

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2021-22

PENSION FUND COMMITTEE
13th JULY 2021

**REPORT OF: THE DIRECTOR OF FINANCE
AND DIGITAL SERVICES**

AGENDA ITEM NO. 4
DELEGATED FUNCTIONS – UPDATE REPORT

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1.0 PURPOSE OF REPORT

- 1.1 This report sets out the key issues being addressed as delegated functions, as specified in the Pension Fund Governance Policy Statement, by the Director of Finance and Digital Services.

2.0 RECOMMENDATIONS

- 2.1 It is recommended that the Committee:
- 2.1.1 Note the issues being addressed; and
- 2.1.2 Consider whether they wish to receive further detail on any issues.

3.0 BACKGROUND

- 3.1 The Director of Finance and Digital Services (in their capacity as S151 officer) supported by an Investment and Administration Advisory Panel with appropriate officer, independent advisor and professional support, has delegated responsibility for all day to day operational matters.
- 3.2 The Panel advises on all aspects of the Pension Fund. It produces the annual report to Committee and is subject to Audit scrutiny. Areas upon which it gives advice are: -
- Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator and independent professional advisers.

- Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.
- Agreeing the terms and payment of bulk transfers into and out of the Fund.
- Agreeing Fund business plans and monitoring progress against them.
- Maintain the Fund's Knowledge and Skills Policy for all Pension Fund Committee Members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.
- Formulating responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.
- Ensuring the Fund is managed and pension payments are made in compliance with the extant Local Government Pension Scheme Legislation, Her Majesty's Revenue & Customs requirements for UK registered pension schemes and all other relevant statutory provisions.
- Ensuring robust risk management arrangements are in place.
- Ensuring the Council operates with due regard and in the spirit of all relevant statutory and non-statutory best practice guidance in relation to its management of the Fund.
- Monitor investment performance.
- Work with the Fund Actuary to determine the level of employer contributions required from each employer within the Fund and ensure such contributions are received.

3.3 The Investment and Administration Advisory Panel meets on a quarterly basis, the most recent meeting taking place on the 7th June 2021.

4.0 INVESTMENT PERFORMANCE

4.1 There is a quarterly reporting cycle for pension fund investment performance, with exception reporting agreed with fund managers where there are particular concerns. The most recent Panel Meeting considered investment performance to the end of March 2021.

4.2 During the quarter ended 31st March 2021, the overall value of the Fund increased from £4,417 million to £4,493 million.

- 4.3 A summary of performance relative to the Fund specific benchmark is shown below.

Total Portfolio

	2018			2019				2020				2021	3yr
Quarter	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
Fund	6.6	2.8	-8.1	7.9	5.0	1.9	2.6	-11.4	16.6	3.5	9.5	1.6	12.4
B'mark	4.9	2.4	-6.2	7.0	4.1	3.1	0.7	-10.6	12.5	1.6	6.5	1.1	8.7
Relative	1.6	0.5	-2.0	0.9	0.9	-1.2	1.9	-0.8	4.1	1.9	3.0	0.5	3.7

- 4.4 As shown, the rolling 3-year performance of the Fund is 12.4% positive as compared to benchmark of 8.7%. For the last quarter (i.e. quarter 1), Global Growth high alpha equity portfolio, Global Opportunities high alpha equity portfolio, CBRE property and BlackRock Passive Equity all outperformed their benchmarks. Baillie Gifford traditional equity portfolio and the UK Credit portfolio underperformed their benchmarks, with the BlackRock Passive Gilt portfolio returning benchmark performance. Baillie Gifford traditional equity portfolio (global core) outperformed their rolling 3-year benchmark achieving a return of 19.0% against a benchmark of 8.1% and achieved a return of 63.7% over the last year, 34.1% ahead of their benchmark.
- 4.5 The Pension Fund participates in the Pensions and Investment Research Consultants Limited (PIRC) annual Local Authority fund Statistical Universe Review. At the end of March 2021, the Universe comprised of 64 funds with a combined value of £230 billion. A summary of the Fund's performance and its ranking is shown below.

	1 year		3 years		5 years		10 years	
	% p.a.	Rank	% p.a.	Rank	% p.a.	Rank	% p.a.	Rank
Universe	22.8		7.6		9.5		6.9	
RCT	34.1	3	12.4	1	12.9	3	10.8	5

- 4.6 The March 2021 Panel included a review of fund managers' performance. Presentations were received from Baillie Gifford, the traditional equity manager and one of the Global Growth managers, Veritas, also one of the managers of the Global Growth equity sub fund and Mercer Performance Services. Mercer Performance Services are employed by the Fund to measure the performance of the Fund as a whole and the performance of the fund managers against agreed benchmarks.
- 4.7 It was reported that the added value from active management as opposed to passive management for 2020/21 amounted to £286 million. The cost of the active management including the operator costs of the WPP for 2020/21 was £8 million.
- 4.8 The asset allocation of the Fund by fund manager and mandate as at 31st March 2021 (which includes cash) is shown in the table below.

Baillie Gifford Traditional	Global Equities	27%
Link – Global Opportunities Fund	Global High Alpha Equities	8%
Link – Global Growth Fund	Global High Alpha Equities	33%
Link – UK Credit Fund	UK Credit	12%
BlackRock	Passive Global Equities	5%
Blackrock	Passive UK Gilts	8%
CBRE	UK Property	7%
Internal	Cash	0%

- 4.9 As Members will be aware the March 2021 meeting of the Committee agreed to the revised asset allocation strategy for the Fund and the steps to be taken to move towards the preferred strategy together with the current allocation as show in the table below.

Asset Class	Current Allocation	Step 1	Step 2	Step 3
Total Equities	69%	64%	59%	54%
Infrastructure	0	0	5%	10%
Property	7%	7%	7%	7%
Government Bonds (UK)	9%	12%	12%	12%
Corporate Bonds (UK)	14%	15%	15%	15%
Cash	1%	2%	2%	2%
Absolute Return (10 years pa)	5.5%	5.3%	5.5%	5.6%
Volatility (10 years pa)	14.2%	13.3%	12.7%	12.3%

- 4.10 With regard to infrastructure, it is proposed that the Fund invests over a number of years in order to secure and optimise opportunities across the different time periods (and vintage years).
- 4.11 Baillie Gifford’s global core mandate has been reduced by £180 million which has been transitioned to UK government bonds, with a further £45 million reduction planned to transfer to UK corporate bonds.
- 4.12 The Pension Fund Draft Statement of Accounts for 2020/21 has been certified with the external audit process to follow. They can be viewed [here](#).

5.0 ADMINISTRATION UPDATE

- 5.1 An Internal Audit review of the Pensions Service was concluded in March 2021, the scope covered two key reassurance aspects:
- The Fund’s compliance against the findings contained on the ‘Pension Regulators Engagement Report’; and

- A review of the appropriateness of our remote working processes introduced last year.

The overall control environment was considered effective, with two minor recommendations made. A copy of the audit report is included as Appendix 1.

- 5.2 As advised at the previous Committee, the Ministry of Housing, Communities & Local Government (MHCLG) published statutory guidance to assist LGPS administering authorities and scheme employers in implementing and operating the regulations on 'employer flexibilities'. The Scheme Advisory Board (SAB) also provided more detailed guidance to be considered in conjunction with the statutory guidance. The Fund's proposed application of these new flexibilities has now been reflected in a revised Funding Strategy Statement and Administration Strategy which are currently being consulted upon (closing date for consultation responses being the 22nd July).
- 5.3 HM Treasury (HMT) have recently released a consultation on changes to the cost management mechanism, which closes on 19th August. These changes are proposed to take effect from the 2020 cost management (scheme-wide) valuations, so the 2016 valuation would run as originally intended.
- 5.4 On 13 May 2021, the Minister for Regional Growth and Local Government, made a Written Ministerial Statement on McCloud and the LGPS <https://questions-statements.parliament.uk/written-statements/detail/2021-05-13/hcws26>. The statement confirms the key changes that the Government will make to the LGPS regulations to remove the unlawful age discrimination. It is now anticipated that MHCLG will issue a full response to the consultation and publish draft regulations later this year.
- 5.5 Initial meetings have been held with the Fund Actuary to discuss and plan the requirements for the 2022 Valuation cycle. We understand that publication of Government Actuary's Department report on the 2019 valuations has been delayed until September.
- 5.6 The Fund's Pensioners have been notified of the annual pension increase of 0.5% that has been applied to pensions in payment and deferred pensions.
- 5.7 All Wales Practitioner Group meetings are held to discuss and feedback issues into the National LGPS Advisory Group. Statistics around member deaths are still being collated throughout the pandemic, with the Scheme Advisory Board publishing the combined results at <https://www.lgpsboard.org/index.php/covid-19-mortality-1> . The Fund specific comparison is provided in the table below:

Month	<u>2021</u>	<u>2020</u>	<u>2019</u>
January	83	61	-
February	98	52	-
March	64	60	-
April	50	129	39

May		66	51
June		66	46
July		65	43
August		38	46
September		54	55
October		59	84
November		66	61
December		55	43

- 5.8 Data quality and compliance remains a key priority for the Pension Fund. Further to the previous update, the Fund has been working closely with the applicable employers yet to implement the I-Connect monthly data transfers. Significant progress has been made during the first quarter of 2021/22 with Bridgend CBC going live during June.
- 5.9 Member Self Serve (MSS) continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members are shown below (as at May 2021).

	<u>Member Numbers</u>	<u>MSS Registrations</u>	<u>Current Percentage Take-up</u>	<u>Percentage Reported Previously</u>
Actives	23927	8931	37.33%	37.80%
Deferred	28116	7611	27.07%	27.99%
Pensioners	17678	4009	22.68%	22.58%
Dependants	2805	136	4.85%	4.69%

- 5.10 Eight 'Key Performance Service Standards' are monitored by the Panel and Pension Board. It was noted that in respect of performance during May 2021, two Performance Service Standard was behind target.
- % of Refunds of contributions processed within 10 days (68% for May against a target of 95%). 28 cases were completed of which 9 exceed the 10 days target.
 - % Transfers out processed within 10 days (50% for May against a target of 95%). 6 Cases were completed of which 3 exceed the 10 days target.
- 5.11 During June, the Service has conducted a number of onsite training sessions to continually develop the expertise within the team. Furthermore, the Service continues to actively support the Council's Apprenticeship and Graduate scheme with recruitment underway during July.
- 5.12 The Service is experiencing performance issues with its appointed In-house Additional Voluntary Contribution (AVC) provider. We understand that the issue

is not unique to this administering body, however, we have taken the opportunity to notify the Pensions Ombudsman of our concerns.

- 5.13 The number of 'Internal Dispute Resolution Procedure' Appeals in progress continues to be extremely low, with no obvious trends or concerns to report.

6.0 PENSION BOARD

- 6.1 The Pension Board last met virtually on 26th April 2021. There were no items noted for referral back to Committee. The next Pension Board is scheduled to take place on the 9th August.
- 6.2 The Board was provided with verbal reassurance around governance arrangements and any lessons learned as a result of the Covid circumstances.
- 6.3 Pension Board Members have continued to support their skills and knowledge requirement, through their attendance at relevant online events.

7.0 OTHER ISSUES

- 7.1 The Panel reviewed the skills and knowledge framework and noted the updates.
- 7.2 The Risk Register was considered, and updates noted. A review of the Risk Register is being dealt with elsewhere in this agenda.
- 7.3 Attached at Appendix 2 is the latest LAPFF quarterly engagement report for the period January to March 2021

8.0 CONCLUSION

- 8.1 This report sets out, for the Committee, the key issues being addressed as delegated functions, as specified in the Pension Fund Governance Policy Statement, by the Director of Finance and Digital Services.
