

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2023-24

**PENSION FUND COMMITTEE
18TH JULY 2023**

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

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| AGENDA ITEM NO. 4 |
| DELEGATED FUNCTIONS – UPDATE REPORT |

**Author – Barrie Davies, Deputy Chief Executive and Group Director – Finance,
Digital and Frontline Services (01443) 424026**

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, His 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 29th June 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 March 2023.

- 4.2 During the quarter ended 31st March 2023, the overall value of the Fund increased from £4,103 million to £4,256 million.
- 4.3 A summary of performance relative to the Fund specific benchmark is shown below.

Total Portfolio

| | 2020 | | | 2021 | | | | 2022 | | | | | 3yr |
|----------|------|-----|-----|------|-----|------|------|------|------|------|------|------|-------------|
| Quarter | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | |
| Fund | 16.6 | 3.5 | 9.5 | 1.6 | 5.4 | 0.3 | 1.6 | -6.5 | -8.9 | -2.7 | 2.6 | 3.4 | 8.3 |
| B'mark | 12.5 | 1.6 | 6.5 | 1.1 | 5.1 | 0.7 | 4.2 | -3.2 | -6.8 | -2.8 | 3.5 | 3.5 | 8.4 |
| Relative | 4.1 | 1.9 | 3.0 | 0.5 | 0.3 | -0.4 | -2.6 | -3.3 | -2.1 | 0.1 | -0.9 | -0.1 | -0.1 |

- 4.4 As shown, the rolling 3-year performance of the Fund is 8.3% positive as compared to a benchmark of 8.4%. For the last quarter (i.e. quarter 1), Baillie Gifford Traditional Equity, Global Growth high alpha equity portfolio, UK Credit Fund, BlackRock Passive UK Equity (low carbon) and BlackRock Passive outperformed their benchmarks; Global Opportunities high alpha equity portfolio and CBRE Property under-performed their benchmarks; and BlackRock Global Infrastructure Solutions performed in line with their benchmark.
- 4.5 The 29th June 2023 Panel meeting included a review of fund managers' performance. Presentations were received from CBRE (the property fund of fund manager), Pzena (one of the managers of the WPP Global Growth Fund) and Mercer Performance Services. Mercer Performance Services are engaged 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 2023 (which includes cash), is shown in the table below.

| | | |
|----------------------------------|----------------------------|-----|
| Baillie Gifford Traditional | Global Equities | 19% |
| Link – Global Opportunities Fund | Global High Alpha Equities | 10% |
| Link – Global Growth Fund | Global High Alpha Equities | 36% |
| Link – UK Credit Fund | UK Credit | 12% |
| BlackRock | Passive Global Equities | 5% |
| Blackrock | Passive UK Gilts | 10% |
| CBRE | UK Property | 7% |
| 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 | 69% | 64% | 59% | 54% |
| Infrastructure | 1% | 0 | 5% | 10% |
| Property | 7% | 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 £29.5 million.
- 4.11 The Pension Fund is committing £70 million to the closed ended infrastructure first vintage launched by the WPP. The Pension Fund transferred the first capital call of £4.47 million on 30th May 2023.
- 4.12 A £7 million commitment into a local impact opportunity was agreed in the form of a wind farm investment. The first drawdown of £2.25 million took place on 25th April 2023, with a further drawdown of £0.074 million taking place on 21st June 2023.

5.0 ADMINISTRATION UPDATE

- 5.1 The approved Fund's governance documents and Valuation Report have been published on the Fund's website.
- 5.2 The Pensions Regulator (TPR) was expected to publish their new General Code of Practice in mid-April 2023 that would set out proposed new governance standards for pension schemes. The publication of the General Code of Practice has subsequently been delayed, noting that further to the Code being published, Officers and the Pension Board will review the requirements against existing practices within the Rhondda Cynon Taf Pension Fund.
- 5.3 In April 2023, the Pensions Dashboards Programme (PDP) issued its seventh update looking at the programme's progress since October 2022, recognising

the complexity involved and reaffirmed that work on the programme reset plan commenced in March 2023. A Ministerial Statement from the UK Government on 8th June 2023 confirmed that legislation will be updated to set an overall connection deadline for all schemes of 31st October 2026, with the Department for Work and Pensions to collaborate with the Pensions industry this year prior to publishing guidance setting out individual connection deadlines for schemes, these being before 31st October 2026.

- 5.4 HM Revenue & Customs (HMRC) has published for consultation the draft Public Service Pension Schemes (Rectification of Unlawful Discrimination) (Tax) (No 2) Regulations 2023, which outline changes to how pensions tax rules will apply as a result of the public service pensions remedy (McCloud). The consultation closed on the 19th June 2023.
- 5.5 The Department for Levelling Up, Housing and Communities (DLUHC) has issued its response to the 2020 consultation on Amendments to the Local Government Pension Scheme statutory underpin. Final regulations will be made later in the year and will come into force on 1 October 2023 backdated to 1st April 2014.
- 5.6 At the end of May 2023, the Government published its consultation '*McCloud*' remedy in the LGPS – supplementary issues and scheme regulations seeking views on changes to the Local Government Pension Scheme in England and Wales. The consultation seeks views around: Aggregation; Club transfers; Flexible retirement; Divorce; Injury allowances; Excess teacher service; Compensation; Interest; with the consultation open until 30th June 2023.
- 5.7 The end-of-year accounting exercise for employers with year-end 31st March 2023 was completed and relevant disclosures provided by the Fund Actuary.
- 5.8 The Life Certification exercise has been completed with Crown Agents Bank letters issued to 189 overseas pensioners. The majority of Pensioners completed the facial recognition validation and 4 pension accounts have been suspended due to the pensioners not providing the requested information; follow-up arrangements are in progress for these individuals. Moving forward the Life Certification process will become an annual exercise.
- 5.9 A programme of work is continuing to support on-going effective communication, for example, self-help videos being developed for inclusion on the Fund website to support Members with key activities such as 'how to access My Pension Online'; a Pensions Newsletter, 'PensionsConnection', for retired members of the Rhondda Cynon Taf Pension Fund and Fire Pension Schemes was issued in March 2023 and published electronically to those Pensioner Members signed up for My Pension Online; and a new Member Starter process is being developed that will be accompanied by communication with Fund employers.
- 5.10 A McCloud Working Group has been set up and is progressing the necessary work on data collection and sign-off, noting the acknowledgement by the DLUHC that the administrative requirements of the McCloud remedy will be significant and that Pension Funds should be putting in place resourcing plans to ensure

administrators are equipped to tackle the additional work. In the case of the Rhondda Cynon Taf Pension Fund, the programme of work is being managed, supported and delivered via the McCloud Working Group.

- 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 2023).

| | <u>Member Numbers</u> | <u>MSS Registrations</u> | <u>Current Percentage Take-up</u> | <u>Percentage Reported Previously</u> |
|------------|-----------------------|--------------------------|-----------------------------------|---------------------------------------|
| Actives | 24,036 | 11,634 | 48.40% | 47.69% |
| Deferred | 30,103 | 11,415 | 37.92% | 36.49% |
| Pensioners | 18,962 | 6,057 | 31.94% | 30.73% |
| Dependants | 3,035 | 194 | 6.39% | 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. Overall, service performance is positive and a focus on team development and recruitment continues.
- 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 25th May 2023.
- 6.2 Pension Board Members considered the new 'Pension Transfer Scam' controls and recommended for the enhanced controls in place to be referenced as a mitigating action within the Fund's Risk Register (noting that the Risk Register report, at item 5 of the meeting agenda, has been updated in line with the Pension Board's recommendation).
- 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 2023

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.
