

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2022-23

PENSION FUND COMMITTEE
12th JULY 2022

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

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| AGENDA ITEM NO. 5 |
| 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 30th June 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 March 2022.

4.2 During the quarter ended 31st March 2022, the overall value of the Fund decreased from £4,819 million to £4,510 million.

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

Total Portfolio

| | 2019 | | | 2020 | | | | 2021 | | | | 2022 | 3yr |
|----------|------|------|-----|-------|------|-----|-----|------|-----|------|------|------|------------|
| Quarter | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | |
| Fund | 5.0 | 1.9 | 2.6 | -11.4 | 16.6 | 3.5 | 9.5 | 1.6 | 5.4 | 0.3 | 1.6 | -6.5 | 9.4 |
| B'mark | 4.1 | 3.1 | 0.7 | -10.6 | 12.5 | 1.6 | 6.5 | 1.1 | 5.1 | 0.7 | 4.2 | -3.2 | 8.3 |
| Relative | 0.9 | -1.2 | 1.9 | -0.8 | 4.1 | 1.9 | 3.0 | 0.5 | 0.3 | -0.4 | -2.6 | -3.3 | 1.1 |

- 4.4 As shown, the rolling 3-year performance of the Fund is 9.4% positive as compared to benchmark of 8.3%. For the last quarter (i.e. quarter 1), Global Opportunities high alpha equity portfolio, UK Credit, CBRE property, BlackRock Passive Equity and BlackRock Passive UK Gilt all outperformed their benchmarks; Baillie Gifford traditional equity portfolio and the Global Growth high alpha equity portfolio underperformed their benchmarks. Baillie Gifford traditional equity portfolio (global core) outperformed their rolling 3-year benchmark achieving a return of 11.4% against a benchmark of 9.1%.
- 4.5 The March 2022 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, CBRE, the fund of fund property manager 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.
- 4.6 The asset allocation of the Fund by fund manager and mandate as at 31st March 2022 (which includes cash) is shown in the table below.

| | | |
|----------------------------------|----------------------------|-----|
| Baillie Gifford Traditional | Global Equities | 19% |
| Link – Global Opportunities Fund | Global High Alpha Equities | 9% |
| 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 | 12% |
| CBRE | UK Property | 7% |
| Internal | Cash | 1% |

- 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 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 | 68% | 64% | 59% | 54% |
| Infrastructure | 0 | 0 | 5% | 10% |
| Property | 7% | 7% | 7% | 7% |
| Government Bonds (UK) | 11% | 12% | 12% | 12% |
| Corporate Bonds (UK) | 13% | 15% | 15% | 15% |
| Cash | 1% | 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 With regard to infrastructure, the approach is for the Fund to invest over a number of years in order to secure and optimise opportunities across the different time periods (and vintage years).
- 4.9 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 transferred to UK corporate bonds.
- 4.10 The Pension Fund is progressing the investment into Blackrock GIS 4 Infrastructure Fund. The first capital contribution notice was called 24th January for €15.0 mill.
- 4.11 The compilation of the Pension Fund draft Statement of Accounts for 2021/22 is nearing completion with the external audit process to then follow. A copy of the certified draft Statement of Accounts will also be provided to Committee Members, when completed.

5.0 ADMINISTRATION UPDATE

- 5.1 The Pensions Regulator (TPR) has published [new guidance](#) for trustees on ensuring compliance with the requirements for Pensions Dashboards and the accompanying [press release](#) emphasises that schemes should be taking action now and that TPR will “take a dim view of trustees who carelessly fail to prioritise their dashboard responsibilities”.
- 5.2 As noted in the March 2022 Committee, the Normal Minimum Pension Age (NMPA) will increase to 57 from 6th April 2028. LGPS rules do not automatically link to NMPA and currently refer to age 55. Members of registered pension schemes who had a right to take their entitlement to a benefit under their scheme before age 57 prior to the 4th November 2021, may have a protected pension age. However, a protected pension age will only affect the age at which a LGPS member can take their pension if the responsible authority makes changes to the scheme rules to implement the protected pension age. It is currently not yet

known if the Department of Levelling Up, Housing and Communities (DLUHC) intend to amend the LGPS to introduce protected pension age.

- 5.3 On 12th May 2022, DLUHC published statutory guidance on special severance payments and Best Value authorities in England must have regard to the guidance in circumstances in which it may be appropriate to make special severance payments. The guidance also covers approval, disclosure and reporting requirements. For Members information, the guidance does not apply to authorities in Wales.
- 5.4 Further to the annual review of the Fund's Governance documents being approved at the joint meeting of the Pension Fund Committee and Pension Board in March 2022, the documents were subsequently updated to the Fund's website.
- 5.5 The Scheme Advisory Board no longer require scheme 'death statistics', however the Fund will continue to collate up to the Valuation date. The Fund's statistics are shown in the table below:

Comparison of Number of Fund Deaths

| Month | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|-----------|-------------|-------------|-------------|-------------|
| January | 94 | 83 | 61 | - |
| February | 37 | 98 | 52 | - |
| March | 82 | 64 | 60 | - |
| April | 50 | 50 | 129 | 39 |
| May | 55 | 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 |

- 5.6 Planning for the 2022 valuation exercise is continuing: Terms of Reference and a timetable have been agreed and key assumptions and the valuation data quality exercise are progressing as planned. In parallel, Accounting Disclosure work for employers with year-end of 31st March has been completed.
- 5.7 The Fund's Communication Forum is scheduled to meet during July 2022 and will focus on preparatory work for the Valuation and McCloud and also a proposed targeted survey of membership experience.
- 5.8 A McCloud Working Group has been set up and good progress is being made on data collection, with dialogue on-going with employers, and the Fund's software

provider has created a report to aid with identifying the number of potential members affected and extract the relevant data.

- 5.9 A Life Certification exercise is underway, to provide assurance on the details / status of Members that live abroad, and officers from the Pension Service are currently working the Council's Information Management team around the due diligence requirements.
- 5.10 The Fund's Pensioners have been notified through the annual newsletter of the annual pension increase of 3.1%, effective from April 2022 to pensions in payment and deferred pensions.
- 5.11 Member Self-Serve (MSS) continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members are shown below (as at June 2022).

| | <u>Member Numbers</u> | <u>MSS Registrations</u> | <u>Current Percentage Take-up</u> | <u>Percentage Reported Previously</u> |
|------------|-----------------------|--------------------------|-----------------------------------|---------------------------------------|
| Actives | 24,517 | 10,956 | 44.68% | 44.56% |
| Deferred | 29,071 | 9,782 | 33.65% | 32.81% |
| Pensioners | 18,279 | 4,972 | 27.20% | 25.76% |
| Dependants | 2,905 | 163 | 5.61% | 5.38% |

- 5.12 As previously reported the Fund, the Scheme Advisory Board and the LGA continue to monitor the performance of its Additional Voluntary Contributions partner. As at June 2022, the Fund is experiencing improvements in turnaround times as the provider's resolution action plan takes effect and performance will continue to be monitored by the Scheme Advisory Board and locally by the Fund.
- 5.13 The Service's eight 'Key Performance Service Standards' are regularly monitored by the Panel and Pension Board. In general, performance and service volumes remain positive, however the more complex activities are proving a challenge to deliver within target, as focus on team development continues.
- 5.14 Two third party Employers have applied and been approved for admission to the RCT Pension Fund.
- 5.15 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 30th May 2022. There were no items noted for referral back to Committee. At the May 2022 meeting the Pension Board proposed updates to the Pension Fund Risk Register that have subsequently been incorporated into the Register.

- 6.2 The next Pension Board meeting will be held on a hybrid basis and is scheduled to take place on the 11th July 2022.
- 6.3 Pension Board Members have continued to support their skills and knowledge requirement, through their attendance at relevant 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 January to March 2022

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.
