

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2016-2017

PENSION FUND COMMITTEE

25TH APRIL 2017

**REPORT OF: THE GROUP DIRECTOR,
CORPORATE AND FRONTLINE
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 Group Director Corporate 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 Group Director Corporate 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 10th March 2017.

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 2016.
- 4.2 During the quarter ended 31st December 2016, the overall value of the Fund increased from £2,789 million to £2,835 million.
- 4.3 A summary of performance relative to the Fund specific benchmark is shown below.

Total Portfolio

	2014				2015				2016				3yr
Quarter	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Fund	1.8	1.4	1.9	4.5	6.7	-3.2	-2.3	6.0	1.4	5.3	7.9	1.8	11.3
B'mark	0.8	2.1	2.2	3.5	5.5	-3.6	-3.4	4.6	2.4	6.5	6.8	3.2	10.3
Relative	0.9	-0.7	-0.2	1.0	1.1	0.4	1.2	1.3	-1.0	-1.1	1.1	-1.3	0.9

4.4 As shown, the rolling 3 year performance of the fund is 0.9% positive as compared to benchmark. For the last quarter, performance has been behind benchmark across 5 of the 7 mandates held, with the Blackrock UK Equity mandate and the BMO Global Bond mandate being ahead of benchmark.

4.5 The Advisory Panel meets with Fund Managers on a cyclical basis and at the March meeting met with Baillie Gifford and Newton, the Fund's two Global Equity managers. The key issues reported with the mandates were:

Baillie Gifford – High Alpha

- The value of the portfolio increased from £489.1 million at 31st December 2015 to £612.6 million at 31st December 2016;
- The total return delivered by the portfolio over the quarter to December 2016 was 4.2% against a benchmark of 6.5%;
- The 3 year return (to December 2016) remains positive at 14.8% against a benchmark of 14.3%;
- Since inception (October 2007) the portfolio return has been 10.6% against a benchmark of 8.6%, that is 2.0% positive. The target performance is to outperform the benchmark by 2 - 3%.

Baillie Gifford Equity (Core)

- The value of the portfolio increased from £504.9 million at the 31st December 2015 to £611.2 million at quarter end;
- The total return delivered by the portfolio over the quarter to December 2016 was 2.7% against a benchmark of 4.9%;
- The 3 year return (to December 2016) remains positive at 11.6% against a benchmark of 9.9%.
- Since inception (January 2006) the portfolio return has been 10.7% against a benchmark of 8.8%, that is 1.9% positive. The target is to outperform the benchmark by 1%.

Newton – High Alpha

- The value of the portfolio increased from £393.4 million at 31st December 2015 to £473.7 million at 31st December 2016;
- The total return delivered by the portfolio over the quarter to December 2016 was 2.4% against a benchmark of 6.5%;
- The 3 year return (to December 2016) is 13.8% against a benchmark of 14.3%;
- Since inception (July 2008) the portfolio return has been 9.6% against a benchmark of 11.0%, that is 1.4% negative. The target performance is to outperform the benchmark by 2 - 3%.

4.6 During the September quarter, CBRE breached their mandate maximum limit for a holding in a single fund of 10% whereby they held 10.3% of a long lease property fund. A letter was sent to CBRE's UK Head of Compliance with a response received on the 4th January 2017. The letter outlined the reason for the breach and provided assurances as to updated control processes being put in place. CBRE also requested consideration be given to amending their mandate to allow for a maximum exposure limit of 15% and to amend the performance objective given the current challenging environment for property returns. Following panel discussion, it was agreed that a 15% limit would be acceptable (and be reviewed at 31st March 2018) but that the performance target should remain at UK RPI plus 4.5%, but be considered over a rolling 5 year period from the current rolling 3 year period. The panel were also minded to consider changing from RPI to CPI and have requested the views of CBRE on the appropriateness of this.

4.7 Following the actuarial valuation, and in advance of the transition into the Wales Pool, the Panel has agreed to initiate a review of the Fund Investment Strategy and is in the process of seeking to engage appropriate support to undertake an Asset Liability Review, refreshing the previous one undertaken in 2013.

5.0 ADMINISTRATION ISSUES

5.1 The 2016 Valuation process has now been concluded and the formal Rates and Adjustment Certificate signed off the fund actuary on the 31st March 2017.

5.2 The key conclusions from the 2013 and 2016 valuations are shown in the 2 excerpts from the respective valuation reports below.

2013 Valuation

The key results from the previous valuation as at 31 March 2013 were:

The Fund's assets were £2,080.4M and the past service liabilities were £2,665.4M, which corresponded to a shortfall of £585.0M and a funding ratio of 78%.

The aggregate Employer future service contribution rate was 20.6% of Pensionable Pay.

2016 Valuation

The key results from this valuation are:

The Fund's assets were £2,485.4M and the past service liabilities were £3,064.4M which correspond to

- a shortfall of £579M and
- a funding ratio of 81%.

The cost to the Employers of future benefits building up is 17.1% of Pensionable Pay.

If the shortfall is removed over 22 years from 1 April 2017, the total aggregate Employer contributions needed would be equivalent to 24.3%* of Pensionable Pay until 31 March 2038, reverting to 17.1% of Pensionable Pay thereafter.

** if the membership remains broadly stable and pay increases in line with our assumptions.*

- 5.3 In line with the results of the valuation, the Fund considered a request from Welsh Government to amend the way in which the “closed” former WDA admitted body liabilities are treated, which would have the effect of reducing their contribution levels and allow them a longer period over which to fund the liability. Following a full consideration of legal advice received and the actuarial view, the Fund confirmed that it was not able to accede to Welsh Government’s request.
- 5.4 Progress continues to be made in dealing with GMP reconciliation requirements with high value liability items having been largely concluded. HMRC turnaround times and a second data cut in September/October 2017 remain the key risks to be noted.
- 5.5 The new ‘Investment Strategy Statement’ (replacing the Fund’s existing ‘Statement of Investment Principles’) has been prepared, having taken advice from the Actuary, and was issued for consultation with the Communication Forum representatives and the Pension Board. The Statement is being considered elsewhere on the agenda, and is available on the Fund Website.

- 5.6 Eight 'Key Performance Service Standards' are monitored by the panel. It was noted that during 2016/17 (to the end of January), two measures had not met the expected target, both of which relate to the provision of statements and not the payment of benefits.
- 5.7 The second phase of Member Self Service (MSS) was launched in December 2016, to deferred members. The table below shows the current registrations.

	<u>Member Numbers</u>	<u>MSS Registrations</u>	<u>% of Member Numbers</u>
Deferred	23,634	1,591	7%
Pensioners	17,276	1,764	10%
Dependants	2,783	84	3%

- 5.8 The number of 'Internal Dispute Resolution Procedure' Appeals in progress remains extremely low, with no obvious trends to report.

6.0 PENSION BOARD

- 6.1 The Pension Board met on the 9th February 2017.
- 6.2 There are no issues which the Board require to be brought to the attention of the Committee. The Board have requested further context on performance standards and this information has now been incorporated into the ongoing reporting arrangements.
- 6.3 An employer representative (Mr Gwyn Williams) has stepped down from the Board, due to the termination of his employment with the Police and Crime Commissioner for South Wales. Rhondda Cynon Taf County Borough Council, as the Administering Authority / Scheme Manager are currently in the process of recruiting a replacement Board Member.
- 6.4 The original tenure of the appointment of all Board Members was 2 years which expired at the 31st March 2017. The Council has extended the contracts of board members by a mix of 1 and 2 years to introduce a staggering of end dates to mitigate the risk of high levels of turnover.
- 6.5 Pension Board meeting agendas and minutes are published on the Fund website in accordance with the Pension Regulator's requirements.
- 6.6 The next Pension Board is scheduled for May 2017 (date to be confirmed).

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 An update on the All Wales Pool progress was provided. This also features elsewhere on this agenda.
- 7.4 As previously reported, AON have now been requested to undertake detailed modelling of future cashflows, post valuation, in order that a fully informed review of the Investment Strategy can be considered. The planned Investment Alignment Review will also have due regard to the Fund's cashflow position. In the interim, sterling cash balances and dividends received are being used as the source of funding short-term cash flow requirements.

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 Group Director Corporate and Frontline Services.

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