

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2022-23

**PENSION FUND COMMITTEE
27TH MARCH 2023**

**REPORT OF: THE DEPUTY CHIEF
EXECUTIVE AND GROUP DIRECTOR –
FINANCE DIGITAL AND FRONTLINE
SERVICES**

AGENDA ITEM NO. 7
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 Deputy Chief Executive and Group Director – Finance, Digital and Frontline 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 Deputy Chief Executive and Group Director - Finance, Digital and Frontline 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 23rd March 2023.

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 2022.

- 4.2 During the quarter ended 31st December 2022, the overall value of the Fund increased from £3,995 million to £4,103 million.
- 4.3 A summary of performance relative to the Fund specific benchmark is shown below.

Total Portfolio

	2020				2021				2022				3yr
Quarter	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Fund	-11.4	16.6	3.5	9.5	1.6	5.4	0.3	1.6	-6.5	-8.9	-2.7	2.6	2.8
B'mark	-10.6	12.5	1.6	6.5	1.1	5.1	0.7	4.2	-3.2	-6.8	-2.8	3.5	3.3
Relative	-0.8	4.1	1.9	3.0	0.5	0.3	-0.4	-2.6	-3.3	-2.1	0.1	-0.9	-0.5

- 4.4 As shown, the rolling 3-year performance of the Fund is 2.8% positive as compared to benchmark of 3.3%. For the last quarter (i.e. quarter 4), Global Growth high alpha equity portfolio, UK Credit Fund, and BlackRock Passive UK Equity (low carbon) outperformed their benchmarks; Global Opportunities high alpha equity portfolio, CBRE Property, and Baillie Gifford Traditional Equity underperformed their benchmarks; and BlackRock Passive UK Gilts performed in line with their benchmark.
- 4.5 The 23rd March 2023 Panel included a review of fund managers' performance. Presentations were received from Fidelity (the UK Credit manager), Link and Russell Investments (operator and fund manager solution provider of the WPP) and Ballie Gifford (tradition equity portfolio).
- 4.6 The asset allocation of the Fund-by-Fund manager and mandate as at 31st December 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	8%
Blackrock GIS 4 Solutions	Infrastructure	1%
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	1%	0	5%	10%
Property	8%	7%	7%	7%
Government Bonds (UK)	11%	12%	12%	12%
Corporate Bonds (UK)	11%	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 £26.63 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 June 2023

5.0 ADMINISTRATION UPDATE

- 5.1 Significant changes from 6th April 2023 to the pension tax allowances were announced in the Spring Budget, which will require software and communication updates:
- The Lifetime Allowance charge, and ultimately the Lifetime Allowance (LTA), will be abolished.
 - The maximum Pension Commencement Lump Sum for those without protections will be retained at £268,275 and remain frozen at that level.
 - The standard Annual Allowance (AA) will increase from £40,000 to £60,000.
 - The tapered Annual Allowance will now commence for individuals with adjusted income in excess of £260,000 (previously it was from £240,000).
- 5.2 HM Treasury has confirmed that LGPS pensions in payment will be increased from 10th April 2023 by 10.1%, in line with the September 2022 CPI inflation rate.

The Fund's Annual Pensioner Newsletter is currently being drafted and will include details of this increase for its membership.

- 5.3 On 10th February 2023, the Department for Levelling Up, Housing and Communities (DLUHC) published a consultation and draft regulations on changing the annual revaluation date, in order to better align the inflation-proofing arrangements in the LGPS used for assessing pension growth against the annual allowance. The regulations are effective from 31st March 2023, and move the annual revaluation date from 1st April to 6th April.
- 5.4 The Pensions Regulator (TPR) is now expected to publish their new General Code of Practice in mid-April 2023. The new consolidated code will set out proposed new governance standards for pension schemes.
- 5.5 LGPS Regulations in respect of the McCloud judgement and subsequent remedies, will come into force on 1st October 2023. The Scheme Advisory Board (SAB) is due to publish guidance on appropriate methods to obtain service data for the McCloud remedy. The guidance will be accompanied by legal advice, which covers the steps administering authorities should take to collect, validate and query the McCloud data they receive from employers, as well as duty of care, estimation of service, and informing members.
- 5.6 The Scheme Advisory Board (SAB) 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>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
January	104	94	83	61	-
February	58	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	-	50	62	66	61
December	-	64	56	55	43

- 5.7 The Pension Regulator 'Governance and Administration Survey' was jointly completed with the Chair of Pension Board and submitted by the required deadline.

- 5.8 The 2022 Triennial Valuation exercise has concluded, and all Fund Employers have received their results. In line with the growing maturity of the Fund, the Actuary will provide some cashflow modelling based on the 2022 Valuation contribution results and the pension increase of 10.1%.
- 5.9 Further delays have recently been announced in respect of delivery of the National Pension Dashboard Programme. The Fund will continue to work on its preparations for the dashboards.
- 5.10 The new Life Certification exercise using biometrics technology to provide assurance on the details / status of Members that live abroad has proven to be successful, with only a small number of members yet to comply.
- 5.11 Member Self-Serve (MSS) continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members are shown below (as at February 2023).

	<u>Member Numbers</u>	<u>MSS Registrations</u>	<u>Current Percentage Take-up</u>	<u>Percentage Reported Previously</u>
Actives	24,076	11,482	47.69%	47.23%
Deferred	29,710	10,841	36.49%	36.51%
Pensioners	18,794	5,775	30.73%	29.45%
Dependants	3,002	184	6.13%	6.02%

- 5.12 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. A positive recruitment exercise has recently concluded and will help ensure business continuity looking ahead.
- 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 on a hybrid basis on 9th January 2023. There were no items noted for referral back to Committee.
- 6.2 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 October to December 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 Deputy Chief Executive and Group Director – Finance, Digital and Frontline Services.
