

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 2023/24 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:

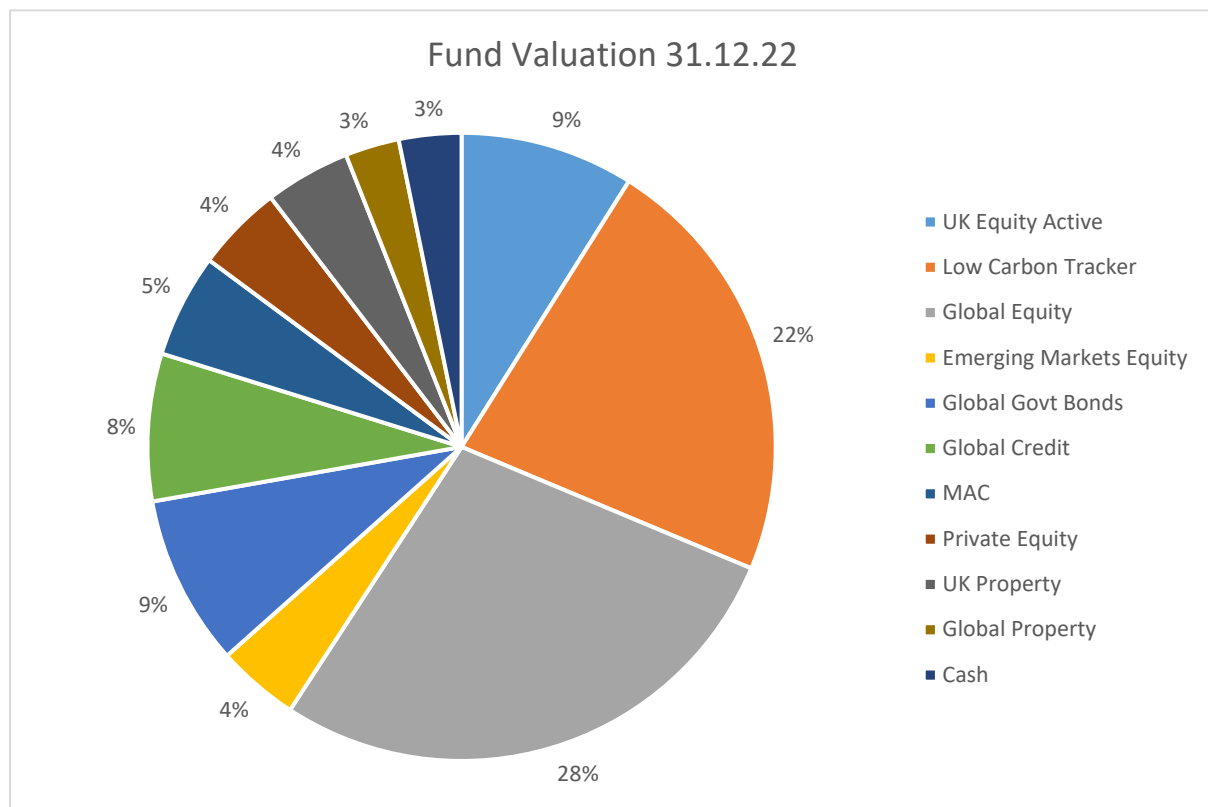
- To continue to improve the administrative capability of the Fund's administration and investment services
- To improve performance in meeting set targets within pension administration
- To consider proactively the increased use of new technology and electronic communications
- To monitor regularly 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
- To identify investment opportunities which do not conflict with the Fund's fiduciary duties to seek an optimum return whilst at the same time takes

account of Social, Environmental and Governance (ESG) concerns and issues. It recognises the concerns of the Council and other stakeholders regarding climate change and has and will continue to develop its investment strategy in response to those specific concerns and wider ESG issues.

Fund Statistics

The Fund was valued at **£2,559 million** as at 31 December 2022.

The Asset Allocation of the Fund as at 31 December 2022 was:



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

	31/3/2020	31/03/2021	31/03/2022	31/03/2023(tbc)
Contributors	17,699	16,936	16,876	17,557
Pensioners	11,945	12,190	12,515	12,861
Deferred pensioners	13,608	13,755	17,430	19,348
Total membership	43,252	42,881	46,821	49,766

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

	2019/20 (actual) £000s	2020/21 (actual) £000s	2021/22 (actual) £000s	2022/23 (projected) £000s
Contributions Received	-98,297	-91,058	-100,065	
Retirement Pensions	70,038	71,463	72,694	
Retirement Lump Sums	16,183	10,528	12,006	
Death Grants	2,983	2,413	2,739	
Refunded Contributions	274	86	135	
Net Transfers (Transfers paid less transfers received)	-2,243	307	453	
Net Expenditure (Income)	-11,062	-6,261	-12,038	

Volumes of key tasks in the current and previous 4 financial years:

	2018/19	2019/20	2020/21	2021/22	2022/23
Retirement Estimates	983	425	304	385	468
Retirements	765	748	496	658	692
Refunds	246	324	186	121	201
Deferred	690	600	465	554	685
Transfer Out - Estimates	204	581	331	157	167
Transfer Out - Payments	159	184	120	202	342
Aggregation of membership	218	205	202	222	79

Achievements 2022-23

In addition to processing higher volumes in most key task areas than in the previous year, as illustrated in the table above, during 2022/23 the Pensions Section:

- Delivered Annual Benefit Statements to 96.7% of active and 82.8% of deferred members by the deadline of 31 August 2022.
- Continued to adapt working patterns to hybrid working to ensure continuation of the service to scheme members and participating employers.
- Further work with ICT has continued during 2022/23 to support hybrid working e.g. the Pension section was the first area of the Council to introduce “soft” phones to allow phone calls to be accessed via staff laptops.
- Continued to encourage the use of electronic communication within the Pensions Team and with Stakeholders. This increase has helped to deliver a quicker and more efficient service, improving the significant increase in correspondence using this channel.

- Ensured any Fund decisions that needed to be made regarding GMP reconciliation, were submitted on time to Mercer (JLT), to meet HMRC deadlines for final data cuts
- Continued to promote the use of Member Self Service for Active members, giving these Active members pension access 24/7 every day of the year.
- Contact with Employers and Stakeholders such as Pension Committee, Pension Board, Investment Panel and Employer Forum was split between electronic communication and face to face communication as the year progressed.
- The Fund renewed its Pledge to combat Pension Scams which shows the Fund's intent to protect our members. It tells our members and the pensions industry that we are committed to stopping scammers in their tracks.
- Introduced more stringent checking for transfers out following guidance from The Pensions Regulator
- Ongoing recruitment process to fill vacant posts, including using Cardiff Works agency staff to cover the vacancies. Created an additional temporary senior role to assist with specialist project work such as McCloud.
- A number of new organisation joined the Fund as Admitted Bodies mainly as a result of small outsourcing contracts in Cardiff and the Vale of Glamorgan.
- Following the extensive transitions to WPP sub-funds for the Fund's listed assets that took place during 2021/22 the WPP focus turned towards creating Private Market sub-funds. Although the sub-funds were not launched in 2022/23 Managers have been appointed for the WPP's Private Credit, Infrastructure (Open and Closed ended) and Private Equity sub-funds. The Pension Committee approved investing in these Funds with the Open Ended Fund being the initial choice for the Infrastructure investment.
- All of the Fund's listed assets remain in either WPP sub-funds or the pooled procurement passive equity fund provided by BlackRock with c85% of the Fund's value in these pooled funds.
- The multi-manager line-up for the WPP Sustainable Equity Fund has been finalised although the target launch for this sub-fund has slipped from Late March to late May 2023.
- The procurement process for both the WPP Operator and Property sub-fund Manager commenced with Market Engagement days held in Cardiff during March 2023.
- The Pension Committee at its meeting in February 2023 agreed that work should commence in developing a Net Zero Target for the Fund.
- In February 2023 the WPP was notified that it had been successful in its re-application to remain a signatory to the FCA Stewardship code
- The independent actuarial triennial valuation, as at 31 March 2022 was completed during 2022/23. The valuation, which is undertaken every 3 years, saw a small increase in the Funding level to 98%, compared to the 96% reported for the 2019 valuation. This increase was achieved in spite of the inclusion of more prudent assumptions - probability of funding success, recovery period, short term inflation provision – compared to the equivalent positions in the 2019 Valuation. Employers were informed of their contributions for 2023/24 and the two subsequent financial years in December 2022 in advance of the Employers Forum. Key Fund documents the Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) were also updated in parallel with the Valuation process and approved by the Pension Committee in February 2023.

Work Priorities 2023-24

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

Investments and the Wales Pensions Partnership

Following the appointment of the Allocators / Managers for the WPP Private Market sub-funds the launch of the Private Credit and Infrastructure Funds are expected to take place early in 2023/24. The Fund will be investing in the Private Credit and Open-ended Infrastructure Funds.

The target launch of the WPP Sustainable Equity Sub-Fund is the end of May 2023, having slipped from March 2023. This sub-fund has the same targets and benchmarks as the existing WPP Global Equity Sub-Funds and the investment in this sub-fund will be funded by a reduction in the two current global equity sub-funds.

A launch date has still to be confirmed for the WPP Private Equity sub-fund but this sub-fund is expected to launch during 2023/24.

Investments in the WPP sub-funds listed above will further enhance the diversity of the Fund's investment mix.

WPP and Constituent Authority officers, including representatives from this Fund, will continue to progress the procurements of the WPP Operator as well as the Manager(s) for the new WPP Property sub-fund.

Fund Officers and Members will continue to further develop proposals for responsible investment in response to concerns about climate change risk and other environmental, social and governance (ESG) issues raised by the Fund's stakeholders. Following the recommendation from the February 2023 Pension Committee meeting Fund officers will undertake further work in taking forward the proposal that the Fund sets its own Net Zero target.

Communications & Training

During 2022 – 23 face to face training did resume, but the majority remained online. Feedback indicates the Pension Team and Board members, are happy with the majority of training. However, it does not replace the face to face training where it is easier to ask questions and have discussions with other attendees. Some training sessions are very long, with 5-6 hours of training, which makes it difficult to maintain the same level of focus.

- The pensions team has resumed external training and a 6 members of the Team attended the Insight Course provided by LGA
- The Local Pension Board also attended a number of external training courses this year.

Objectives for 2023/24 include:

- Encourage team members to work towards recognised qualifications where appropriate.

- Encourage Pension Board and Pension Committee 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
- Restart a programme of in-house training for Pension Committee members around existing Pension Committee dates.

Digitalisation

The majority of Employers are now submitting their information via i-connect. We currently have two employers who are still struggling to link their payroll systems/information to i-connect. We are working closely with these two Employers to help them to connect as soon as possible.

We completed the roll out of Member Self Service (MSS) in December 2021 to all Employers who are using i-connect to submit their pension information. We have had a lot of positive feedback from active members using MSS. The next step is to roll out MSS to all deferred pension members, however, before we can start this process we will need to clear the back log of deferred calculations. We are currently in the process of recruiting more staff which will help with the increased workload within the team. We will also need to adopt Altair Pensioner Payroll before we can look to roll out MSS to Pensioner members.

Reconciliation of Contracted out Liabilities

The reconciliation phase of the GMP project was completed by Mercer in October. However, it was agreed to complete the final rectification calculations following the April 22 Pensions Increase as there was not sufficient time to complete all the tasks without introducing higher risk. Prior to Pensions Increase we worked with Mercer to agree the Benefit Specification. Mercer have now been provided with up-to-date post pensions increase data for them to carry out the final phase of the project. We are expecting the final reports of all members who have been under/overpaid by July/August 22.

This is still ongoing due to Mercer were experiencing challenges in delivering to previously agreed timescales. Mercer were not able to deliver the Fund's Rectification results ahead of the implementation of Pensions Increase in April 2023. A revised timeline was discussed, and it was agreed a new set of data would be sent to Mercer in April, after the pensions increase has been applied.

However, Mercer have now changed the data specifications so the Fund have been liaising with the software provider to see if they can assist to move the project forward and conclude the final rectifications during 23/24.

McCloud

The Government is expected to lay LGPS regulations before the summer recess, paving the way for the remedy to be implemented in LGPS. The regulations are expected to come into force on 01 October 2023.

Reminders have been sent to those employers who have not yet returned their data. Initial activity in 2022/23 has concentrated on uploading data for smaller employers, before moving on to the larger employers. This is a manual process in order to ensure previous data where adjustments have been made due to the nature of employment is not overwritten.

Resources

Following the review of additional workloads undertaken during 2021/22 a requirement for 6 additional posts was identified and progress in filling these posts was outlined in the 2021/22 Achievements section. The on-going nature of the recruitment process was highlighted with a second and third unsuccessful round for the recruitment process taking place during 2022/23. In light of the difficulties encountered in recruiting the provision of £250,000 for the use of external resources which was included in the 2022/23 Business Plan has been increased to £300,00 in this Business Plan to support the additional work required for the potential setting of a Net Zero target for the Fund. The provision will also be used, if required, to assist internal resources in meeting future challenges for the Pension Fund in delivering some of the work priorities identified for 2023/24 including McCloud, Pension Dashboards, the Single Code of Practice, the Good Governance review and TCFD reporting requirements.

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 2023/24

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.

At a strategic, high level 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 with reports to Investment Panel, Pension Board and Pension Committee. 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>	(81,700)	
	<i>Employees</i>	(24,600)	
			(106,300)
Expenditure:	Benefits Payable		
	<i>Pensions</i>	82,400	
	<i>Lump Sums</i>	19,200	
			101,600
	Administration Expenses		
	<i>Staff Costs</i>	1,000	
	<i>Other Costs</i>	500	
	<i>Third Party Advice</i>	300	
			1,800
			(2,900)
INVESTMENTS			
Income:	Investment Income	(25,500)	
	Change in Market Value of Investments	(147,300)	
			(172,800)
Expenditure:	Manager Fees	6,400	
	Custody & Other Costs	250	
			6,650
GOVERNANCE			
Expenditure:	Pension Committee & Panel	80	
	Local Pension Board	40	
	Wales Pension Partnership	210	
	Staff Costs (non-admin)	100	
	Accountancy & Internal Audit	100	
	External Audit Fee	50	
			580
NET SURPLUS			(171,370)
TOTAL ASSETS	31/12/2022		2,559,000
	Projected 31/03/2024		2,730,370