

**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**MUNICIPAL YEAR 2023-24**

**PENSION FUND COMMITTEE  
9<sup>TH</sup> OCTOBER 2023**

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

**AGENDA ITEM NO. 6**

**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, 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 19<sup>th</sup> September 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 June 2023.

- 4.2 During the quarter ended 30<sup>th</sup> June 2023, the overall value of the Fund increased from £4,256 million to £4,263 million.
- 4.3 A summary of performance relative to the Fund specific benchmark is shown below.

### Total Portfolio

|          | 2020 |     | 2021 |     |      |      | 2022 |      |      |      | 2023 |             | 3yr         |
|----------|------|-----|------|-----|------|------|------|------|------|------|------|-------------|-------------|
| Quarter  | Q3   | Q4  | Q1   | Q2  | Q3   | Q4   | Q1   | Q2   | Q3   | Q4   | Q1   | Q2          |             |
| Fund     | 3.5  | 9.5 | 1.6  | 5.4 | 0.3  | 1.6  | -6.5 | -8.9 | -2.7 | 2.6  | 3.4  | <b>0.3</b>  | <b>2.9</b>  |
| B'mark   | 1.6  | 6.5 | 1.1  | 5.1 | 0.7  | 4.2  | -3.2 | -6.8 | -2.8 | 3.5  | 3.5  | <b>0.9</b>  | <b>4.5</b>  |
| Relative | 1.9  | 3.0 | 0.5  | 0.3 | -0.4 | -2.6 | -3.3 | -2.1 | 0.1  | -0.9 | -0.1 | <b>-0.6</b> | <b>-1.6</b> |

- 4.4 As shown, the rolling 3-year performance of the Fund is 2.9% positive as compared to a benchmark of 4.5%. For the last quarter (i.e. quarter 2), UK Credit Fund and BlackRock Passive UK Equity (low carbon) outperformed their benchmarks; Baillie Gifford Traditional Equity, Global Growth high alpha equity portfolio, Global Opportunities high alpha equity portfolio and CBRE Property under-performed their benchmarks; and BlackRock Passive UK Gilts and BlackRock Global Infrastructure Solutions performed in line with their benchmark.
- 4.5 The 19<sup>th</sup> September 2023 Panel meeting included a review of fund managers' performance. Presentations were received from Baillie Gifford (the traditional equity manager), Veritas (one of the managers of the WPP Global Growth Fund) and BlackRock, discussing their GIS4 Solutions product.
- 4.6 The asset allocation of the Fund, by Fund Manager and mandate as at 30<sup>th</sup> June 2023 (which includes cash), is shown in the table below.

|                                  |                            |     |
|----------------------------------|----------------------------|-----|
| Baillie Gifford Traditional      | Global Equities            | 16% |
| 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% |
| Link – Sustainable Equity Fund   | Global High Alpha Equities | 2%  |
| BlackRock                        | Passive Global Equities    | 6%  |
| Blackrock                        | Passive UK Gilts           | 10% |
| CBRE                             | UK Property                | 7%  |
| Blackrock GIS 4 Solutions        | Infrastructure             | 1%  |
| Internal                         | Cash                       | 0%  |

- 4.7 The asset allocation strategy for the Fund is set out below along with the steps being taken as we continue to move toward it.

| Asset Class                   | Current Allocation | Step 1 | Step 2 | Step 3 |
|-------------------------------|--------------------|--------|--------|--------|
| Total Equities                | 70%                | 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                          | 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 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 GIS4 Infrastructure Fund. Capital contributions to date total £31.4 million.
- 4.11 The Pension Fund is committing £70 million to the closed ended infrastructure first vintage launched by the WPP. Capital contributions to date total £4.47 million.
- 4.12 A £10 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 25<sup>th</sup> April 2023, with a further drawdown of £0.074 million on 21<sup>st</sup> June 2023.
- 4.13 Given the current decline in gilt and bond prices, Panel agreed to increase the bond allocation in line with the Fund's current strategy. The increase is to be funded from the Bailie Gifford exposure held outside of the pool for such purposes as we continue to implement the strategy. This re-balancing exercise is to take place during October 2023.
- 4.14 Subject to the necessary due diligence the Pension Fund proposes to make a commitment of \$75 million into the BlackRock Renewable Power IV product, the first close being end of October 2023.

## **5.0 ADMINISTRATION UPDATE**

- 5.1 The Fund's key administrative activity during the period included the successful publication of Annual Benefit Statements to all 'Active' and 'Deferred' Pension Scheme Members prior to the statutory deadline, followed by a further statutory

requirement in respect of the production of the 2023 'Annual Allowance' pension saving statements, which is currently underway.

- 5.2 The Pensions Regulator (TPR) is expected to now publish their new General Code of Practice by the end of the year. The new consolidated code will set out proposed new governance standards for pension schemes. As soon as the code becomes available, Officers and the Pension Board will review the requirements against existing practices within the Rhondda Cynon Taf Fund.
- 5.3 There has been no further national update provided on the Pensions Dashboard Programme (PDP) since the previous update to the Fund's Pension Committee. Legislation will be updated to set an overall connection deadline for all schemes by 31<sup>st</sup> October 2026.
- 5.4 In September 2023, the Department for Levelling Up, Housing and Communities (DLUHC) finalised its regulatory update '[The Local Government Pension Scheme \(Amendment\) \(No. 3\) Regulations 2023](#)' effective from 01<sup>st</sup> October 2023, and published its response to the most recent McCloud consultation. It also published updated versions of the member factsheet (English and Welsh versions) and can be viewed on the [GOV.UK website](#)
- 5.5 The above regulations address the 'McCloud remedy' and amend the existing underpin rules in the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014, to ensure it works effectively and consistently for qualifying scheme members. The regulations take effect from 1 October 2023, further activity to support the implementation includes:
  - i. The Local Government Association (LGA) are currently reviewing the regulations and plan to issue guidance and member communications;
  - ii. DLUHC will publish statutory guidance on prioritisation and set up an implementation group to identify what other statutory guidance is needed; and
  - iii. Government Actuary Department (GAD) is currently reviewing the actuarial guidance notes that will need to be updated.
- 5.6 The Scheme Advisory Board (SAB) is considering its own cost control mechanism following changes made to HM Treasury's mechanism. HM Treasury changed its mechanism after a review by the Government Actuary and public consultation. A further update will be provided to Committee as SAB considerations progress.
- 5.7 The end-of-year accounting exercise for employers with year-end 31<sup>st</sup> July 2023 was completed and relevant disclosures provided by the Fund Actuary.
- 5.8 The Fund's Annual General Meeting has been scheduled for Wednesday 15<sup>th</sup> November 2023 and production of the Fund's Annual Report is underway.
- 5.9 Further to the support provided by the Fund's Employer Communication Forum which met in July 2023, a programme of work is continuing to ensure on-going effective communication, for example, the trial of a new starter process and self-help videos being developed for inclusion on the Fund website to support scheme

members with key activities such as ‘understanding your Annual Benefits Statement’.

- 5.10 The Fund’s McCloud Working Group continues to progress the necessary work on Employer data collection and sign-off. The resource impact required to deliver this retrospective exercise and maintaining usual activity is being closely monitored, with targeted implementation training arranged for the whole team during October 2023. Whilst a successful recruitment exercise was finalised earlier in the year, the Rhondda Cynon Taf Fund continues to monitor its resources as a result of this significant project.
- 5.11 Member Self-Serve (MSS) continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members are shown below (as at August 2023).

|            | <u>Member Numbers</u> | <u>MSS Registrations</u> | <u>Current Percentage Take-up</u> | <u>Percentage Reported Previously</u> |
|------------|-----------------------|--------------------------|-----------------------------------|---------------------------------------|
| Actives    | 24,907                | 11,664                   | 46.83%                            | 48.40%                                |
| Deferred   | 29,961                | 11,458                   | 38.25%                            | 37.92%                                |
| Pensioners | 19,146                | 6,301                    | 32.92%                            | 31.94%                                |
| Dependants | 3,078                 | 197                      | 6.41%                             | 6.39%                                 |

- 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 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.
- 5.14 Following the actuarial Fund Valuation exercise, cashflow projections have been prepared to provide indicative funding maturity levels over the next 10 years.
- 5.15 The Fund has responded to the consultation on Pooling (Local Government Pension Scheme (England and Wales): Next steps on investments) setting out the views of the Fund, this being alongside the response provided by the Wales Pension Partnership.

## **6.0 PENSION BOARD**

- 6.1 The Pension Board last met on a hybrid basis on 1<sup>st</sup> August 2023, with the next meeting scheduled for the 26<sup>th</sup> October 2023.

- 6.2 There were no formal items raised by the Pension Board requiring feedback to Committee.
- 6.3 Pension Board Members have continued to support their skills and knowledge requirements through attendance at relevant events. More recently this has included supporting Fund compliance through attendance at the Scheme Advisory Board's 'Cost Transparency' event in September 2023.

## **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 the position 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 April to June 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.

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