

**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**MUNICIPAL YEAR 2021-22**

**PENSION FUND COMMITTEE  
8<sup>th</sup> MARCH 2022**

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

<b>AGENDA ITEM NO 7</b>
<b>DELEGATED FUNCTIONS – UPDATE REPORT</b>

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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 28<sup>th</sup> February 2022.

#### **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 December 2021.

4.2 During the quarter ended 31<sup>st</sup> December 2021, the overall value of the Fund increased from £4,744 million to £4,819 million.

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

### Total Portfolio

	2019				2020				2021				3yr
Quarter	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Fund	7.9	5.0	1.9	2.6	-11.4	16.6	3.5	9.5	1.6	5.4	0.3	1.6	<b>14.8</b>
B'mark	7.0	4.1	3.1	0.7	-10.6	12.5	1.6	6.5	1.1	5.1	0.7	4.2	<b>12.0</b>
Relative	0.9	0.9	-1.2	1.9	-0.8	4.1	1.9	3.0	0.5	0.3	-0.4	-2.6	<b>2.8</b>

- 4.4 As shown, the rolling 3 year performance of the Fund is 14.8% positive as compared to a benchmark of 12.0%. For the last quarter (i.e. quarter 4), UK Credit, CBRE and BlackRock Passive Equity outperformed their benchmarks; BlackRock passive gilts performed in line with benchmark; and Baillie Gifford, Global Growth and Global Opportunities underperformed their benchmarks. Baillie Gifford global core equity portfolio outperformed their rolling 3 year rolling benchmark achieving a return of 22.2% against a benchmark of 13.1%.
- 4.5 The February 2022 Panel included a review of fund managers' performance. Presentations were received from Link and Russell Investments (the operator and fund manager solution provider of the WPP), Veritas, (one of the underlying fund managers of the WPP Global Growth Fund) and BlackRock on global infrastructure investment.
- 4.6 The asset allocation of the Fund-by-Fund manager and mandate as at 31<sup>st</sup> December (which includes cash) is shown in the table below.

Baillie Gifford Traditional	Global Equities	22%
Link – Global Opportunities Fund	Global High Alpha Equities	8%
Link – Global Growth Fund	Global High Alpha Equities	34%
Link – UK Credit Fund	UK Credit	13%
BlackRock	Passive Global Equities	5%
Blackrock	Passive UK Gilts	11%
CBRE	UK Property	7%
Internal	Cash	0%

- 4.7 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 toward 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)	12%	12%	12%	12%
Corporate Bonds (UK)	12%	15%	15%	15%
Cash	0%	2%	2%	2%
Absolute Return (10 years pa)		5.3%	5.5%	5.6%
Volatility (10 years pa)		13.3%	12.7%	12.3%

- 4.8 Step 1 of the revised asset allocation strategy has been completed. Baillie Gifford's mandate was reduced by £225 million increasing the allocation in UK Government Bonds by £180 million (9<sup>th</sup> June 2021) and the UK Credit by £45 million (7<sup>th</sup> July 2021).
- 4.9 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). Our initial exposure is in progress, with the first capital call notice having taken place on 24<sup>th</sup> January 2022.

## **5.0 ADMINISTRATION UPDATE**

- 5.1 Recent amendments to the Public Service Pensions and Judicial Officers Bill, has expanded the McCloud remedy eligibility in the LGPS. This now means that LGPS members on or before 31<sup>st</sup> March 2012, who were compulsory transferred to private sector funds will receive enhanced benefits. This extended scope will inevitably add further complexity and data collection requirements.
- 5.2 On 2 November 2021, HM Treasury (HMT) formally introduced the Finance (No.2) Bill 2021-22 to Parliament. The Bill proposes a number of provisions that will affect the LGPS:
- an increase in the 'Normal Minimum Pension Age' (NMPA) to age 57 from 6 April 2028. In 2014 the Government announced that the minimum age at which most members would be permitted to draw their pension benefits would rise from 55 to 57 with effect from April 2028. This mirrors the increase timeline of the state pension age rising to 67. The Bill also proposes a framework of protection, introducing a new Protected Pension Age (PPA) for anyone who, on or before 3 November 2021, is or becomes a member of a scheme whose rules as

at 11<sup>th</sup> February 2021 gave them an unqualified right to take their benefits between 55 and 57.

- provides HMT with the power to make regulations to address tax impacts that arise as a result of implementing the McCloud remedy. Provisions made under this section may be retrospective and may be specific for different member types. The changes will have effect from 6<sup>th</sup> April 2022 or later.
- 5.3 The Pensions Act 2014 requires the government to periodically review future increases to State Pension Age (SPA), at intervals of no more than six years. The second such review has been launched and must be published by 7<sup>th</sup> May 2023. The first review in 2017, recommended that the increase from 67 to 68 take place from 2037-39, seven years earlier than the current legislative timetable. Since 2014 the normal retirement age in the LGPS has been linked to SPA, so any change to this will impact when members are able to receive payment of their benefits as well as the overall costs of the scheme.
- 5.4 It is anticipated that there will be further governance requirements for LGPS Pension Funds during 2022-23. The Department of Levelling Up, Housing and Communities (DLUHC) will progress recommendations from the Good Governance project and The Pensions Regulator's (TPR) Single Code of Practice Code is likely to be launched from October 2022.
- 5.5 Planning for the 2022 valuation exercise is underway, as we progress the preparatory work together with the Fund Actuary. Some of the specific items discussed include the underlying assumptions, employer covenant analysis, longevity impact and data validation and cleansing. Whilst strong investment returns have pushed up the overall funding level, the impact of lower economic growth and the inflation outlook will put pressure on future investment return requirements. The Valuation will set new employer contribution rates for the three years beginning 1<sup>st</sup> April 2023 and is likely to lead to a range of experiences reflective of our employer diversity.
- 5.6 The Scheme Advisory Board (SAB) no longer require death statistical information from Administering Bodies. The statistics continue to be collated by the Fund and the table below provides an update and comparison on death numbers:

Month	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
January	94	83	61	-
February		98	52	-
March		64	60	-
April		50	129	39
May		41	66	51
June		35	66	46
July		41	65	43
August		39	38	46

September		56	54	55
October		48	59	84
November		62	66	61
December		56	55	43

- 5.7 Member Self-Serve (MSS) is available bilingually and continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members are shown below (as at February 2022).

	<u>Member Numbers</u>	<u>MSS Registrations</u>	<u>Current Percentage Take-up</u>	<u>Percentage Reported Previously</u>
Actives	24,017	10,702	44.56%	44.37%
Deferred	28,747	9,432	32.81%	32.41%
Pensioners	18,159	4,678	25.76%	24.97%
Dependants	2,864	154	5.38%	5.35%

- 5.8 The Service's eight 'Key Performance Service Standards' are regularly monitored by the Panel and Pension Board. At the time of writing, a number of Performance Service Standards were behind target for the year-to-date, this being primarily due to continued high service demands, and, as part of the on-going development of the service, work is being prioritised to support new team members to further enhance capacity (including face-to-face training and development). In order to increase our capacity into 2022/23 to meet the project challenges of the Valuation, McCloud, Pensions Dashboard, Governance, all alongside business as usual, it is essential that our current focus on team development and training remains a priority.
- 5.9 The Fund, the Scheme Advisory Board and the LGA continue to monitor the performance of its Additional Voluntary Contributions partner and dialogue is on-going in respect of areas of concern.
- 5.10 Treasury has confirmed that LGPS pensions in payment will be increased from 11<sup>th</sup> April 2022 by 3.1%, in line with the September 2021 CPI inflation rate. Our pensioner membership will be informed of the increase within the annual newsletter.
- 5.11 The number of 'Internal Dispute Resolution Procedure' Appeals in progress continues to be extremely low, with no obvious trends or concerns to report. In line with the Fund's Breaches Policy considerations, there were a small number of late payments identified, however on review, these did not constitute any formal breach. The Pensions Ombudsman has recently issued guidance setting out "top tips" for avoiding complaints. The guidance provides information about complaints received by the Ombudsman and things that pension funds can do to avoid these issues.

## **6.0 PENSION BOARD**

- 6.1 The Pension Board last met virtually on 31<sup>st</sup> January 2022. There were no items noted for referral back to Committee.
- 6.2 On 30<sup>th</sup> November 2021 changes came into effect introducing new legal restrictions on an individual's right to a transfer. These changes remove an individual's automatic right to a transfer and provide a number of steps that funds must put in place in respect of any transfer taking effect on or after 30<sup>th</sup> November 2021. In support of the Fund's governance and compliance arrangements, the Board were provided with an update of the revised measures.
- 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 1 is the latest LAPFF quarterly engagement report for the period October to December 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.

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