

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2022-23

**PENSION FUND COMMITTEE
13TH DECEMBER 2022**

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

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 25th November 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 September 2022.

4.2 During the quarter ended 30th September 2022, the overall value of the Fund decreased from £4,108 million to £3,995 million.

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

Total Portfolio

	2019	2020				2021				2022			3yr
Quarter	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
Fund	2.6	-11.4	16.6	3.5	9.5	1.6	5.4	0.3	1.6	-6.5	-8.9	-2.7	2.8
B'mark	0.7	-10.6	12.5	1.6	6.5	1.1	5.1	0.7	4.2	-3.2	-6.8	-2.8	2.4
Relative	1.9	-0.8	4.1	1.9	3.0	0.5	0.3	-0.4	-2.6	-3.3	-2.1	0.1	0.4

- 4.4 As shown, the rolling 3-year performance of the Fund is 2.8% positive as compared to benchmark of 2.4%. For the last quarter (i.e. quarter 3), Global Opportunities high alpha equity portfolio, BlackRock Passive UK Equity (low carbon), Baillie Gifford traditional equity portfolio and UK Credit outperformed their benchmarks (noting that Baillie Gifford and UK Credit quarter 3 benchmarks were negative); Global Growth high alpha equity portfolio and CBRE Property underperformed their benchmarks; and BlackRock Passive UK Gilts performed in line with their benchmark.
- 4.5 The September 2022 Panel included a review of fund managers' performance. Presentations were received from Veritas, one of the Global Growth managers, and BlackRock GIS 4 solutions.
- 4.6 The asset allocation of the Fund-by-Fund manager and mandate as at 30th September 2022 (which includes cash) is shown in the table below.

Baillie Gifford Traditional	Global Equities	18%
Link – Global Opportunities Fund	Global High Alpha Equities	10%
Link – Global Growth Fund	Global High Alpha Equities	35%
Link – UK Credit Fund	UK Credit	12%
BlackRock	Passive Global Equities	5%
Blackrock	Passive UK Gilts	11%
CBRE	UK Property	9%
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 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	9%	7%	7%	7%
Government Bonds (UK)	10%	12%	12%	12%
Corporate Bonds (UK)	12%	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. Capital contributions to date total £21.189 million.
- 4.11 The Pension Fund is committing £70 million to the closed ended infrastructure first vintage being launched by the WPP. This will take place from December 2022
- 4.12 The external audit of the Pension Fund Statement of Accounts for 2021/22 has been completed and reported to full Council on 23rd November 2022, and is reported as a separate agenda item to the 13th December 2022 Pension Fund Committee.

5.0 ADMINISTRATION UPDATE

- 5.1 The RCT Pension Fund Annual Report was finalised and published prior to the statutory deadline and provided to the Scheme Advisory Board. A copy of the published report can be found at:
<https://www.rctpensions.org.uk/EN/RelatedDocuments/AnnualReport/PensionFundAnnualReport2022.pdf>
- 5.2 The Fund's Governance documents, including the Funding Strategy are currently being updated in line with the 2022 Valuation, in consultation with respective stakeholders. The updated documents will be presented to the March 2023 Pension Fund Committee for consideration and approval.

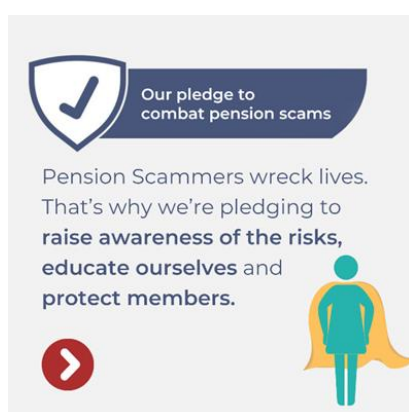
- 5.3 HM Treasury laid The Public Service Pensions (Employer Cost Cap and Specified Restricted Scheme) Regulations 2022 to take effect from 3rd August 2022. This introduced an amendment to the specified margins for the cost cap introduced by the Public Service Pensions Act 2013. The specified margins are the margins in which scheme costs must remain before corrective action is taken. The margins were amended from two percentage points above and below the employer cost cap rate to three percentage points.
- 5.4 The LGPS Regulations in respect of the McCloud judgement and subsequent remedies, will be subject to a further period of consultation early in 2023, and regulations will be made later in 2023 to come into force on 1st October 2023. In the interim, the Service continues to work with our Fund Employers in collating the necessary data to support the remedy exercise.
- 5.5 The Scheme Advisory Board no longer require scheme ‘death statistics’; however the Fund will continue to collate up to the Valuation date and noting that the Fund’s mortality assumptions for the 2022 Valuation exercise have been amended as a result of the pandemic. 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	49	35	66	46
July	52	41	65	43
August	57	39	38	46
September	43	56	54	55
October	50	48	59	84
November		62	66	61
December		56	55	43

- 5.6 The Fund’s Annual General Meeting (AGM) was held as a hybrid event on the 14th November 2022 with representation from the Fund Employers and members of the Rhondda Cynon Taf Pension Fund Committee and Pension Board.
- 5.7 The 2022 Triennial Valuation exercise is nearing completion, with the Fund Actuary providing an update to Employers at the AGM. The Employer results are currently being finalised and will be issued as timely as possible. In line with the growing maturity of the Fund, the Actuary will provide some cashflow modelling based on the 2022 Valuation contribution results and potential pension increase of 10.1%.

- 5.8 The implementation timeline for the National Pension Dashboard Programme has been revised for LGPS Pension Funds and it is now anticipated that this Fund will onboard during 2025.
- 5.9 A new Life Certification exercise is underway using biometrics technology to provide assurance on the details / status of Members that live abroad and contact has been made with our 189 overseas pensioners.
- 5.10 In support of national action to address pension fraud, the RCT Pension Fund has signed up to The Pension Regulator's (TPR) 'Pledge to Combat Pension Scams' together with implementation of the associated awareness activity and reporting <https://www.rctpensions.org.uk/en/home.aspx>.



- 5.11 Member Self-Serve (MSS) continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members are shown below (as at November 2022).

	<u>Member Numbers</u>	<u>MSS Registrations</u>	<u>Current Percentage Take-up</u>	<u>Percentage Reported Previously</u>
Actives	24,208	11,432	47.23%	45.37%
Deferred	29,518	10,776	36.51%	34.41%
Pensioners	18,701	5,507	29.45%	28.47%
Dependants	3,007	181	6.02%	5.69%

- 5.12 The Pension Regulator Return was submitted prior to the deadline of 18th November, with the RCT Fund's data quality score remaining consistent with last year:
- Common Data Score 97% (2021 – 97%).
 - Scheme Specific Data Score 99% (2021 - 99%).
- 5.13 The Service's eight 'Key Performance Service Standards' are regularly monitored by the Investment and Administration Advisory Panel and Pension Board. In general, performance and service volumes remain positive, and a focus on team development and recruitment continues.

- 5.14 Cornelly Community Council resolved on 26th October 2022 to participate in the Local Government Pension Scheme and has applied to join the Rhondda Cynon Taf 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 on a hybrid basis on 17th October 2022. There were no items noted for referral back to Committee.
- 6.2 The next Pension Board meeting will be held on a hybrid basis and is scheduled to take place on the 9th January 2023.
- 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 July to September 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.
