**

Management of the Pensions Funds cash balances and associated risks will be undertaken in accordance with the Administering Authority’s approved treasury management strategy, policies and procedures. This 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. which in accordance with the Local Government Act 2003 is approved before the start of each financial year.

The Pension Fund cash balances will be held predominantly in short-term instruments such as money market funds. The limit for each counterparty in short term instruments such as money market funds, as specified will be in line with that of the Council, which for money market funds is currently £30m. Currently, money market funds must have a minimum published long-term credit rating of no lower than A- to be included on the counterparty list.

### **Custodial Cash Management**

The Fund's custodian is State Street Bank and Trust company; cash received/paid out to the investment managers will be through the custody account. This custody account has been setup with a daily sweep, which moves cash balances into State Street Bank and Trust company's Money Markets Funds daily, to ensure that the most optimum rate on cash balances is achieved.

Due to having some investments denominated in other currencies, the Fund will also make use of accounts in those currencies with the custodian. Cash will only be held in these other currencies where distributions are received from investments denominated in those currencies and pending drawdown of commitments to investments denominated in those currencies.

Exchange rate risk management of the Fund's cash arrangements do not involve having a significant exposure to currency fluctuations and as such no special arrangements to eliminate any foreign exchange exposure will be made. Conversion to Sterling will be implemented at the earliest possible opportunity and conversion to other currencies will be done in time to make the payment out.

### **Rebalancing**

The Fund does not have a strategic asset allocation to cash. The cash balance is regularly monitored and reviewed as part of a quarterly fund rebalancing exercise undertaken by officers and the Independent Financial Adviser. Arrangements will be made for cash balances which are not required for cash flow purposes, to be deployed as set out in this Cash Management Strategy.

Due to the percentage (approximately a third) of the Fund's assets being invested in private markets investments, a balance of approximately £30 million will be retained in money market funds, to meet cash flow requirements predominantly for capital calls from the Fund's Infrastructure, Property, Private Equity and Private Debt (private markets) commitments, to save the Fund from becoming a forced seller of assets. This balance will also be utilised to manage the Fund's strategic currency hedge requirements.

Officers are in regular contact with these private market managers to get updated forecasts of the timing and quantum of cash calls and distributions. The level of cash balances and monies in the money market funds will fluctuate on a daily basis, dependent upon whether the Fund is transitioning investments, the timing of transactions, any significant cash receipts or payments out, and market conditions.

## Borrowing for Pension Fund

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 give administering authorities a limited power to borrow on behalf of the pension fund for up to 90 days. The power cannot be used to invest, but only for cashflow management in specified circumstances which should in practice be exceptional, i.e to ensure that benefits are paid on time, and in transition management situations when the allocation of a pension fund's assets is being amended. Money can only be borrowed for these purposes if, at the time of borrowing, the administering authority reasonably believes that the sum borrowed, and any interest charged as a result, can be repaid out of the pension fund within 90 days of the date when the money is borrowed.

The Fund's cash management arrangements presume no borrowing normally, but the possibility remains of unexpected pressures occurring and in these circumstances the power would enable the Pension Fund to avoid becoming forced sellers of fund assets due to cashflow requirements.

The Deputy Chief Executive, Executive Director of Corporate Resources (Section 151 Officer) has delegated authority to borrow money for the Fund, in accordance with the regulations but only in exceptional circumstances.

## Contact Information

Further information on the Cash Management strategy and supporting practices can be obtained from:

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