

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2023-24

**PENSION FUND COMMITTEE
12TH DECEMBER 2023**

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

AGENDA ITEM NO. 4
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 27th November 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 September 2023.

- 4.2 During the quarter ended 30th September 2023, the overall value of the Fund decreased from £4,263 million to £4,235 million.
- 4.3 A summary of performance relative to the Fund specific benchmark is shown below:

Total Portfolio

	2020	2021				2022				2023			3yr
Quarter	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
Fund	9.5	1.6	5.4	0.3	1.6	-6.5	-8.9	-2.7	2.6	3.4	0.3	-0.3	1.7
B'mark	6.5	1.1	5.1	0.7	4.2	-3.2	-6.8	-2.8	3.5	3.5	0.9	0.8	4.3
Relative	3.0	0.5	0.3	-0.4	-2.6	-3.3	-2.1	0.1	-0.9	-0.1	-0.6	-1.1	-2.6

- 4.4 As shown, the rolling 3-year performance of the Fund is 1.7% positive as compared to a benchmark of 4.3%. For the last quarter (i.e. quarter 3), Global Opportunities high alpha equity portfolio and UK Credit portfolio outperformed their benchmarks; Baillie Gifford Traditional Equity, Global Growth high alpha equity portfolio, Global Active Sustainable Equity portfolio and CBRE Property under-performed their benchmarks; and BlackRock Passive Global Equity (low carbon), BlackRock Passive UK Gilts and BlackRock Global Infrastructure Solutions performed in line with their benchmark.
- 4.5 The 27th November 2023 Panel meeting included a review of fund managers' performance. Presentations were received from Fidelity Investments (the manager of the WPP UK Credit Fund) and Russell Investments (the manager of the Sustainable Equity Fund).
- 4.6 The asset allocation of the Fund, by Fund Manager and mandate as at 30th September 2023 (which includes cash), is shown in the table below:

Baillie Gifford Traditional	Global Equities	15%
Link – Global Opportunities Fund	Global High Alpha Equities	10%
Link – Global Growth Fund	Global High Alpha Equities	37%
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%
Capital Dynamics	Local Investment	0%
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%

- 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 The Pension Fund is progressing the investment into Blackrock GIS4 Infrastructure Fund. Capital contributions to date total €40.438 million.
- 4.10 The Pension Fund is committing £70 million to the closed ended infrastructure first vintage launched by the WPP. Capital contributions to date total £8.612 million.
- 4.11 A £10 million commitment into a local impact opportunity was agreed in the form of a wind farm investment. Capital drawdowns to date totals £2.557 million.
- 4.12 Given the current decline in gilt and bond prices, the Panel agreed to increase the bond allocation in line with the Fund's current strategy. The increase was 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 took place during October 2023. At the end of October the equity exposure had been reduced to 63%.
- 4.13 The necessary due diligence was completed for the Pension Fund to make a commitment of \$75 million into the BlackRock Renewable Power IV product. The first close was 21st October 2023.

5.0 ADMINISTRATION UPDATE

- 5.1 The Pension Fund 'Annual General Meeting' was successfully facilitated on 15th November, with attendees from Pension Committee, Pension Board and 24 Fund Employers. Production of the Fund's 2022/23 Annual Report was concluded following the approval of the audited accounts at Council on 29th November and was published prior to the statutory deadline. The report reflects the significant activity and support provided on behalf of our stakeholders over the year, a copy can be found on the Pension Fund website:

<https://www.rctpensions.org.uk/EN/GovernanceAndInvestment/AnnualReports.aspx>

- 5.2 The Pensions Regulator (TPR) is expected to publish their new General Code of Practice imminently. The new consolidated code will set out new governance standards for occupational 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. The TPR 'Annual Scheme Return' notice has recently been received by the Fund, with activity underway to respond prior to the submission deadline of the 25th January 2024.
- 5.3 The Pensions Dashboard Programme (PDP) is consulting relevant industry parties on proposed staging dates and it is anticipated that the revised public sector scheme staging will be published in Spring 2024. Legislation will be updated to set an overall connection deadline for all schemes by 31st October 2026. In preparation, the Local government Association (LGA) have recently published 'Pensions Dashboards connection guide for LGPS administering authorities'.
- 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 01st October 2023. The Fund's McCloud working group continue to make good progress in respect of Employer data collection and sign-off, with updates made to members records as necessary. Since the implementation date, a small number of cases have already been impacted by the remedy underpin. The Local Government Association (LGA) are supporting implementation by publishing technical guides, member communications and a McCloud factsheet. A Member Newsletter is being developed on an 'All Wales' collaborative basis.
- 5.5 On 22 November 2023, the Department for Levelling Up, Housing and Communities (DLUHC) published its response to the recent consultation on investment reforms. The response largely adopts the measures the Government originally consulted on.
- 5.6 HM Treasury's valuation cycle for all public sector schemes is currently underway, and the outcome of the valuations are expected to be confirmed later this year via the publication of each scheme's valuation report. The LGPS Scheme Advisory Board (SAB) are currently in the process of setting its own cost control mechanism and the assumptions on which this process is based are currently being agreed.
- 5.7 On 18th October 2023, the Office for National Statistics announced the Consumer Prices Index (CPI) rate of inflation for September 2023 as 6.7%. Government policy in recent periods has been to base increases for next year on the rate of CPI in September of the previous year. The LGPS Pension Increase is formally confirmed by HM Treasury in January and paid from the first Monday of each new tax year.

- 5.8 Following the Triennial Valuation exercise, and with support from the Fund Actuary, a review has been undertaken to update where necessary:
- i. Fund cashflow projections providing indicative funding maturity levels over the next 10 years;
 - ii. the valuation basis and discretionary procedure in respect of Employer 'exit credits'; and
 - iii. pension strain factors associated with early retirement as a result of either redundancy or business efficiency.
- 5.9 The Annual Allowance 2022/23 pension taxation statement exercise has commenced, with scheme pay arrangements accommodated where appropriate. HM Treasury announced in the Autumn Statement on 22nd November 2023 that it will legislate in the Finance Bill 2023 to fully abolish the lifetime allowance (LTA) from 6th April 2024.
- 5.10 Member Self-Serve (MSS) continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members are shown below (as at November 2023).

	Member Numbers	MSS Registrations	Current Percentage Take-up	Percentage Reported Previously
Actives	24,728	12,502	50.56%	46.83%
Deferred	29,969	12,028	40.13%	38.25%
Pensioners	19,380	6,548	33.79%	32.92%
Dependants	3,104	213	6.86%	6.41%

- 5.11 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, with high levels of activity and a focus on team development continues.
- 5.12 The number of 'Internal Dispute Resolution Procedure' Appeals in progress continues to be extremely low, with no obvious trends or concerns to report.
- 5.13 The cyclical annual life certification exercise for overseas pensioners, which was successfully introduced last year, has commenced.

6.0 PENSION BOARD

- 6.1 The Pension Board last met on a hybrid basis on 26th October 2023. The Chair referenced the resignation of the Scheme Member Representative and acknowledged their positive contribution over the term. The recruitment process to appoint a suitable replacement is underway.

- 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.

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 July to September 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.
