

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2017-2018

PENSION FUND COMMITTEE

24TH JULY 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 6th July 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 March 2017.
- 4.2 During the quarter ended 31st March 2017, the overall value of the Fund increased from £2,835 million to £2,983 million.
- 4.3 A summary of performance relative to the Fund specific benchmark is shown below.

Total Portfolio

	2014			2015				2016				2017	3yr
Quarter	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
Fund	1.4	1.9	4.5	6.7	-3.2	-2.3	6.0	1.4	5.3	7.9	1.8	5.1	12.5
B'mark	2.1	2.2	3.5	5.5	-3.6	-3.4	4.6	2.4	6.5	6.8	3.2	4.3	11.5
Relative	-0.7	-0.2	1.0	1.1	0.4	1.2	1.3	-1.0	-1.1	1.1	-1.3	0.8	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 ahead of benchmark in both of our equity mandates with Baillie Gifford and our Property mandate with CBRE. The mandates held by Newton, Invesco and Blackrock however all underperformed the benchmark. The BMO Global Bond mandate matched the benchmark and the passive portfolio tracked the benchmark, slightly outperforming.
- 4.5 The Advisory Panel meets with Fund Managers on a cyclical basis and at the July meeting met with BMO Global Asset Management, the Fund's Bond Manager. The key issues reported with the mandate were:

BMO Global Asset Management - Bonds

- The value of the bond portfolio increased from £531.1 million at 31st March 2016 to £572.6 million at 31st March 2017;
 - The total return delivered by the portfolio over the quarter to March 2017 was 1.7% which matched the benchmark;
 - The 3 year return (to March 2017) is 7.3% against a benchmark of 7.6%; the longer term 5 year return is 6.4% against a benchmark of 5.1%; the 10 year return is also slightly positive at 7.1% against a benchmark of 7.0%.
- 4.6 The Panel discussed at length the performance of Newton. Five consecutive quarters of underperformance have now seen the rolling 3 year performance fall to 1.1% below benchmark. The Panel agreed that it was now appropriate to escalate our concerns and that Newton should be requested to attend a meeting with panel members to provide clarity on their direction and management of the portfolio.
- 4.7 Performance of the Fund UK equity managers Invesco and Blackrock was also discussed. The correlation between the two portfolios was noted and this is something which we will consider further as part of the forthcoming investment strategy review.
- 4.8 The investment strategy review has now been fully scoped and will be initiated once the selection and appointment process of the All Wales operator has concluded.

4.9 The annual review of benchmarks and targets was presented and agreed.

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. All employers have been informed and checks are now in place to ensure new levels of contributions are being received. The Actuary have completed their review of bonds in place.

5.2 Good 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.

5.3 A Pension connection newsletter has been distributed and awareness sessions provided to new elected members eligible to join the scheme.

5.4 Compliance with Welsh language standards continues to be progressed and developed, including the website translation.

5.5 Membership of the Fund Communication Forum has been extended to encourage greater participation and feedback. The Forum met on the 28th June with higher numbers in attendance than previous meetings and with more positive engagement evident.

5.6 Eight 'Key Performance Service Standards' are monitored by the panel. It was noted that to the end of May 2017/18, two measures relating to payments were marginally behind the target of 95%, at 94.7% and 93.6%. The former relates to retirements from active membership processed within 5 days where 3 (out of 36) were processed outside of the target; and transfers out processed within 10 days where 2 (out of 18) were outside of the target.

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	24,016	2,597	10.81%
Pensioners	17,402	1,909	10.97%
Dependants	2,793	84	3.00%

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 16th June 2017.
- 6.2 There are no issues which the Board require to be brought to the attention of the Committee.
- 6.3 Following one employer representative (Mr Gwyn Williams) stepping 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 have now appointed Mr David Francis as a replacement employer representative. Mr Francis is employed by Coleg y Cymoedd.
- 6.4 Pension Board meeting agendas and minutes are published on the Fund website in accordance with the Pension Regulator's requirements.
- 6.5 The next Pension Board is scheduled for September 2017.

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 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. Initial discussions on a draft report have taken place with AON who will now need to update further to reflect the draft certified accounts in the analysis.

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.
