

Business Plan 2021/22



Introduction

Cardiff Council is the Administering Authority of the Cardiff & Vale of Glamorgan Pension Fund ('the Fund') which is part of the Local Government Pension Scheme (LGPS).

Strategic management of the Fund is delegated to the Pensions Committee and operational management is delegated to the Corporate Director Resources. Advice on investment matters is provided by the Investment Advisory Panel. The Local Pension Board assist the Council as Scheme Manager to secure compliance with the LGPS Regulations and to ensure the effective and efficient governance and administration of the scheme.

The Fund is administered in-house by the Pensions Section based in County Hall, Cardiff, using the Altair administration system provided and hosted by Aquila Heywood.

The Fund, along with the other seven LGPS Funds in Wales, is a member of the Wales Pension Partnership (WPP) which provides a pooled platform to address the investment requirements of the individual Welsh LGPS. The individual Funds set their strategic asset allocations with WPP sub-funds increasingly providing the products to deliver these allocations.

The purpose of this document is to set out a business plan for the Fund for the 2021/22 financial year in the context of the Fund's goals and objectives over the longer term.

Fund Objectives

The principle aim of the Fund is to provide pensions, effectively and efficiently, at the lowest cost to contributing employers. This requires the Fund to strike a balance between achieving the most from its investments and the need for prudence and caution in considering the future liability profile of the Fund.

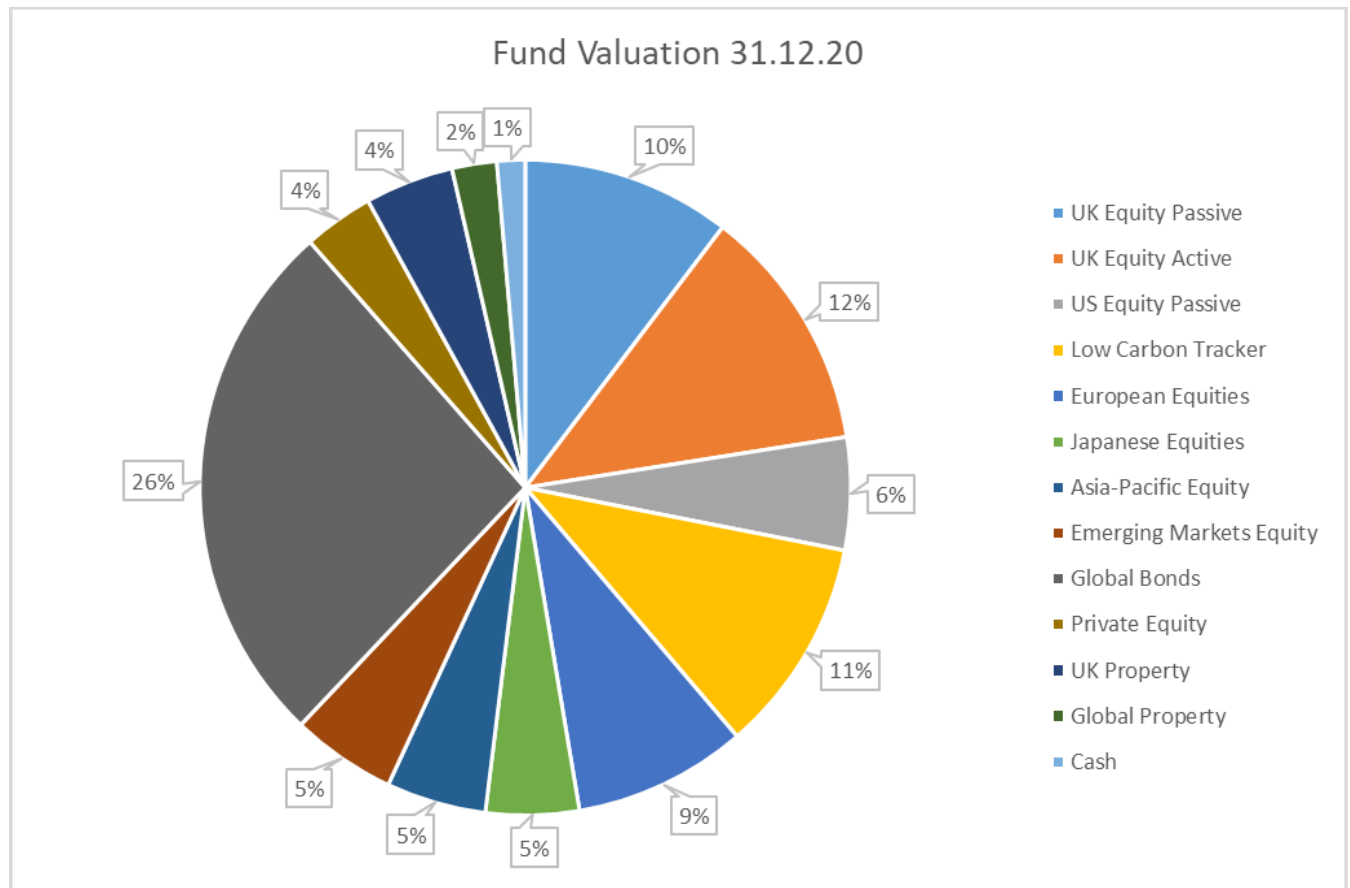
The Fund also aims:

- To continue to improve the administrative capability of the Fund's administration and investment services
- To improve performance in meeting set targets within pension administration
- To consider proactively the increased use of new technology and electronic communications
- To monitor regularly the resources allocated to meet the challenges of a changing pension environment
- To prepare the Fund's Annual Report and other statutory returns
- To monitor management and custody costs regularly
- Continue to prioritise workloads in line with TPR's COVID-19 guidance for Public Service Pension Schemes.

Fund Statistics

The Fund was valued at **£2,434 million** as at 31 December 2020.

The Asset Allocation of the Fund as at 31 December 2020 was:



Fund membership (as reported in the Fund's Annual Accounts) was:

| | 31/03/2018 | 31/03/2019 | 31/3/2020 | 31/03/2021 |
|-------------------------|---------------|---------------|---------------|---------------|
| Contributors | 16,128 | 16,193 | 17,699 | 16,818 |
| Pensioners | 11,128 | 11,554 | 11,945 | 12,163 |
| Deferred pensioners | 12,757 | 13,040 | 13,608 | 16,569 |
| Total membership | 40,013 | 40,787 | 43,252 | 45,550 |

Contributions and benefits in the current and previous 3 years were as follows:

| | 2017/18 (actual) £000s | 2018/19 (actual) £000s | 2019/20 (actual) £000s | 2020/21 (projected) £000s |
|--|---------------------------------------|---------------------------------------|---------------------------------------|--|
| Contributions Received | -85,946 | -91,219 | -98,297 | -91,763 |
| Retirement Pensions | 62,507 | 65,790 | 70,038 | 71,463 |
| Retirement Lump Sums | 12,713 | 15,351 | 16,183 | 10,527 |
| Death Grants | 1,543 | 2,783 | 2,983 | 2,413 |
| Refunded Contributions | 114 | 188 | 274 | 86 |
| Net Transfers (Transfers paid less transfers received) | 11,075 | -4,423 | -2,243 | 308 |
| Net Expenditure (Income) | 2,006 | -11,530 | -11,062 | -6,966 |

Volumes of key tasks in the current and previous 3 financial years:

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---------------------------|----------------|----------------|----------------|----------------|
| Retirement Estimates | 720 | 983 | 425 | 304 |
| Retirements | 598 | 765 | 748 | 496 |
| Refunds | 377 | 246 | 324 | 186 |
| Deferred | 506 | 690 | 600 | 465 |
| Transfer Out - Estimates | 113 | 204 | 581 | 331 |
| Transfer Out - Payments | 277 | 159 | 184 | 120 |
| Aggregation of membership | 38 | 218 | 205 | 202 |

Achievements 2020-21

In addition to processing higher volumes in most key task areas than in the previous year, as illustrated in the table above, during 2020/21 the Pensions Section:

- Delivered Annual Benefit Statements to over 100% of active and 87% of deferred members by the deadline of 31 August 2018
- Due to the COVID-19 outbreak, adapted working patterns to ensure continuation of the service to scheme members and participating employers.
- A robust IT exercise undertaken to enable all staff to be set up to homework.
- Communication to all employers directing them to the LGA website dedicated COVID-19 guidance; FAQs has and links to the TPR website.
- A COVID-19 update placed on the Cardiff & Vale of Glamorgan Fund website
- Encouraged the use of electronic communication
- Prioritised workloads in line with TPR's COVID-19 guidance
- Improved communications to reduce the risk of Pension Scams and support effective decision-making.
- Ensured any trustee decisions that needed to be made regarding GMP reconciliation, were submitted on time to Mercer (JLT), to meet HMRC deadlines for final data cuts.

- Finalised development of Member Self Service portal on the Cardiff and Vale Pension Fund website. Started roll out to Employers in March 2021, giving all members pension access 24/7 every day of the year
- Presented a Retirement Seminar to over 30 people at WCVA over Teams. Presentation was recorded and circulated to all staff
- Contact with Employers and Stakeholders was maintained via MS Teams, with Pension Committee, Pension Board, Employer Forum and Retirement seminars continuing as normal
- Following the Fund's first investment in a WPP Sub-Fund, the UK Opportunities Equity sub-fund early in 2020, the Fund transferred its Global Bond holding with a value of c£620m to 3 WPP Fixed Income sub-funds commencing in July 2020.
- February 2020 saw the Fund invest c10% of the Fund value into the BlackRock Low Carbon Global Equity Fund.
- Following the retirement of their last active member the Public Services Ombudsman for Wales exited the scheme.
- A number of new organisation joined the Fund as Admitted Bodies mainly as a result of small outsourcing contracts from schools in Cardiff and the Vale of Glamorgan.

Work Priorities 2021-22

The Pension Fund faces a number of challenges over the next twelve months.

Investments and the Wales Pensions Partnership

The review of 2020/21 highlighted the switch of some of the Fund's assets into WPP sub-funds and this process will continue in 2021/22. Following the approval of the recommendation by the Pensions Committee at the November 2020 meeting the process to terminate the Fund's existing Regional Equity holding and to transfer into the WPP Global Equity sub-funds has commenced. This transfer, which has a value of over £650m, is anticipated to be completed during Q1 of 2021/22.

The February 2021 Pension Committee meeting approved the transfer of the passive UK Equity holding into the Low Carbon Fund with both of these holdings being managed for the Fund by BlackRock. This transfer will be undertaken at the same time as the Global Equity transfer referred to above and has a value of c£250m. Once this transfer is completed approximately 20% of the Fund value will be held in this Fund Work is advancing on a WPP Emerging Market (EM) sub-fund, which is currently targeted to launch in the autumn of 2021, although any transfer to this sub-fund is still subject to Pension Committee approval. EM Equity is the last remaining listed asset class that has not yet commenced the transfer to WPP sub-funds.

WPP thoughts are now turning to unlisted asset classes and to assist this development a WPP Officer Private Markets working group has commenced work in this area. Phase 1 focus for this group is to develop pooled solutions for Private Debt and Infrastructure asset classes with Property and Private Equity products to be developed in later phases.

Fund Officers and Members will continue to contribute to the further development of governance and reporting processes for the WPP including the future development of a Responsible Investment Policy and identifying the training opportunities needed to support the successful integration of responsible investment into the Investment

products offered by the WPP. The Fund will further develop proposals for responsible investment in response to concerns about climate change risk and other environmental, social and governance (ESG) issues. This will include a review of the Fund's Climate Change Investment Policy.

Triennial Valuation

The next independent actuarial valuation, as at 31 March 2022 will commence during 2022/23. The valuation, which is undertaken every 3 years reviews the Fund's assets and liabilities and will be used to determine the rate of employer contributions for the three financial years commencing in 2023/24.

In line with the Fund's principal objectives, the aim of the valuation will be to set contribution rates which balance the obligations of the administering authority to ensure the long term solvency of the Fund with the aim to reduce or at least minimise fluctuations in employers contributions over the medium term.

Communications & Training

Training naturally took a backseat during the first six months of 2020, as many face to face training sessions were cancelled and we adjusted processes and ways of working to ensure we provided a seamless business as usual. During the second half of 2020 staff attended virtual training via Teams, especially wellbeing courses to ensure everyone was looking after themselves while working from home.

Objectives for 2021/22 include:

- Develop personal training plans for each member of the Team and encourage working towards recognised qualifications where appropriate
- Encourage Pension Board members to attend all relevant training courses throughout the year to help increase and maintain pension knowledge
- Restart a programme of regular visits and training to all Fund Employers as soon as it is safe to do so. If necessary the provision of on-line training could be considered as an alternative
- Promote the Employer and Trade Union Forum annual meetings with the aim to increase attendance and participation by stakeholders

Digitalisation

The Cardiff and Vale Pension Fund installed the iConnect system approximately two tax years ago, which this has helped enormously with the collation of accurate pension information through a monthly interface between the Employer payroll systems and Altair. Details of Fund members pensionable pay and contributions are transferred into Altair on a monthly basis instead of the previous annual basis, giving real time figures for all members.

Member Self-Service module of Altair was developed and tested during 2020/21 and we started a slow roll out in March 2021. We hope roll out will be complete by Autumn 2021. This will give all active members, pensioners and deferred members access to their pension information 24/7, 365 days a year. They will be able to update personal details such as addresses, and also calculate their pension, changing their retirement date as many times as they want and altering the amount of tax free cash they will want to take.

The information is added to people's accounts on a monthly basis via iConnect which give a real time accurate pension figures for all members.

Reconciliation of Contracted out Liabilities

The Fund is awaiting the final results of the GMP Reconciliation exercise, which has been undertaken by Mercer (JLT). Records will be subject to redress in accordance with the data obtained from HMRC. Records will need updating and adjustments made. A robust member communication exercise will be required.

AON Over/Under Payment Project

Continue to work closely with Aon reconciling the Pension Payroll system with the Pension Administration system, addressing any over and under payments with a difference of £2.00 or more.

McCloud

On 16th July 2020, MHCLG published a consultation on the proposed remedy, which ended on 8th October 2020. The intention is for legislation to be in place for 2022/23.

In brief, the consultation proposed that the revised underpin should be applied retrospectively for leavers / retirements and that the revised underpin protection will cease in respect of membership after 31st March 2022, however, final salary protection will continue after this date for benefits accrued before this date.

A full history of part time hour changes and service break information from 1 April 2014 will be needed for all qualifying members, even those that have left the scheme on or after 1st April 2014(deferred & pensioner). Records will need to be updated before the scheme regulations are amended

Committed to a review of the impact of McCloud and carry out a review of the overall resources required to implement the required reforms and regulations. Work closely with Aon to assess if any additional third party support is also required.

Resources

In view of the additional resource pressure the above challenges are expected to place on the Administration section a review has commenced to review the additional workloads expected. This review is expected to be completed in Q1 of 2021/22 and will allow a comparison with the available resources to identify if there are potential gaps in service provision. Although this exercise is expected to be primarily focussed on internal resources the use of external resources to plug any gaps identified will also be considered especially in the short term.

Key Performance Indicators

The Administration Section has the following target response times for key tasks. Performance data is captured and reported by the Altair system.

| Task | Target Response Time |
|---|----------------------|
| Transfer in quote | 10 working days |
| Transfer out quote | 10 working days |
| Deferred benefit statement | 30 working days |
| Death Acknowledgement | 5 working days |
| Death Benefits sent | 10 working days |
| Actual Retirements - note of provisional benefits | 15 working days |
| Actual Retirements - calculation of actual benefits | 15 working days |
| Estimate of pension benefits | 15 working days |

Fund Budget for 2021/22

Pension Fund expenditure and income is difficult to forecast in the short term as benefit payments are demand-led whilst investment income and changes in asset values are largely driven by market responses to economic and political factors. A summary budget is shown below.

Benefit Payments and Administration Expenses are anticipated to be matched by contributions received whilst expenses of governance and investment management are expected to be covered by investment income. Growth in investment asset values is projected in line with the actuaries' market assumptions and will be monitored closely throughout the year. Any surplus cash will be invested in line with the Fund's Investment Strategy Statement.

| | | £000 | £000 |
|-----------------------------------|---------------------------------------|----------|------------------|
| CONTRIBUTIONS AND BENEFITS | | | |
| Income: | Contributions Receivable | | |
| | <i>Employers</i> | (76,500) | |
| | <i>Employees</i> | (19,600) | |
| | | | (96,100) |
| Expenditure: | Benefits Payable | | |
| | <i>Pensions</i> | 71,800 | |
| | <i>Lump Sums</i> | 23,100 | |
| | | | 94,900 |
| | Administration Expenses | | |
| | <i>Staff Costs</i> | 650 | |
| | <i>Other Costs</i> | 550 | |
| | | | 1,200 |
| | | | |
| INVESTMENTS | | | |
| Income: | Investment Income | (27,710) | |
| | Change in Market Value of Investments | (76,100) | |
| | | | (103,810) |
| Expenditure: | Manager Fees | 12,170 | |
| | Custody & Other Costs | 200 | |
| | | | 12,370 |
| | | | |
| GOVERNANCE | | | |
| Expenditure: | Pension Committee & Panel | 60 | |
| | Local Pension Board | 10 | |
| | Wales Pension Partnership | 110 | |
| | Staff Costs | 100 | |
| | Accountancy & Internal Audit | 120 | |
| | External Audit Fee | 40 | |
| | | | 440 |
| | | | |
| NET SURPLUS | | | (91,000) |
| | | | |
| TOTAL ASSETS | 31/12/2020 | | 2,434,000 |
| | Projected 31/03/2022 | | 2,525,000 |