



**CYNGOR BWRDEISTREF SIROL
RHONDDA CYNON TAF
COUNTY BOROUGH COUNCIL**

GWŶS I GYFARFOD O'R CYNGOR

C.Hanagan
Cyfarwyddwr Gwasanaeth y Gwasanaethau Democrataidd a Chyfathrebu
Cyngor Bwrdeistref Sirol Rhondda Cynon Taf
Y Pafiliynau
Parc Hen Lofa'r Cambrian
Cwm Clydach CF40 2XX

Dolen gyswllt: Sarah Daniel - Uwch Swyddog Gwasanaethau Democrataidd (01443 424103)

DYMA WŶS I CHI i gyfarfod rhithwir o **PWYLLGOR CRONFA BENSIYNAU** yn cael ei gynnal ar **DYDD LLUN, 14EG RHAGFYR, 2020** am **2.00 PM**.

AGENDA

Tudalennau

1. DATGAN BUDDIANT

Derbyn datganiadau o fuddiannau personol gan Aelodau, yn unol â gofynion y Cod Ymddygiad.

Nodwch:

1. Mae gofyn i Aelodau ddatgan rhif a phwnc yr agendwm mae eu buddiant yn ymwneud ag ef a mynegi natur y buddiant personol hwnnw; a
2. Lle bo Aelodau'n ymneilltuo o'r cyfarfod o ganlyniad i ddatgelu buddiant sy'n rhagfarnu, rhaid iddyn nhw roi gwybod i'r Cadeirydd pan fyddan nhw'n gadael.

2. COFNODION

Derbyn cofnodion cyfarfod blaenorol Pwyllgor y Gronfa Bensiwn a gynhaliwyd ar 13/10/2020

3 - 8

3. TRAFOD CADARNHAU'R CYNNIG ISOD YN BENDERFYNIAD

"Bod y cyfarfod hwn yn cadw aelodau o'r wasg ac aelodau o'r cyhoedd allan o ystafell y cyfarfod, dan Adran 100A(4) o Ddeddf Llywodraeth Leol (fel y'i diwygiwyd), yn ystod trafod yr agendwm nesaf, ar y sail y

byddai'n debygol o olygu datgelu gwybodaeth eithriedig yn ôl diffiniad paragraff 14 o Ran 4 o Atodlen 12A i'r Ddeddf."

4. DYSGU A DATBLYGU

Buddsoddi Cyfrifol - Derbyn cyflwyniad gan BlackRock ynghylch datblygiadau carbon isel

9 - 28

5. ADRODDIAD AR SWYDDOGAETHAU DIRPRWYEDIG

29 - 48

6. COFRESTR RISGIAU'R GRONFA BENSIWN - TROSOLWG O'R GOFRESTR RISGIAU

49 - 58

7. PARTNERIAETH PENSIYNAU CYMRU - Y DIWEDDARAF

59 - 60

8. DATGANIAD O GYFRIFON Y GRONFA BENSIWN A BARN YR ARCHWILWYR 2019/20

61 - 108

9. MATERION BRYD

Trafod unrhyw faterion bryd y mae'r Cadeirydd yn eu gweld yn briodol.

Cyfarwyddwr Gwasanaeth y Gwasanaethau Democraidd a Chyfathrebu

Cylchreliad:-

Cadeirydd ac Is-gadeirydd:

(Y Cynghorydd M Norris a Y Cynghorydd M Griffiths)

Y Cynghorwyr Bwrdeistref Sirol: Y Cynghorydd G Caple, Y Cynghorydd E Webster and Y Cynghorydd M Powell

RHONDDA CYNON TAF COUNCIL PENSION FUND COMMITTEE

Minutes of the Pension Fund Committee meeting held virtually on Tuesday, 13 October 2020 at 2.00 pm.

County Borough Councillors - Pension Fund Committee Members in attendance:-

Cllr Mark Norris – Chairman
Cllr Margaret Griffiths
Cllr Emyr Webster
Cllr Gareth Caple

Officers in attendance

Barrie Davies – Director Finance and Digital Services
Paul Griffiths – Service Director Finance and Improvement Services
Ian Traylor – Service Director Pensions, Procurement and Transactional Services
Gareth Roberts – Baillie Gifford
Tim Gooding - Baillie Gifford
John Simmonds – CEM Benchmarking
David Jennings – CEM Benchmarking
Joao Barata – CEM Benchmarking
Sarah Daniel – Senior Democratic Services Officer

8 Declaration of Interest

In accordance with the Council's Code of Conduct, there were no declarations made pertaining to the agenda.

9 Apologies

An apology of absence was received from County Borough Councillor M. Powell.

10 Minutes

It was **RESOLVED** to approve the minutes of the 14 July 2020 as an accurate reflection of the meeting.

10 Learning and Development

The Chair welcomed Gareth Roberts and Tim Gooding from Baillie Gifford who were in attendance to provide Members with a presentation on the Global Alpha Paris Aligned product.

Tim Gooding thanked members for the opportunity to attend the meeting and indicated that the Global Alpha Paris Aligned product was also being presented to three other Pension Fund Committees in Wales for consideration.

A Member sought clarity on the carbon impact of electric vehicles due to the resources required in their manufacture and whether the strategy of a better public transport infrastructure should be the way forward.

Tim Gooding fed back that future projections of vehicle ownership is forecasting that fewer people will own vehicles and also an overall reduction in the number of vehicles on the road. The representative added that this projection, together with improving technology for the manufacture, performance and infrastructure around electric vehicles and better public transport, would be the strategy to support to create a more efficient eco-system.

A Member indicated that determining the extent to which companies operate in an ethical manner is complex and requested clarity on options for Pension Funds to invest in companies that support a low carbon future and also maintain investment return.

Tim Gooding fed back that although oil for example is currently a key component across a number of industries, there is on-going significant investment in substitute products that have a lower carbon footprint. Tim Gooding added that the Global Alpha Paris Aligned product is set up to exclude companies that are fossil fuel extractors and service providers, and deliver competitive return on investment.

The Chair fed back that both Pension Fund Committee Members and the Fund's Independent Advisors have indicated their support to transition to this product via the Wales Pension Partnership.

RESOLVED: Members noted the report and presentation, and confirm the Rhondda Cynon Taf Pension Fund's support to transition to the Global Alpha Paris Aligned product (subject to approval by other Wales Pension Partnership members).

11 INVESTMENT COST EFFECTIVENESS ANALYSIS - TO RECEIVE A PRESENTATION FROM CEM BENCHMARKING

John Simmonds and David Jennings were in attendance from CEM Benchmarking and introduced themselves to Members.

The representatives fed back that the CEM benchmarking report provided an independent assessment of value-for-money by comparing the Rhondda Cynon Taf Pension Fund costs and performance with 29 other Pension Funds, that currently comprise CEM's LGPS universe. It was also noted that the benchmarking report helps to validate Pension Fund

strategies or support arguments for change by

- Comparing your investment performance with others, highlighting returns that come from:
 - The local Pension Committee's strategic asset allocation decisions; and
 - The implementation of the Committee's strategy (increasingly the responsibility of pools in England and Wales).

- Comparing the level of risk inherent in your portfolio and relative to peers.

- Comparing your investment costs with others on a like-for-like basis.

- Explaining why your costs compare as they do.

- Highlighting how and why your costs have changed over time.

- Providing value-for-money analysis – 'did paying more get you more'?

The representatives provided an overview of the Rhondda Cynon Taf Pension Fund performance, noting the Fund's 6-year net total return of 8.0% was above the LGPS median of 6.4% and a 6-year benchmark return of 6.8% was also above the LGPS median of 6.3%.

A Member noted that the Fund's 6-year performance was better than the LGPS median and sought clarity around if there are Funds that were adding more value at a lower cost. CEM advised it is difficult to consistently add value and that some large LGPS Funds are building the capability to invest their assets directly.

A Member noted that the Rhondda Cynon Taf Fund has one of the lowest investment costs and high-performance levels, and it will be crucial that this position is built upon as part of the Welsh Pension Partnership arrangements.

A Member asked if there was a drop in performance how would the reasons be identified given the widespread impact of the COVID19 global pandemic. The Chair fed back that the benchmarking report will provide information to indicate if performance is being impacted globally or more locally and the Director of Finance and Digital Services added that we would expect the Fund's active Investment Managers to out-perform the market and to achieve their target.

RESOLVED: Members noted the presentation.

12 DELEGATED FUNCTIONS REPORT

The Director of Finance and Digital Services presented the report to Members that set out the key issues being addressed as delegated functions, as specified in the Pension Fund Governance Policy Statement. The report was summarised as follows:

- During the quarter ended 30th June 2020, the overall value of the Fund increased from £3,350 million to £3,905 million, noting that at 31st August 2020 the Fund value was £4,032 million).
- The rolling 3-year performance of the Fund is 2.4% positive as compared to benchmark with an overview provided of the performance of each portfolio compared to benchmark.
- Following the recent actuarial valuation exercise, work is underway to refresh the Fund's current investment strategy.
- The transition is progressing to move the investments of the current mandate with Blackrock to the ACS World Low Carbon Equity Tracker Fund.

The Service Director, Pensions, Procurement & Transactional Services went on to provide an administration update

The Service Director informed the Committee that two Ministry of Housing, Communities and Local Government consultations have been issued in respect of the required remedies as a result of the McCloud judgment and also £95k exit payment cap reforms being implemented by the UK Government across the public sector.

The Chairman stated that this would have an affect across local government. He added that we have balanced budgets for many years through the delivery of efficiency savings which have included voluntary redundancies. These proposals would significantly impact workforce planning arrangements going forward.

A Member stated that they had feared that this regulation would be introduced a number of years ago. They added that it is going to impact people who have worked all their lives and penalise them. They added that the retirement age had risen to 55 in 2010 and feared this would rise again.

The Service Director stated Government has recently confirmed that the minimum private pension age will increase from 55 to 57 in 2028. He further advised that this along with recent proposals, needs to be communicated to those it will affect, so they can prepare for it. He added he would share the consultation response when it is completed.

The Service Director went on to inform the Committee that the Employer year-end contributions postings are completed and supported the formal publication of the Annual Benefits Statements during August, and prior to the statutory deadline. This enables the Service to conclude the 2019/20 Annual Allowance 'Pension Tax' exercise, issuing Savings Statements to those scheme members affected by the 6th October.

The Service Director referred to the Eight Key Performance Service Standards that are monitored by the Panel and Pension Board, confirming that the latest cycle of performance had been impacted by some resourcing issues within the Service. He added that the Internal Dispute Resolution Process reported no trends or patterns of note.

The Committee received an update on the Fund's data improvement items, including the recent 'Data quality' scores required by the Pensions Regulator. The Chairman commended the improvement made again this year against the relevant data categories. The Chairman requested that those Fund Employers that have yet to transition to 'I-connect' monthly data transmission are provided with an implementation extension deadline of the 31st March 2021.

The Service Director finished by advising Members that the Pension Board last met virtually on the 5th August 2020 and the next board meeting was scheduled for 3rd November 2020.

RESOLVED: Members noted the contents of the report and that a letter of implementation extension to be issued to relevant Fund Employers.

13 PENSIONS FUND RISK REGISTER - RISK REGISTER OVERVIEW

The Service Director Finance and Improvement Services updated the Committee with details of the arrangements in place to manage risk within the Pension Fund, as at the end of September 2020 which were included at appendix 1 to the report.

RESOLVED: Members reviewed the Risk Register and noted the arrangements in place for the management of risk within the fund.

14 WALES PENSION PARTNERSHIP - UPDATE

The Director of Finance and Digital Services provided the Committee with an update on the progress with regard to the Wales Pension Partnership and Joint Governance Committee.

Resolved: Members noted the update

15 URGENT BUSINESS

NONE

**Cllr M Norris
Chairman.**

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RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2020-2021

PENSION FUND COMMITTEE

14th DECEMBER 2020

**REPORT OF: THE DIRECTOR OF FINANCE
AND DIGITAL SERVICES**

AGENDA ITEM NO. 5
DELEGATED FUNCTIONS – UPDATE REPORT

Author – Barrie Davies, Director of Finance and Digital Services (01443) 424026

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 Director of Finance and Digital 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 Director of Finance and Digital 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 24th November 2020.

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 2020.
- 4.2 During the quarter ended 30th September 2020, the overall value of the Fund increased from £3,905 million to £4,040 million.

- 4.3 A summary of performance relative to the Fund specific benchmark is shown below.

Total Portfolio

	2017	2018				2019				2020			3yr
Quarter	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
Fund	3.9	-2.0	6.6	2.8	-8.1	7.9	5.0	1.9	2.6	-11.4	16.6	3.5	9.1
B'mark	3.9	-3.4	4.9	2.4	-6.2	7.0	4.1	3.1	0.7	-10.6	12.5	1.6	6.2
Relative	0.1	1.5	1.6	0.5	-2.0	0.9	0.9	-1.2	1.9	-0.8	4.1	1.9	2.9

- 4.4 As shown, the rolling 3 year performance of the Fund is 9.1% positive as compared to a benchmark of 6.2%. For the last quarter (i.e. quarter 3), the Global Opportunities high alpha equity portfolio, Global Growth high alpha equity portfolio, UK Credit and CBRE property portfolio underperformed their respective benchmarks. BlackRock passive equity portfolio performed in line with benchmark. Baillie Gifford, the traditional equity portfolio, outperformed their benchmark which drove the overall positive relative performance for the quarter.
- 4.5 The November 2020 Panel included a review of fund managers' performance. Presentations were received from Fidelity Investment Managers, the UK credit manager of the WPP and CBRE, the Fund's property manager on their performance to the end of September quarter.
- 4.6 As Members will be aware, the March 2018 meeting of the Committee agreed to the revised asset allocation strategy for the Fund and the steps to be taken to move toward the preferred strategy. The following table provides a summary of progress made in this regard to 30th September 2020.

Asset Class	Allocation 30/09/2020	Proposed Step 1	Proposed Step 2	Proposed Step 3
		Current Benchmark	Strategy (1)	Strategy (2)
Total Equities	69%	63%	63%	58%
Total Alternatives	7%	10%	20%	25%
Absolute Return Bonds			10%*	10%
Infrastructure				5%
Property	7%	10%	10%	10%
Total Bonds & Cash	24%	27%	17%	17%
Fixed Interest (UK)	10%	12.5%	7.5%	7.5%
Corporate Bonds (UK)	13%	12.5%	7.5%	7.5%
Cash	1%	2%	2%	2%

Expected return (pa)		5.9%	6.2%	6.3%
Expected volatility (pa)		12.2%	12.2%	11.7%

*The investment into Absolute Return Bonds (ARBs) is to have an initial commitment of 5%

With the current market volatility and the considerable stress in the global economy sub investment grade companies, the initial investment of 5% in ARBs has been delayed. This allocation was invested in the UK Credit Fund sub fund of the WPP.

- 4.7 Following the recent actuarial valuation Aon have been engaged as strategic investment advisers to assist in considering the current investment strategy, how the Fund should respond given the improvement in the funding position since the last actuarial valuation, whilst taking into account the Fund's focus on ESG, including climate change.
- 4.8 The asset allocation of the Fund by fund manager and mandate as at 30th September 2020 (which includes cash) is shown in the table below.

Baillie Gifford Traditional	Global Equities	26%
Link – Global Opportunities Fund	Global High Alpha Equities	8%
Link – Global Growth Fund	Global High Alpha Equities	31%
Link – UK Credit Fund	UK Credit	14%
BlackRock	Passive Global Equities	4%
Blackrock	Passive UK Gilts	10%
CBRE	UK Property	7%
Internal	Cash	0%

- 4.9 Following agreement at the October 2019 Committee to move the investments of the current mandate with Blackrock to the ACS World Low Carbon Equity Tracker Fund, the transition was due to take place during March 2020. This transition was delayed due to market volatility and Covid-19. The transition commenced 24th November 2020 with a completion target date of 8th December 2020.

5.0 **ADMINISTRATION UPDATE**

- 5.1 Further to the legislative update provided at the October Pension Committee, the HM Treasury regulations on 'Exit CAP' payments have since come into force on the 4th November 2020, limiting the costs of exits to £95k for organisations in scope. As these regulations currently conflict with the LGPS scheme regulations, changes to the scheme have been proposed by the Ministry of Housing, Communities and Local Government (MHCLG). The Council acting

as scheme Administrator and Employer has responded to this consultation which closed on 9th November 2020, raising a number of significant concerns with regards to the proposals.

- 5.2 Implementation of benefits during this period of regulatory conflict has led to some confusion. Local Government Association guidance has been issued to the Fund Employers and Fund Administrators advising of the approach and process of evidencing any waiver that may be supported by the Welsh Government.
- 5.3 Having concluded the support for those Employers with a March year end accounting period, the team are currently supporting those remaining Employers through their year end periods. The 2019/20 Pension Savings Statements have been issued to those scheme members exceeding the 'Annual Allowance' and 'scheme pay' arrangements are being agreed where appropriate.
- 5.4 Following receipt of the Government Actuary Department (GAD) membership 'data collection' request in respect of scheme cost valuation, the information request was completed by the 23rd November 2020.
- 5.5 The Fund's first virtual Annual General Meeting was held on 16th November 2020. Positive feedback has been received from a number of attendees following the meeting.
- 5.6 All Wales Practitioner Group meetings are held to discuss and feedback issues into the National LGPS Advisory Group. Statistics around member deaths are still being collated throughout the pandemic. The Fund specific comparison is provided in the table below:

Month	<u>2020</u>	<u>2019</u>
April	129	39
May	66	51
June	66	46
July	65	43
August	38	46
September	54	55
October	59	84

- 5.7 Following the conclusion of the Pension Fund Accounts, in accordance with regulation 57 of the LGPS Regulations 2013, the Pension Fund Annual Report has been finalised and published by the relevant date. A copy has been provided to the Scheme Advisory Board as required.
<http://www.rctpensions.org.uk/En/RelatedDocuments/AnnualReport/PensionFundAnnualReport2020English.pdf>

- 5.8 In preparation for the McCloud remedies, the Fund has requested relevant historic service data from Employers in order to undertake the necessary re-calculation and comparison for those members impacted.
- 5.9 Data quality and compliance remains a key priority for the Pension Fund as reflected in our further improvement in the Fund's annual data score. At the request of Pension Committee, those Employers yet to implement I-Connect monthly data transfer, have been requested to conclude the exercise by 31st March 2021.
- 5.10 Member Self Serve (MSS) continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members are shown below (as at 31st October 2020).

	<u>Member Numbers</u>	<u>MSS Registrations</u>	<u>Current Percentage Take-up</u>	<u>Percentage Reported Previously</u>
Actives	23657	9015	38.11%	37.83%
Deferred	27817	7636	27.46%	27.07%
Pensioners	17652	3836	21.73%	21.22%
Dependants	2749	125	4.55%	4.23%

- 5.11 Eight 'Key Performance Service Standards' are monitored by the Panel. It was noted that in respect of performance during October 2020, two Performance Service Standards were behind target.
- % Refund of Contributions processed within 10 days (72% for October against a target of 95%). This measure does relate to a payment. 29 Cases were completed of which 8 exceed the 10 days target.
 - % Transfers Out processed within 10 day (all 8 completed during October were behind target). There was no impact on the payment of member benefits
- 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.

6.0 PENSION BOARD

- 6.1 The Pension Board last met virtually on 3rd November 2020. There were no items noted for referral back to Committee.
- 6.2 The next Pension Board virtual meeting is scheduled for the 20th January 2021, and the joint meeting with the Pension Committee scheduled for March 2021.
- 6.3 Pension Board Members have continued to support their skills and knowledge requirement, through their attendance at relevant online 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 updates 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 2020.

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 Director of Finance and Digital Services.



**Quarterly
Engagement
Report**

July-September
2020

Local
Authority
Pension
Fund
Forum

Rio Tinto

**BHP, Tesco,
Sainsbury,
ArcelorMittal,
National Grid**

CLIMATE EMERGENCY



Puutu Kunti Kurrama and Pinikura Aboriginal Corporation

Rio Tinto under pressure from investors over Juukan Gorge

As LAPFF has been learning more about **Rio Tinto's** involvement in the destruction of the historically significant caves at Juukan Gorge in Western Australia, there have been increasing concerns about the company's corporate governance practices. Consequently, the Forum – along with other investor groups, most prominently the Australasian Centre for Corporate Responsibility (ACCR) - has been pushing the company to review its corporate governance arrangements.

One of the main strategies in this engagement has been to issue press releases citing LAPFF's concerns as various details of Rio Tinto's practices were revealed through a range of investigations. There has been an internal investigation led by a non-executive director on Rio Tinto's board, which resulted in the elimination of short-term bonuses for three senior executive members, including the CEO. Subsequently, the CEO and two other senior executives resigned.

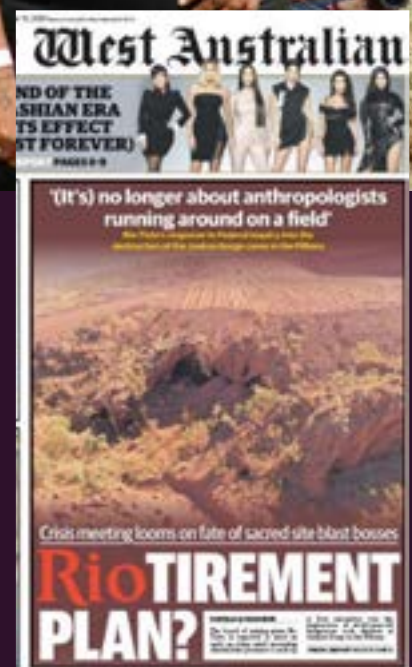
The Forum received significant press coverage for its support of this measure. LAPFF also issued press releases

"My interaction with Mr. Thompson, in his roles as Chair of both Rio Tinto and 3i, has been positive thus far. However, I sense that investors are losing confidence in his leadership and in his board at Rio Tinto. It will be a long road back for the company."

Cllr Doug McMurdo

responding to information issued by Australian Parliamentary inquiries into this matter. There appears to be increasing evidence of corporate governance failures, particularly in relation to engaging properly with indigenous communities, emanating from these inquiries.

LAPFF is continuing to ask questions of the Rio Tinto board about its response to the mounting information on corporate governance failures. The Forum currently has requested LAPFF Chair, Cllr Doug McMurdo, meet with the Chair of Rio Tinto, Simon Thompson, about the



What happened at Juukan Gorge?

In May, Rio Tinto destroyed 46,000-year-old Aboriginal caves in the Juukan Gorge region of Western Australia. The explosions were part of a government sanctioned mining exploration in the region. The caves are of cultural significance to the Puutu Kunti Kurrama and Pinikura (PKKP) people who claim Rio Tinto did not engage with them adequately before the disaster.

Rio Tinto has since apologised, and senior executives have resigned. However, an Australian parliamentary enquiry is continuing and may yet reveal further corporate governance failings.

CLIMATE EMERGENCY



NET ZERO BENCHMARK

The Forum is proud to be a member of Climate Action 100+, a collaboration with 518 investor groups with \$47tn in assets. From 2021, the CA100+ net zero benchmark will help its members assess a company's alignment to net zero emissions. Using 30 indicators, the benchmark will provide comprehensive analysis on which companies are leading the transition to net-zero emissions, alongside a range of other indicators used by investors to inform investment and corporate engagement strategies. LAPFF's involvement with CA100+ has helped in successful engagements this quarter and we expect the benchmark will encourage more companies to reduce carbon emissions and demonstrate high ambition to align with the Paris Agreement goals.

THE ARCELORMITTAL CLIMATE CHALLENGE

Steelmaking accounts for 7-9% of global carbon emissions today, and as the largest steelmaker in the world ArcelorMittal is responsible for a significant share. The majority of carbon emissions come from the process of iron ore reduction. The carbon challenge for the industry in the coming decades must be to transform the way in which iron ore is turned into steel.

Over the period of engagement, ArcelorMittal has been responsive and LAPFF and other lead investors have had notable success with the company separately identifying carbon-neutral hydrogen technology as central to its longer term zero-carbon transition.

Most recently ArcelorMittal has set an objective for the whole group to be carbon neutral by 2050 in addition to its shorter term target in Europe to reduce CO2 emissions by 30% by 2030.

Such targets are encouraging but it is active shareholders that must continue to hold the company – and others like it – to their targets. Our engagements continue.

Juukan Gorge incident. In the meantime, LAPFF is participating in a collaborative investor group led by Adam Matthews at Church of England to discuss a way forward not only for Rio Tinto, but the mining industry more broadly. LAPFF has also engaged with Rio Tinto in relation to the company's progress on scopes 1 and 2 carbon emission targets; progress on partnerships; and review of trade association memberships.

BHP Next Investor Target on Indigenous Peoples Engagement

With BHP's AGM coming up, investors are keen to ensure the company avoids another Juukan Gorge-type situation. A repeat is of particular concern in relation to its proposed Resolution Copper mine in Arizona, USA. BHP is in a joint venture with Rio Tinto to scope out the possibility of operating the mine, with BHP as the non-operating partner. Given the company's partnership with Rio Tinto and its joint venture with Vale in the Samarco dam which collapsed in Brazil, there are concerns about how BHP engages with environmental, social and governance issues in joint ventures where it is the non-operating partner.

In the wake of the Juukan Gorge disaster, BHP announced that it will not damage 40 cultural heritage sites in Western Australia without extensively consulting Traditional Owners. The Forum has engaged at length with BHP this quarter ahead of the AGM to understand more about the company's plans and its approach to community engagement.

A LAPFF representative attended a shareholder meeting in July to hear

BHP's cultural heritage team discuss its operation. Cllr McMurdo then met with both BHP Chair Ken MacKenzie and Vice President of Governance, Geof Stapledon to ask about joint ventures and community engagement. Cllr McMurdo took some comfort in the fact that BHP has two safety checks on cultural heritage, including measures Rio Tinto does not have. First, BHP re-engages with affected communities if it has not undertaken work within 12 months of approval from the communities on a given site. Second, the community engagement department at BHP is located within the site-level function rather than the corporate headquarters.

Still, investor confidence in the mining sector has been shaken, which has, in part, led to the Australasian Centre for Corporate Responsibility (ACCR) filing three shareholder resolutions with BHP, one of which is on cultural heritage. The cultural heritage resolution is in three parts and calls for:

- (a) a moratorium on the destruction of cultural heritage sites until better laws are enacted in Australia to protect Indigenous communities in the context of mining projects;
- (b) non-enforcement of contractual provisions essentially imposing a 'gag order' on communities to allow them to speak about concerns regarding mining projects on their land;
- (c) disclosure of the approach to cultural heritage held by the industry associations to which BHP belongs.

The other two resolutions cover a constitutional amendment to allow for advisory shareholder resolutions to be filed and the Covid-climate link. LAPFF will issue a voting alert on these resolutions shortly.

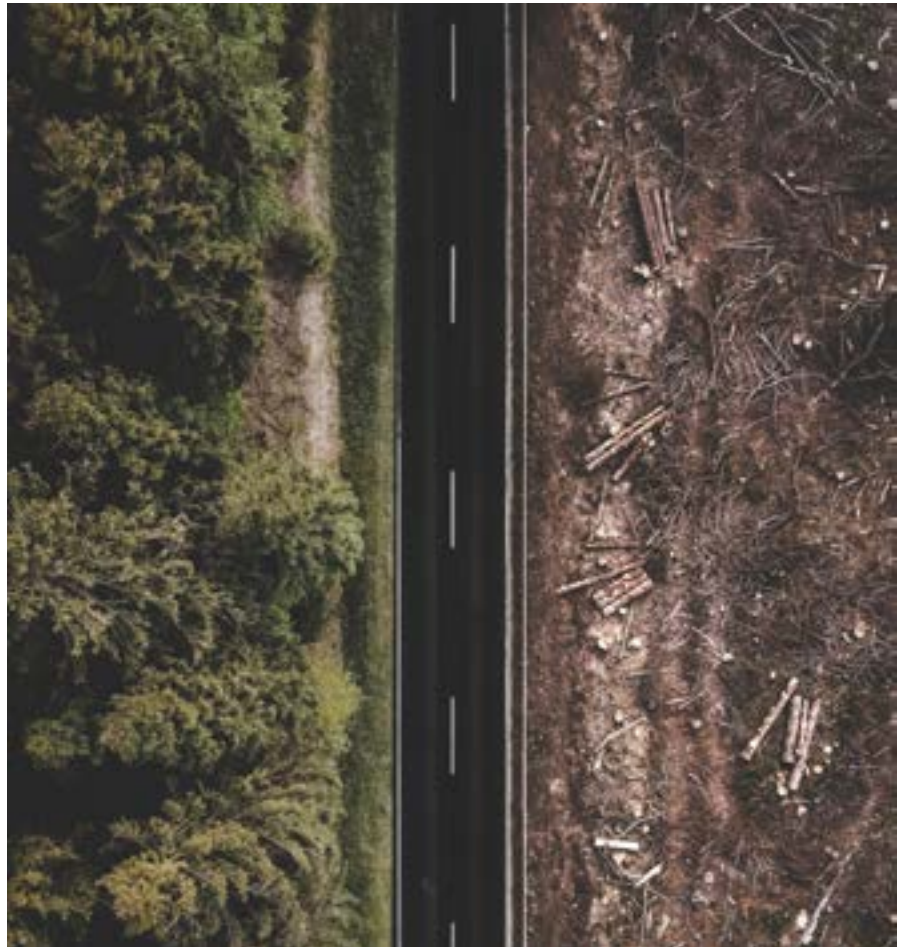
COMPANY ENGAGEMENT

ArcelorMittal and National Grid CA100+ Engagements Continue

Engagement to date with ArcelorMittal has led to a 30% carbon emission reduction target for its European operations by 2030, and for carbon neutrality for 2050. A follow-up meeting at the beginning of July sought commitments to global targets for 2030 and 2050. At the National Grid meeting, the Forum's objectives were for greater clarity on when the company will set scope 3 targets, and a commitment to report on climate lobbying and alignment with trade industry positions.

The meeting with ArcelorMittal resulted in a commitment for a group 2030 carbon emission reduction target to be disclosed in a report released later this year. This had been delayed due to repercussions from the Covid-19 pandemic. At a collaborative meeting with National Grid representatives, Cllr Rob Chapman, LAPFF vice-chair, raised a number of areas, including the provision of electric vehicle charging stations. The company had previously identified this as the most positive area of 'value change' for shareholders, but progress on this has been slow. For setting scope 3 targets, the challenge for the company, which has been proactive in the UK for aiming for a carbon-neutral grid by 2025, in its US gas and electricity distribution operations. Following up on a LAPFF question to the AGM, the company committed to look at disclosing company positions on direct and indirect lobbying.

As joint-lead investor, LAPFF sent letters to the chairs of both companies, providing information on the new Climate Action100+ Net Zero Benchmark which will rank companies from 2021 onwards. The benchmark builds on Taskforce on Climate Related Financial Disclosure (TCFD) recommendations and looks at the most significant aspects of companies' corporate strategy related to climate. The companies were asked to work toward providing disclosures consistent with the framework; align with net zero by 2050 or sooner; and work with companies on action plans. A response was requested for October.



LAPFF joins other investors on anti-deforestation push

The impact of deforestation on climate change is a growing concern. LAPFF has worked with other investors to push the Brazilian government to stem deforestation in the Amazon. At a meeting with Tesco, one objective was for the company to set out how it aimed to achieve its target of fully recyclable packaging by 2025.

The investor coalition drafted and co-signed a letter to the Brazilian government and held a call hosted by Storebrand to encourage better protection of the Amazon.

LAPFF's meeting with **Tesco** discussed how the company's meat supply chain might contribute to deforestation through its supplier, JBS, which received a lot of media attention on this issue. The soy, which is used to feed the cattle eventually purchased by Tesco as meat, is targeted by the campaign. This issue has raised

the complicated nature of commodity supply chains and why it is important to conduct effective environmental and human rights due diligence on the entire supply chain, not just first or second tier suppliers.

The Tesco meeting also addressed the problem of plastics in the supply chain. Hygiene requirements resulting from Covid-19 have forced Tesco to re-orient its short-term efforts to reduce packaging. However, the company has retained its long-term strategy and will continue to work on rolling it out.

The investor coalition appears to have helped drive proposed legislation on stemming deforestation in supply chains. LAPFF has drafted a consultation response to DEFRA draft legislation¹ designed to prevent forests and other natural areas from being converted illegally into agricultural land. The legislation would require a number of larger companies to ensure their 'forest risk' commodities have been produced legally.

¹ <https://consult.defra.gov.uk/eu/due-diligence-on-forest-risk-commodities/>

COMPANY ENGAGEMENT

LAPFF engages further on climate finance

For much of this year, LAPFF has engaged with major asset managers and insurers on their climate change activities. The goal is to ensure they gain awareness of the impact the insurance side of their businesses does - and can - have on climate change.

So far, the Forum has engaged with eight of the eleven companies contacted. This quarter, LAPFF engaged with **HSBC** and **Allianz**.

Overwhelmingly, engaged companies see the investment aspect of their businesses as more relevant to tackling climate change, with little or no thought given to the role their insurance sides can play. That said, those companies offering property and casualty insurance agree this business is vulnerable to climate change, more so than the health and life insurance lines. However, one company noted that health and life insurance might be equivalently - or even more - affected in future. Only one company representative recognised and spoke about the companies' impact on climate change rather than just the impact of climate change on their business.

LAPFF will work to set up meetings with the remaining three companies: Lloyds Banking Group, Aviva Group, and Berkshire Hathaway. When this initial round of engagements has been

completed, the meeting information will be assessed to determine new objectives to take this work forward.

Tailings Dam engagement reaches milestone

Since February 2019, LAPFF has joined in the investor initiative on tailings dam safety to ensure that collapses - such as those in Mariana and Brumadinho, Brazil - do not occur again.

There have been various sub-initiatives stemming from the over-arching project established by Adam Matthews from the Church of England Pensions Board and John Howchin from the Swedish Council of Ethics to the AP Funds. One such initiative was a tripartite relationship between Principles for Responsible Investment (PRI), UN Environmental Programme (UNEP), and International Council on Mining and Metals (ICMM) to establish a Global Tailings Standard. The Standard was launched on 5 August with over 1,200 webinar participants.

While affected communities were consulted in the drafting of the Standard, they were concerned that their input was not incorporated adequately. A number of investors also raised concerns about the lack of an independent body to monitor its implementation. These points will likely continue to be areas of focus as the Standard is rolled out.

LAPFF ramps up engagement on supply chain due diligence

Between the Boohoo scandal in Leicester, the supply chain component of the Modern Slavery Act, and the proposed deforestation in the supply chain law, UK investors face supply chain challenges from several quarters. LAPFF has engaged with a number of other investors to explore initiatives that address supply chain concerns.

During the quarter, LAPFF representatives joined a supply chain due diligence workshop hosted by the newly independent Workforce Disclosure Initiative. Attendees discussed what companies and investors can do to improve workplace standards at supplier facilities. LAPFF also met with Andrew Adams at CCLA to discuss joining an investor coalition to promote compliance with the Modern Slavery Act. This would be in addition to the Forum's participation in Rathbone's engagement with companies that fail to adhere to Modern Slavery Act requirements. LAPFF is also working with other investors to stem deforestation in company supply chains, as mentioned above.

The details of the CCLA engagement are to be decided, and the LAPFF consultation response on the proposed law on deforestation in the supply will be shared when complete. The Forum also held a



Garment workers overcrowded into the back of a truck, commuting home after work, Phnom Penh, Cambodia

COMPANY ENGAGEMENT

webinar on environmental and human rights due diligence which covered all the issues above.

Cybersecurity Engagements Underway

The LAPFF membership increasingly recognises the variety of business risks that can stem from companies' cybersecurity failures. In response members expressed interest in engaging further on this issue. Consequently, LAPFF has begun a round of engagements with transport and logistics companies, which can be particularly vulnerable to cyberattacks, to assess their cyber resilience.

Letters have been sent to Bunzl Plc, AP Moller-Maersk, Wincanton Plc, Expeditors International of Washington Inc. and C.H. Robinson Worldwide Inc. Meetings have been conducted with Clipper Logistics Plc and Royal Mail Plc.

Subsequent engagements with other companies will take place over the coming months.

LAPFF signs onto ICCR Covid-19 letters to pharmaceutical companies

There has been concern that some pharmaceutical companies might take advantage of the Covid-19 pandemic by implementing unfair distribution or pricing practices. The Interfaith Centre on Corporate Responsibility (ICCR) organised a collaborative engagement between investors and a number of pharmaceutical companies to ensure they are adhering to fair practices in the context of the virus.

Letters to most of the seventeen companies have been sent, with responses received from Sanofi – which is working on a coronavirus vaccine – and Biogen, which is not. AstraZeneca also sent a letter reassuring investors about the company's approach to developing a vaccine. A major focus for the company seems to be reducing the body's overblown immune response to Covid-19, and it is looking both to a vaccine and existing drugs to help deal with this problem. The company is insistent upon following



appropriate clinical trial protocols and ensuring access to the vaccine once it is available.

Lead investors are following up with other companies for either first responses or clarifications to responses. There have also been discussions about engaging with company audit committees to understand how they are addressing coronavirus within their company risk frameworks.

AGMs & VOTING ALERTS

Although the summer period was quieter with regard to AGMs and voting alerts, there were a couple of notable engagements. Engagements with **SSE** and **National Grid** – both held virtually due to coronavirus - focused on climate practices. LAPFF has engaged with both companies for many years now and for SSE was seeking to continue the long-lasting relationship.

The Forum also issued voting alerts for Homeserve, Experian, and Ryanair. The Homeserve and Experian voting alerts addressed remuneration concerns. This followed on from other LAPFF remuneration alerts this year which coincided

with the remuneration policy resolutions up for vote in 2020 at many UK companies. The Ryanair voting alert raised concerns about the company's response to the Covid-19 pandemic.

In preparation for the SSE AGM, Cllr Rob Chapman met with SSE Chief Sustainability Officer, Rachel McEwen, who thanked LAPFF for its helpful engagement over the years. LAPFF then asked a question about carbon capture and storage at the SSE AGM. The Forum's question was both posted on SSE's website, and CEO Alistair Phillips-Davies mentioned the Forum by name in responding to LAPFF's question in a video.

Questions submitted for the National Grid AGM asked the company to commit to disclosing consistency or otherwise between corporate climate change policies and the positions taken by

trade associations to which the company belongs. The company was also pushed on its delayed setting of scope 3 carbon emission reduction targets. The company response was published on its website, indicating that it would provide information on scope 3 targets in October and a commitment to look at lobbying disclosure would follow in a subsequent meeting.

Ms McEwen also sits on the Scottish Just Transition Commission, so Cllr Chapman asked her if she would be willing to talk about her participation in this Commission with LAPFF. Given the Covid pandemic, it is not clear when or how this communication will happen, but she has agreed to speak to LAPFF on the just transition. For National Grid, the next 'call in' point will be its October ESG day.

POLICY ENGAGEMENT AND CONSULTATION RESPONSES



SUBSTANTIAL IMPROVEMENTS

ArcelorMittal issued a press release at the end of September announcing a group-wide target to be carbon neutral by 2050. Testing of technology to reach this goal will include a direct reduced iron – electric arc facility for carbon-free steelmaking to be up and running in Hamburg by 2023.

A meeting with Martin Scicluna, the chair of **JS Sainsbury** provided detail underpinning the company's net zero by 2040 target, announced since the last meeting with LAPFF. The discussion covered aspects of scope 3 emissions such as incentivising the use of electric vehicle for deliveries and by customers. The meeting also covered the response to the pandemic including doubling the companies' on-line sales and a focus on employee engagement. Progress towards the plastic reduction goal of 50% by 2025 was explored in addition to management of deforestation within cattle and soy supply chains.

POLICY ENGAGEMENT

IIGCC meeting

A LAPFF representative participated in an Institutional Investors' Group on Climate Change (IIGCC) webinar on the proposed EU Carbon Border Adjustment mechanism. LAPFF has not taken a formal position, but was able to explain how this has been a central element of engagement with ArcelorMittal to date, particularly with the strong and

long-held support the chair, Lakshmi Mittal, has voiced for such a mechanism. Discussions with CA100+ co-lead investors for utility companies and IIGCC have continued over the past couple of weeks, around a potential response to Ofgem on its 'RIIO-2 draft determinations'. These determinations set out Ofgem's 'approach to ensuring energy transmission network companies have sufficient revenue to run an efficient network'. The original intention was for a short note of concern from investors about risks if investments into the grid are insufficient for companies to fulfil their net zero commitments. However, to ensure a balanced approach, not favouring either the company or regulator's position, the response will contain a more general call on Ofgem to ask the companies to set out net zero plans.

CONSULTATION RESPONSES

LAPFF has submitted a number of consultation responses during the quarter. One was a consultation on the future of audit. Of note is that Baroness Sharon Bowles appears to have run with LAPFF's IFRS engagement, submitting a long list of Parliamentary questions on audit company practice, at least one of which has yet to be answered.

The Forum also responded to a Department of Transport consultation on the phasing out of vehicles powered by fossil fuels. A third submission went to the House of Commons Select Committee Inquiry on Decarbonisation and Green Finance.

BEIS Select Committee

LAPFF responded to the BEIS Select Committee Inquiry following up on its 2019 Future of Audit Inquiry. The Committee addressed progress on implementing the findings of

- the Kingman Review into replacing the Financial Reporting Council and
 - the Competition and Markets Authority Review of the audit market.
- The LAPFF response was both favourable to those reviews and concerned at the slow progress in their implementation.

On the subject of the Brydon Review, LAPFF commented that "*The Brydon Review is disappointing and confuses and distracts from the sound recommendations of the BEIS Committee report*" and "*LAPFF believes that the best driver of audit quality is implementing existing law properly which the Committee concluded the large accounting firms have been avoiding. Brydon has ended up in the same muddle on the same issues that the large accounting firms were muddled over in giving evidence to the Committee.*"

LAPFF concluded the only change to the law should be to implement the structural reforms of the Financial Reporting Council (FRC) from the Kingman Review.

On the Committee's question whether "*audit reform [can] help track progress made by companies in meeting the UK's Sustainable Development Goal commitments and in particular Net Zero*", LAPFF flagged this as an area where 'greenwash' can already be seen. Some companies and sectors give the appearance of progress towards net zero because such a target provides scope to exaggerate deducted elements to achieve the 'net'. This includes loose commitments to plant trees or capture carbon at some time in the future.

LAPFF also expressed concern that the longstanding problems with the auditing profession, mean auditors would have a negative effect on getting reliable financial information. In the case of Wirecard, NMC Healthcare (the FTSE 100 company now in administration) and Patisserie Valerie, it is clear that the auditors could not properly verify cash in the bank.

CONSULTATION RESPONSES

The Financial Reporting Council's response to International Accounting Standard 1 ('IAS 1') consultation

Further to the UK's exit from the European Union, all new international accounting standards will have to be endorsed by the Secretary of State and then Parliament. The International Accounting Standards Board (IASB) consulted on a revision to the key standard IAS 1 to which the FRC drafted a response giving the UK's position, which is itself open for comment.

The proposed standard is wrong in several respects. The words describing the numbers required are incorrect. The purpose of the accounts is wrong, which in UK law is for shareholder and creditor protection. It misses the inter-relationship between profits, capital and going concern. It also puts the emphasis on management intent deciding whether a company is a going concern or not. The actual driver is whether the company is and can be funded by cash flow generated or by new or replacement external sources of funding. The LAPFF response to the FRC points out these issues and focuses on the BEIS Select Committee Inquiry into the Future of Audit which had already concluded in the correct way.

The LAPFF response has been copied to the Secretary of State, the Law Commission and the BEIS Select Committee.

A key problem is the IASB has accommodated the false construct of an 'expectations gap' regarding the quality of accounts; thus giving auditors an excuse to not look for fraud. As frauds may impinge profits, capital and going concern, a standards system which seeks to obfuscate or avoid the issue of fraud will also have to obfuscate the very elements it affects; profits, capital and going concern.

The recent High Court case against Grant Thornton has been upheld by the Court of Appeal. That makes the auditor duty in respect of profits, capital and going concern unequivocal where there is fraud.

'Decarbonisation and Green Finance' The Treasury Select Committee call for evidence

LAPFF made a submission to the Committee drawing heavily on the fact that renewables have become cheaper than fossil fuel sources.

There was a premise that the transition to a lower carbon economy would be costly. But with the cost of renewables below the cost of currently low fossil fuel prices, there is an economic incentive to invest in greener energy sources, with not only the low carbon benefit but also less volatility and other problems associated with carbon and methane emissions in the distribution of fossil fuels.

A second premise was that a move to renewables would be at the pace of the fossil fuel companies transitioning their businesses. The International Energy Authority's models have tended to be influenced by such thinking. However, the pace of investment in solar power, offshore and onshore wind as well as storage by batteries and electrolysis for hydrogen production have led the way, with some fossil fuel assets becoming stranded earlier than anticipated.

It therefore appears that the negative cost of transition will not be the cost of the new energy system but the demise of the old one, stranded assets, and stranded debt and equity funding in the fossil fuel sector.



The US coal mining industry is a case in point. Peabody Energy, the USA's largest coal mining company, which had a market capitalization in excess of \$20bn, now has debt of \$10bn and a market capitalization of \$250m having had two Chapter 11 bankruptcies to get there. Exxon, formerly the largest US listed company, has recently fallen out of the Dow Jones Index.

A transition that will benefit market entrants with new technologies and affect existing operators negatively, needs to be handled in a rational and balanced way.

A risk therefore is backdoor ways that maintain the fossil fuel industry via grants and other assistance. LAPFF cited that state support for carbon capture and storage (CCS) for the power sector. This model has seen CCS used to keep coal power plants open rather than close and replace them with renewables.

Response to the FCA consultation on proposals to enhance climate-related disclosures by listed issuers

LAPFF responded to the FCA's consultation on climate-related disclosures. The FCA proposed introducing a new rule for UK premium listed companies, requiring them to state whether they comply with the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) and to explain any non-compliance.

The Forum strongly supports the introduction of mandatory carbon emissions and risk reporting. The Forum also supports the recommendations of the TCFD and has long promoted mandatory climate risk reporting.

The Forum's response therefore welcomed the proposed rule as greater disclosure would help investors fulfil their stewardship duties and also enable more informed decisions about capital allocation. LAPFF did note some concerns about the effectively voluntary nature of the rule. While companies do face challenges in being TCFD compliant, the potential scale of the value at risk and urgency of the climate emergency demand a mandatory approach. The Forum would therefore suggest if the rule is to be brought in on a 'comply or explain' basis, that the FCA also announce its intention to make the rule

WEBINARS AND MEDIA COVERAGE

mandatory after a set date (e.g. in three years' time). This would provide a clear signal to the market and give all listed companies time to be compliant. It would also ensure that the benefits and objectives clearly outlined in the consultation document are not limited to one segment of the market.

Response to IIGCC Paris aligned investment initiative: Net zero investment framework for consultation

The IIGCC have drafted a net zero investment framework for consultation. The Forum congratulated the IIGCC on producing the document, which is likely to be extremely helpful to many LAPFF members.

The Forum made a few general comments aimed at strengthening the framework. For example improving the focus on how asset owners can better ensure their managers are meeting their climate priorities, having more of a focus on the just transition and emphasising the need to be cautious of company claims around carbon capture and storage.

MEDIA COVERAGE

The Forum received a range of coverage on its press releases related to Rio Tinto and Juukan Gorge. You can find these press releases and others on the [press section](#) of the new LAPFF website, along with related press articles about LAPFF's involvement in the Juukan Gorge engagement.

LAPFF was also referred to [in this article](#) on Tesla and this article on the Forum's participation in CCLA's collaborative engagement on the Modern Slavery Act.

The Forum made it into [Reuters](#) and the [India Times](#) with its call to ban new petrol, diesel and hybrid cars by 2025.

[IPE](#) cited LAPFF's concern about International Accounting Standard (IAS) 1.

NETWORKS AND EVENTS

LAPFF webinars

During the Covid pandemic, the Forum offered a series of webinars on topical responsible investment issues. LAPFF held successful webinars on electric

WEBINAR
Local Authority Pension Fund Forum

Human Rights and Environmental Due Diligence

Tailings Dam and COVID update with Brazilian Community Members

Corporate and Indigenous Community Relations in Australia

'Electric Avenue: The role of Electric Vehicles in reaching Net Zero'

vehicles; developments on Covid-19; and updates on tailings dams, hearing from affected community members from Brazil, and environmental and human rights due diligence, among others.

The webinar on electric vehicles saw a vigorous discussion on the contribution of this technology to the UK's net zero commitment. Speakers contributed from the USA west coast, Berlin and London. Speakers included Jakob Thomä, co-founder of the 2 degree investing initiative from Berlin; Katie Fehrenbacher, Senior Writer, Transportation, GreenBiz Group from the USA west coast and Sandra Roling, Head of EV100 and Colin McKerracher of Bloomberg, from London.

LAPFF has established a productive working relationship with the Australasian Centre for Corporate Responsibility (ACCR) in working on the Rio Tinto Juukan Gorge engagement. The Forum has also been liaising with representatives of Brazilian communities to establish a more consistent and two-way engagement framework with community members.

In respect of both relationships, LAPFF hosted webinars to highlight issues of concern. The Forum and ACCR co-developed a webinar featuring prominent aboriginal community leader, Marcia Langton, and another well-respected community leader, Karrina Nolan. Both Marcia and Karrina shared their thoughts and concerns on the Rio Tinto Juukan Gorge disaster. LAPFF also contributed to the drafting of shareholder resolutions filed by ACCR with BHP in respect of its approach to engagement

with indigenous peoples, and in relation to Covid-19 and climate.

LAPFF then hosted a webinar with Brazilian community members, Vagner Diniz and Nicolson Resende, who described their challenges in engaging Vale over reparations for tailings dam collapses, tailings dam safety, and company Covid-19 practices. Both Vagner and Nicolson set out a list of asks for investors which LAPFF will review and speak with community members to determine how best to proceed.

Toward the end of the quarter, LAPFF hosted a webinar with three lawyers – Robert McCorquodale, Arianne Griffith, and Anna Kirkpatrick – to hear their perspectives on the need for mandatory environmental and human rights due diligence. All three speakers noted the increasing number of laws in this area and cited their impacts for investors.

LAPFF also had a representative from Investors for Opioid & Pharmaceutical Accountability (IOPA) participate in a call. A recent call noted that the opioid crisis worsened during the Covid-19 pandemic, with many people thrown by the isolation of lockdown and other restrictions that mean they do not receive the support they need.

The Forum has re-committed to supporting the Access to Nutrition Index. Cllr Caron raised nutrition in the meeting with Tesco because good health and nutrition are deemed to be important factors in stemming the severe impacts of Covid-19.

COMPANY PROGRESS REPORT

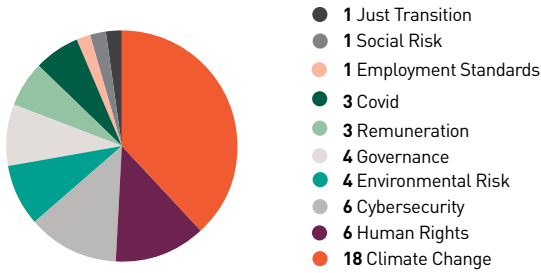
27 companies engaged over the quarter during 38* engagements

*The table below is a consolidated representation of engagements so reflects the number of companies engaged, not the number of engagements

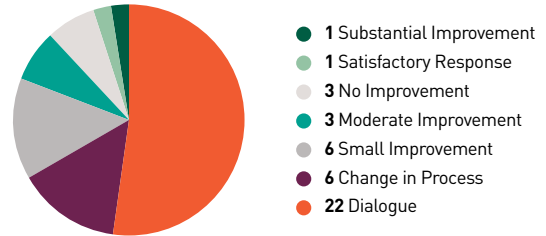
Company	Activity	Topic	Outcome	Position Engaged	Domicile
3i GROUP PLC	Meeting	Remuneration/ Climate Change	No Improvement	Chairperson	GBR
ALLIANZ SE	Meeting	Covid/ Climate Change	Change in Process	Specialist Staff	DEU
ANGLO AMERICAN PLC	Sent	Human Rights	Dialogue	Chairperson	GBR
	Correspondence				
AP MOLLER - MAERSK AS	Sent	Other	Dialogue	Chairperson	DNK
	Correspondence				
ARCELOR MITTAL SA	Meeting	Climate Change	Moderate Improvement	Specialist Staff	LUX
BHP GROUP PLC	Meeting	Governance/ Human Rights	Dialogue	Chairperson	GBR
BLACKROCK INC	Sent	Climate Change	Awaiting Response	Exec Director or CEO	USA
	Correspondence				
BT GROUP PLC	AGM	Climate Change/ Environmental Risk	Awaiting Response/ Moderate Improvement	Exec Director or CEO	GBR
BUNZL PLC	Sent	Other	Dialogue	Chairperson	GBR
	Correspondence				
C.H. ROBINSON WORLDWIDE INC.	Sent	Other	Dialogue	Chairperson	USA
	Correspondence				
CLIPPER LOGISTICS PLC	Meeting	Social Risk/ Covid/ Governance	Dialogue/ Satisfactory Response/ Small Improvement	Chairperson	GBR
DELTA AIR LINES INC	Meeting	Climate Change	Moderate Improvement	Specialist Staff	USA
EXPEDITORS INTERNATIONAL OF WASHINGTON INC.	Sent	Other	Dialogue	Chairperson	USA
	Correspondence				
EXPERIAN PLC	Alert Issued	Remuneration	Dialogue	Chairperson	IRL
HOMESERVE PLC	Alert Issued	Remuneration	Dialogue	Chairperson	GBR
HSBC HOLDINGS PLC	Meeting	Climate Change	Change in Process	Specialist Staff	GBR
NATIONAL GRID PLC	AGM/ Meeting	Climate Change	Small Improvement	Chairperson	GBR
REGIS RESOURCES LTD	Meeting	Climate Change/ Governance	No Improvement	Chairperson	AUS
RIO TINTO GROUP (GBP)	Meeting	Human Rights/ Governance/ Climate Change	Dialogue/ Change in Process/ Small Improvement	Chairperson	GBR
ROYAL MAIL PLC	Meeting	Cybersecurity	Dialogue	Specialist Staff	GBR
SAINSBURY (J) PLC	Meeting	Climate Change/ Environmental Risk	Substantial Improvement	Chairperson	GBR
SSE PLC	Meeting/ AGM	Just Transition/ Climate Change	Change in Process/ Small Improvement	Chairperson	GBR
SUZANO SA	Sent	Environmental Risk	Dialogue	Chairperson	BRA
	Correspondence				
TESCO PLC	Meeting	Environmental Risk/ Governance	Change in Process/ Dialogue	Chairperson	GBR
TULLOW OIL PLC	Meeting	Governance/ Climate Change/ Covid	Change in Process/ Dialogue/ Small Improvement	Chairperson	GBR
VALE SA	Sent	Human Rights	Dialogue	Chairperson	BRA
	Correspondence				
WINCANTON PLC	Sent	Other	Dialogue	Chairperson	GBR
	Correspondence				

ENGAGEMENT DATA

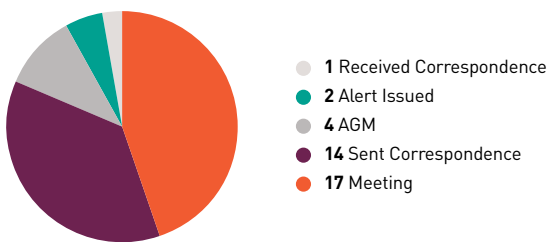
ENGAGEMENT TOPICS



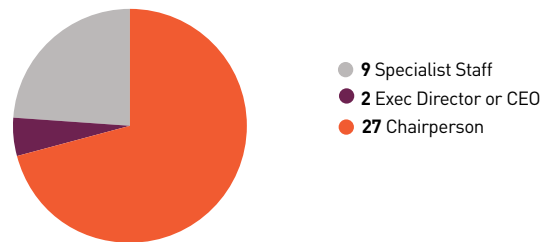
MEETING ENGAGEMENT OUTCOMES



ACTIVITY



POSITION ENGAGED



COMPANY DOMICILES



LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

Individual Member Funds

Avon Pension Fund	East Sussex Pension Fund	Lincolnshire Pension Fund	Sutton Pension Fund
Barking and Dagenham Pension Fund	Enfield Pension Fund	London Pension Fund Authority	Swansea Pension Fund
Barnet Pension Fund	Environment Agency Pension Fund	Lothian Pension Fund	Teesside Pension Fund
Bedfordshire Pension Fund	Essex Pension Fund	Merseyside Pension Fund	Tower Hamlets Pension Fund
Bexley Pension Fund	Falkirk Pension Fund	Merton Pension Fund	Tyne and Wear Pension Fund
Brent Pension Fund	Gloucestershire Pension Fund	Newham Pension Fund	Waltham Forest Pension Fund
Cambridgeshire Pension Fund	Greater Gwent Pension Fund	Norfolk Pension Fund	Wandsworth Borough Council Pension Fund
Camden Pension Fund	Greater Manchester Pension Fund	North East Scotland Pension Fund	Warwickshire Pension Fund
Cardiff & Glamorgan Pension Fund	Greenwich Pension Fund	North Yorkshire Pension Fund	West Midlands Pension Fund
Cheshire Pension Fund	Gwynedd Pension Fund	Northamptonshire Pension Fund	West Yorkshire Pension Fund
City of London Corporation Pension Fund	Hackney Pension Fund	Nottinghamshire Pension Fund	Westminster Pension Fund
Clwyd Pension Fund (Flintshire CC)	Hammersmith and Fulham Pension Fund	Oxfordshire Pension Fund	Wiltshire Pension Fund
Cornwall Pension Fund	Haringey Pension Fund	Powys Pension Fund	Worcestershire Pension Fund
Croydon Pension Fund	Harrow Pension Fund	Redbridge Pension Fund	Pool Company Members
Cumbria Pension Fund	Havering Pension Fund	Rhondda Cynon Taf Pension Fund	Border to Coast Pensions Partnership
Derbyshire Pension Fund	Hertfordshire Pension Fund	Shropshire Pension Fund	Brunel Pensions Partnership
Devon Pension Fund	Hounslow Pension Fund	Somerset Pension Fund	LGPS Central
Dorset Pension Fund	Islington Pension Fund	South Yorkshire Pension Authority	Northern LGPS
Durham Pension Fund	Kingston upon Thames Pension Fund	Southwark Pension Fund	London CIV
Dyfed Pension Fund	Lambeth Pension Fund	Staffordshire Pension Fund	Wales Pension Partnership
Ealing Pension Fund	Lancashire County Pension Fund	Strathclyde Pension Fund	
East Riding Pension Fund	Leicestershire Pension Fund	Suffolk Pension Fund	
	Lewisham Pension Fund	Surrey Pension Fund	

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RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2020-2021

PENSION FUND COMMITTEE

14th DECEMBER 2020

**REPORT OF: THE DIRECTOR OF
FINANCE AND DIGITAL SERVICES**

AGENDA ITEM NO. 6
PENSION FUND RISK REGISTER – RISK REGISTER OVERVIEW

**Author – Barrie Davies, Director of Finance and Digital Services (01443)
424026**

1.0 PURPOSE OF REPORT

1.1 To provide the Committee with details of the arrangements in place to manage risk within the Pension Fund.

2.0 RECOMMENDATIONS

2.1 It is recommended that the Committee:

2.1.1 Note the arrangements in place for the management of risk within the fund; and

2.1.2 Review the Risk Register (Appendix 1) and consider whether they wish to receive further detail on any issues.

3.0 BACKGROUND

3.1 The terms of reference of the Pension Fund Committee sets out its responsibilities with regard to risk management, namely:

- *To provide independent assurance to members of the Fund of the adequacy of the risk management and associated control environment, responsible for the Fund's financial and non-financial performance.*

3.2 The Director of Finance and Digital Services (in their capacity as S151 officer) supported by the Investment and Administration Advisory Panel with appropriate officer, independent advisor and professional support, has delegated responsibility for all day to day operational matters, which

includes ensuring that robust risk management arrangements are in place.

4.0 RISK MANAGEMENT

- 4.1 With regard to Risk Management, the Fund maintains a Risk Register which is reviewed and updated, as necessary and appropriate, on a quarterly basis.
- 4.2 The Risk Register is reviewed in detail and operationally by the Pension Fund Working Group, where recommended updates are made to reflect changes in risks. This is then presented to the quarterly meetings of the Investment and Administration Advisory Panel for further review, challenge and agreement.
- 4.3 Following the agreement of the updated register, it is published on the Fund Website.
- 4.4 The register is also reviewed by the Pension Board, as part of their role in supporting the Fund's overall governance arrangements.
- 4.5 The risk register, dated December 2020, is attached as Appendix 1 for review and consideration by the Committee.

5.0 CONCLUSION

- 5.1 This report sets out, for the Committee, the arrangements in place for the management of risk by the Pension Fund.

Summary of Pension Fund Risks

Introduction

The purpose of this document is to assess the risk associated with the RCT Pension Fund and to outline the control measures in place.

Key to scoring

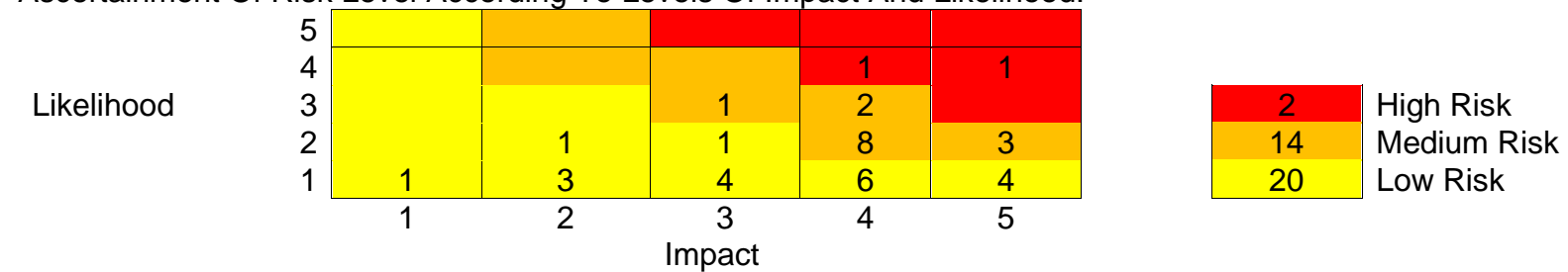
Likelihood Assessment Matrix:

Factor	Score	Indicators
Almost certain	5	99% likely to happen or has happened on a regular basis over the last 12 months
Very likely	4	75% likely to happen or has happened at least once or twice in the last 12 months
Likely	3	50% likely to happen or has happened once or twice in the last 24 months
Unlikely	2	20% likely to happen or has happened once or twice in the last 5 years
Highly unlikely	1	5% likely to happen or hasn't happened within the last 5 years

Impact Assessment Matrix:

Risk	Score
Major	5
High	4
Moderate	3
Minor	2
Trivial	1

Ascertainment Of Risk Level According To Levels Of Impact And Likelihood:



Overarching Fund Objective – to ensure Fund assets are sufficient to meet Fund liabilities in the short, medium and long term
--

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating Dec 2020 qtr
Funding	Long term investment strategy unable to meet the objective of funding liabilities.	5	2	10	MR	<ul style="list-style-type: none"> Monitoring of deficit, reporting on the funding levels produced by the actuaries. Monitoring of the adopted asset / liability model. Monitoring the outcome of the consultation on the remedies of the McCloud case in the Supreme Court 	
	Sub-optimal asset allocation throughout the portfolio.	4	2	8	MR	<ul style="list-style-type: none"> The investment strategy is reviewed and adopted by the Pension Fund Committee. The Committee (with advice from the Advisory Panel) should regularly review the asset allocation strategy. The review should cover both the fund strategy and the asset allocation. Post 2020 valuation review in process of being initiated 	
	Actuarial assumptions are not met. e.g. discount rate, life expectancy assumptions.	4	3	12	MR	<ul style="list-style-type: none"> Agree and set prudent assumptions in conjunction with the appointed Fund Actuary, based on past trends, forecasts, longevity modelling. Adhere to triennial valuations. Monitor performance against assumptions, consider Interim Valuations where necessary. Monthly monitoring of Pension Fund investment valuation given the uncertainty in markets due to Covid-19 Receive regular Actuarial Funding updates. 	
	Increases in Employer contributions.	4	2	8	MR	<ul style="list-style-type: none"> Participate in LGPS Scheme design consultation. Engage with Employers during and between Valuation cycles, particularly during times of organisational change e.g. downsizing, outsourcing. Ensure adequate securities / guarantees are in place where possible and that consequential risk is fully communicated to relevant parties. 	
	Potential for 'Cashflow Negativity'	4	2	8	MR	<ul style="list-style-type: none"> Regularly monitor cashflow impact position as contributions reduce Ensure sufficient income generation/liquid assets are available Regularly review Asset Strategy 	New risk introduced

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating Dec 2020 qtr
	Detrimental changes to the maturity of fund membership. As the scheme matures the ratio of pensioner / deferred pensioner to active employees increases.	4	2	8	MR	<ul style="list-style-type: none"> Monitor carefully through the valuation cycle. Ensure the investment strategy reflects current and forecast Fund maturity. Actively participate in pension consultation, giving due consideration to any proposals that may have a disproportional impact on scheme 'opt out' rates. [current considerations around 'Exit' caps] 	
Investments	Financial Market suppressed by economic climate, national / global austerity measures and Brexit.	4	4	16	HR	<ul style="list-style-type: none"> Long-term funding plan with a diverse range of asset classes and Fund Manager styles. Panel clearly understand the impact of market conditions on asset classes and fund manager performance. Panel monitor and scrutinise performance, market conditions and forecasts. Continue to monitor the potential implications of Brexit Material economic and financial risk of infectious disease 	
	Custody arrangements may not be sufficient to safeguard pension fund assets.	4	2	8	MR	<ul style="list-style-type: none"> An agreement is in place between the custodian and Pension Fund. Monthly reconciliations are carried out to check external custodian records. Funds held in the name of the Pension Fund, not the Fund Manager nor the Custodian. 	
	Investment returns fail to meet agreed targets.	4	2	8	MR	<ul style="list-style-type: none"> Regular monitoring of investment returns. Advisory Panel review and challenge of fund manager performance against their benchmarks and targets. Use advisors to support the monitoring and challenge of fund managers. Where performance issues arise, put more targeted review and challenge arrangements in place. 	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating Dec 2020 qtr
	Adverse impact of the transition of the Pension Fund's assets into the Wales Pension Partnership pooling	4	2	8	MR	<ul style="list-style-type: none"> Effective governance arrangement of the Joint Governance Committee and Officer Working Group Key role undertaken by the Joint Governance Committee at transition process Ensure operator establishes a tax efficient UK collective investment vehicle The sub fund for fixed interest investments was launched July 2020 Transition to ARBS delayed (temporarily). 	
	Investments are not carried out by the fund manager in accordance with instructions given by the Pension Fund.	3	2	6	LR	<ul style="list-style-type: none"> Investment assets and transactions are monitored in-house via the Euraplan Shareholder II system. Investment management fees are monitored on a quarterly basis. 	
	Pension fund investments may not be accurately valued.	4	1	4	LR	<ul style="list-style-type: none"> Investments are valued using correct prices obtained by fund managers from independent third party agencies. 	
	Fund managers may not have the appropriate control framework in place to protect pension fund assets.	4	1	4	LR	<ul style="list-style-type: none"> Agreements are in place between fund managers and the Pension Fund. Portfolios are managed in accordance with the investment objectives. Monthly reconciliations are carried out to check portfolios against administering authority records. Third parties provide the Pension Fund with an annual internal control report, which provides assurance. FCA regulated. Fund managers have robust arrangements in place to manage mandates at difficult and volatile times 	
	Fund manager mandate restrictions and benchmarks constrain returns.	3	1	3	LR	<ul style="list-style-type: none"> Obtain advice from advisors. Obtain advice from performance measurement company. 	
Governance	Introduction of new pooling arrangements by central government	5	4	20	HR	<ul style="list-style-type: none"> Joint Governance Committee and Officer Working Group has been formally constituted. Wales Pension Partnership's CIV proposal approved by FCA on 24th July 2018. Participation on consultation papers. Engagement with local pension boards Creation of sub funds continues to be effectively progressed 	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating Dec 2020 qtr
	Failure to comply with LGPS Governance Regulation / Pension Regulator Code of Practice.	5	1	5	LR	<ul style="list-style-type: none"> Fund Governance Compliance Statement is reviewed and published annually. The Fund's 'Pension Board' became effective from 1st April 2015. The Fund has a breaches policy. Review the Investment Strategy Statement annually in accordance with MHCLG guidance. Benchmark against regulator tool kit on code of practice Submit Annual Pension Scheme Regulator Return on time Good governance review currently ongoing by the Scheme Advisory Board 	
	Members, officers and advisors do not have the right knowledge or skills.	4	1	4	LR	<ul style="list-style-type: none"> The Pension Fund has adopted the CIPFA knowledge and skills framework. The Pension Fund Skill and Knowledge framework is reviewed at each Investment and Administration Panel, Pension Committee and Pension Board The Pension Fund subscribes to relevant professional bodies, e.g. LAPFF. 	
	Loss of reputation.	2	2	4	LR	<ul style="list-style-type: none"> The Fund holds Annual General Meetings, Communication Forums, seminars and training. The Fund has a dynamic website responding to stakeholder requirements. Knowledgeable and professional staff. Meetings are held regularly with the Fund's employer authorities. Benefit statements are sent out annually to members by 31st August. Monitoring of Fund Manager voting decisions. Annual reports are produced by 1st December The Fund's Responsible Investment Policy is contained within the Investment Strategy Statement and available on the Pension Fund website http://www.rctpensions.org.uk/En/GovernanceandInvestments/Investments The Pension Committee (22nd October 2019) has agreed to transition passive assets into a low carbon product subject to due diligence. This transition is now in progress. 	Amended to reflect the progress of the transition of passive assets into a low carbon product. The delay was due to custody transition accounts being used for the fixed interest transition.
	Conflicts of Interest arise.	3	1	3	LR	<ul style="list-style-type: none"> Declarations to be made by Advisory Panel Members, Pension Board Members and Pension Committee Members. Director of Legal Services maintains a Register of Interests. Fund Governance Policy. Employer / Member Engagement – Communication Policy. Transparency – published audited accounts, Valuation, Annual Report, etc. 	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating Dec 2020 qtr
	Failure to comply with the Myners Statement of Investment Principles.	2	1	2	LR	<ul style="list-style-type: none"> The Statement is reviewed annually by the Advisory Panel and approved by the Pension Committee. 	
Operational	Loss of key staff / expertise.	4	3	12	MR	<ul style="list-style-type: none"> Job descriptions and person specifications. Dynamic training program. Workforce planning arrangements in place. All staff are currently working from home during Covid-19 	
	Compliance with data quality regulation and best practice.	5	2	10	MR	<ul style="list-style-type: none"> Data Improvement Plan in place Good relationships / communication with Employers. Ensure timely notification by Fund Employers of new starters, changes and leavers. Issue annual benefit statements to scheme members for review. Breaches policy in place. Mandatory rollout of I-connect, monthly data submissions Monthly Data Screening Common and Scheme Specific Data reviews / scoring Scheme Member Self Serve validation available Fund participation in the National 'Tell us Once Service' TPR Annual Scheme Return and data score Membership data is hosted in the UK 	
	Cyber security breach of the Fund's pension system and personal data contained.	5	2	10	MR	<ul style="list-style-type: none"> Third Party supplier – cyber reliance controls Controls and environment maintained and regularly reviewed in line with Council's standards. Internal controls include, appropriate password and access conventions, firewalls, virus and malware protection, data encryption requirements. Annual control review or more frequent depending on environment / service changes Designated Information Management Officer, with Security Incident reporting protocol. Cyber Essential Accreditation Public Service Network (PSN) Accreditation Information & Security Board All Wales Security Forum (WARP) Cyber Security Principles for Pension Schemes' (Self Assessment) Cyber Security Risk Assessment undertaken during Covid-19 	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating Dec 2020 qtr
	Failure to meet Service Standards.	3	3	9	MR	<ul style="list-style-type: none"> Pension Fund Administration Strategy. Workforce planning, realign to meet one off demands, skills and training review. Appropriate systems and technology. Regular monitoring by Fund governance groups 	
	Failure to implement scheme changes.	4	2	8	MR	<ul style="list-style-type: none"> Regular updates are received, reviewed and acted upon in a timely manner. Ensure software is adapted appropriately. Membership of relevant pensions professional bodies. Implementation of McCloud remedies 	
	Employer ceases to participate in Fund / Admitted bodies go into administration.	3	2	6	LR	<ul style="list-style-type: none"> Employer covenants or bonds. Regular review of covenants. 	
	Failure to hold and share personal data in accordance with the General Data Protection Regulation (effective 28 th May 2018).	5	1	5	LR	<ul style="list-style-type: none"> Administering Authority Information Management Security policies. All Scheme Member correspondence securely imaged. Appropriate Data Protection Registration. Third Party Data Sharing agreements in place Fund Privacy Notice published Employer Memorandum of Understanding implemented Mandatory training undertaken by all staff Awareness sessions held with the Fund's Governance groups 	
	Failure to pay pensioners on time.	5	1	5	LR	<ul style="list-style-type: none"> Payroll Timetables maintained. Business Continuity Plan. 	
	Delivery of Triennial Valuation	5	1	5	LR	<ul style="list-style-type: none"> Employer Engagement : Year End Data Schedules Issued / Timetable / Support Project Terms of Reference / Timetable agreed with Actuary April'19 Employer Results finalised prior to March 2020 Full Report and Contribution Certificate published prior to 31/3/2020 Formal review of Funding Strategy Employers fail to operate the correct 2019 valuation rate 	
	Qualification of accounts.	4	1	4	LR	<ul style="list-style-type: none"> Financial Information reconciled on a timely basis. Accounts are prepared in accordance with the relevant regulations, guidance and Codes of Practice. Regular dialogue with external auditors. 	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating Dec 2020 qtr
	Operational disaster (fire / flood, etc)	4	1	4	LR	<ul style="list-style-type: none"> Business continuity procedures are in place 	
	Compliance with Fund 'Dispute' Regulation.	3	1	3	LR	<ul style="list-style-type: none"> Internal Dispute Procedure in place. 	
	Failure by employers to pay contributions into the Fund on time and in accordance with the 2019 'Rates and Adjustments Certificate'.	2	1	2	LR	<ul style="list-style-type: none"> Monitoring of monthly receipts to remittances, with reference to the 2019 'Rates and Adjustment Certificate' Report any material breaches to Regulator in accordance with the Fund's 'Breach Policy' 	<p>No delays reported to date.</p> <p>Material breach added to wording as per the suggestion of the Pension Board Chair</p>
	Fraud.	2	1	2	LR	<ul style="list-style-type: none"> Strict internal control mechanisms, segregation of duties, etc. Internal and External Audit Review. National Fraud Inspectorate participation. Whistleblowing policy in place 	
Regulatory	Failure to comply with LGPS regulations and any other new regulations.	4	1	4	LR	<ul style="list-style-type: none"> There are sufficient fully trained staff. Regular updates are received and acted upon. Membership of relevant pensions professional bodies. Welsh Pension Officer Group participation Welsh Pension Fund Treasurers Group participation. Compliance with MiFID II Submit Annual Pension Scheme Regulator Return on time MHCLC/LGA guidance issued to Fund Employers around the 'Exit' Regulations 	New interim controls and guidance issued as a result of the conflict between the new HMT 'Exit' regulations and the current Scheme Regulations
	Excessive charges by suppliers	1	2	2	LR	<ul style="list-style-type: none"> Regular budget monitoring Periodic review of suppliers 	

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2020-2021

PENSION FUND COMMITTEE

14th DECEMBER 2020

**REPORT OF: THE DIRECTOR OF
FINANCE AND DIGITAL SERVICES**

AGENDA ITEM NO. 7
WALES PENSION PARTNERSHIP - UPDATE

**Author – Barrie Davies, Director of Finance and Digital Services (01443)
424026**

1.0 PURPOSE OF REPORT

1.1 This report provides the Committee with an update on the work and progress with regard to the Wales Pension Partnership (WPP) and Joint Governance Committee (JGC).

2.0 RECOMMENDATION

2.1 It is recommended that the Committee:

2.1.1 Note the update.

3.0 BACKGROUND

3.1 As the Committee is aware the UK Government's requirement for all pension funds to pool their investments has been progressing in Wales through the WPP.

3.2 The Partnership governance arrangements include a JGC which meets around 4 times a year. Each pension fund in Wales is represented on the Committee by their Chair (or Vice Chair).

3.3 The last meeting of the JGC was held on the 11th September 2020. The agenda can be accessed [here](#), which was shared with all Committee (and board) members before the meeting.

3.4 At the September 2020 meeting, the Host update included:

Work continuing to develop in a number of key areas:

- WPP Sub funds – 4 of the 5 Fixed Income sub funds have now launched and the ARB will be launching later this month. Work has continued with the next tranches of sub funds.
- WPP 2019/20 Annual Report.
- WPP Governance Manual.

Other key areas:

- Work is continuing on the development of tranche 5 – private markets sub fund.
- The WPP voting policy is being developed.
- Robeco, the voting and engagement provider of the WPP, has commenced engaging with companies held within the sub fund of the WPP on ESG issues.
- Training – Training sessions are continuing to be arranged in line with the 2020/21 training plan. A training session took place on 23rd October covering private debt, infrastructure and a presentation from MSCI on ESG indices. A further training session took place on 24th November 2020 covering the progress of other LGPS pools and various ESG presentations by ShareAction and Climate Action 100+.
- Legal Advisor Contract – The preferred supplier will be recommended to the December JGC for approval.
- A Beliefs Statement is being developed.
- Website – The Annual Report has been published on the WPP website.

3.5 The next JGC meeting is scheduled to take place on 10th December 2020, the agenda for which can be also be accessed [here](#).

4.0 CONCLUSION

4.1 This report provides the Committee with an update on the work of the Wales Pension Partnership and the Joint Governance Committee.

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2020-2021

PENSION FUND COMMITTEE

14th DECEMBER 2020

**REPORT OF: THE DIRECTOR OF
FINANCE AND DIGITAL SERVICES**

AGENDA ITEM NO. 8
PENSION FUND AUDITED FINANCIAL STATEMENTS 2019/20

**Author – Barrie Davies, Director of Finance and Digital Services (01443)
424026**

1.0 PURPOSE OF REPORT

- 1.1 This report sets out the role of the Committee with regard to the approval process for the Pension Fund Accounts and provides Members with the opportunity to discharge their responsibilities in this respect.

2.0 RECOMMENDATIONS

- 2.1 It is recommended that the Committee :
- 2.1.1 Note the audited financial statements of the Pension Fund for the financial year 2019/20.

3.0 BACKGROUND

- 3.1 The role of the Pension Fund Committee with regard to the Fund financial statements is set out in the terms of reference, namely:
- Considering the Fund's financial statements as part of the approval process and agreeing the Fund's Annual Report. Receive internal and external audit reports on the same.
- 3.2 For the Committee's information, the Pension Fund Accounts (Appendix 1) were reported to and approved by full Council on 25th November 2020 and the outcome of the external audit, undertaken by Audit Wales, was an unqualified audit opinion (i.e. a clean audit opinion) and is included at Appendix 2.

4.0 CONCLUSION

- 4.1 This report satisfies the responsibilities of the Committee with regard to the financial statements of the Pension Fund.

Rhondda Cynon Taf Pension Fund Statement of Account

2019/20

Pension Fund Accounts

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Rhondda Cynon Taf Pension Fund Accounts

Introduction

The Rhondda Cynon Taf Pension Fund was established with effect from 1st April 1996, upon the reorganisation of Local Government in Wales under the Local Government Pension Scheme (Local Government Reorganisation in Wales) Regulations, 1995. The Local Government Pension Scheme (LGPS) is open to all employees in Local Government apart from teachers, who have their own scheme. It is also open to employees of other organisations that have been accepted into the Fund.

The Rhondda Cynon Taf Pension Fund provides pension benefits for employees of Rhondda Cynon Taf, Bridgend and Merthyr Tydfil County Borough Councils, together with employees from around 40 other bodies. Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

These accounts have been prepared in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting 2019/20 which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. A more detailed Pension Fund Annual Report is available on request from the Director of Finance and Digital Services.

The scheme is governed by the Public Service Pensions Act 2013 and administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended);
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended); and
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Fund Administration and Investments

Rhondda Cynon Taf CBC, as administrating authority has responsibility for the interpretation of pension legislation, the creation and maintenance of records, the calculation and payment of benefits and the provision of information to employees, employers and other relevant bodies.

The Pension Fund Committee is responsible for the strategic management of the Rhondda Cynon Taf Pension Fund in accordance with its Terms of Reference.

The Director of Finance and Digital Services (in their capacity as S151 officer) supported by an Investment and Administration Advisory Panel, has delegated responsibility for all day to day operational matters.

The Pension Fund Investment and Administration Advisory Panel, is chaired by the Director of Finance and Digital Services and consists of two independent Investment Advisors and other Senior Finance Officers.

The Panel meets quarterly to consider both administration and investment issues, to determine policy in light of market movements and to question and challenge the Investment Managers on their activities and performance. At the Net Assets Statement date there were four Investment Managers and the operator of the Wales Pension Partnership (WPP) carrying out the day-to-day investment management of the Fund's assets:

- Baillie Gifford (Global Equities);
- BlackRock (Passive Equities);
- BMO Global Asset Management (Bonds);
- CBRE (Property); and
- Link (Operator of the WPP).

The Pensions Board was established in accordance with the Public Service Pensions Act 2013 to assist Rhondda Cynon Taf CBC as 'scheme manager' in achieving effective and efficient governance and administration of the Rhondda Cynon Taf Pension Fund.

Wales Pension Partnership (WPP)

On the 15th March 2017 Council approved the establishment of a Joint Governance Committee to oversee the pooling of the investments of the eight Local Government Pension Scheme (LGPS) funds in Wales. The link to the report can be found here: [All Wales Pension Fund Investment pooling-joint Governance Committee and Inter Authority Agreement.](#)

Link Fund Solutions Ltd (Link) have established an Authorised Contractual Scheme (ACS) (a tax efficient UK collective investment vehicle) on behalf of the WPP. The ACS will have sub-funds in a range of asset classes that will meet the needs of the LGPS funds in Wales, to allow them to execute their differing asset allocation strategies. The LGPS funds will retain full control over strategic asset allocation decisions.

Positive progress has been made by the WPP in the establishment of three sub funds for the collective investing of assets. The prospectus for Global High Alpha Equities, comprising two sub funds with differing risk / return characteristics, was approved by the Financial Conduct Authority (FCA) in July 2018. The prospectus for the second sub fund for UK Equities was approved by the FCA in September 2019. The third sub-fund relates to Fixed Interest and was approved by the FCA in February 2020. Assets were transitioned into the third sub-fund during July 2020.

Statement of Responsibilities for the Pension Fund Accounts

Rhondda Cynon Taf County Borough Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of the Pension Fund's financial affairs and to ensure one of its Officers has the responsibility for the administration of those affairs. In the Council, that Officer is the Director of Finance and Digital Services.
- To manage the Pension Fund's affairs to ensure economic, efficient and effective use of resources and safeguard its assets.
- To approve the Pension Fund Accounts.

I confirm that these accounts were approved by Council on:

Signature:  Date: 25/11/20

Presiding Officer

Rhondda Cynon Taf County Borough Council
The Pavilions, Cambrian Park
Clydach Vale
Tonypandy
CF40 2XX

The Director of Finance and Digital Services' Responsibilities

The Director is responsible for the preparation of the Pension Fund Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom, is required to present a true and fair view of the financial position of the Pension Fund at the accounting date and its income and expenditure for the year.

In preparing the Pension Fund Accounts, the Director has:


- Selected suitable accounting policies and applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the code.

The Director has also throughout the financial year:

- Maintained proper accounting records that were kept up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of the Director of Finance and Digital Services on the Accounts of Rhondda Cynon Taf Pension Fund for 2019/20

I certify that the accounts present a true and fair view of the financial position of Rhondda Cynon Taf Pension Fund as at 31st March 2020 and its income and expenditure for the year.

Signature:  Date: 25/11/20

Barrie Davies

Director of Finance and Digital Services

Rhondda Cynon Taf County Borough Council

Oldway House

Porth

CF39 9ST

Fund Account

2018/19			2019/20	
£'000		Note:	£'000	£'000
	Contributions			
(98,732)	Employer contributions	13.0	(106,927)	
(26,779)	Member contributions	13.0	(28,210)	
(125,511)				(135,137)
	Transfers in from other Pension Funds			
(3,433)	Group transfers in from other scheme or funds		(4,243)	
(1,872)	Individual transfers from other schemes or funds		(3,835)	
				(8,078)
(5,141)	Other income		(4,135)	
(5,141)				(4,135)
	Benefits			
105,653	Pensions	13.0	109,078	
20,068	Commutation of pensions and lump sum retirement benefits	13.0	20,072	
2,972	Lump sum death benefits	13.0	2,431	
128,693				131,581
	Payments to and on account of leavers			
305	Refunds to members leaving scheme or fund		245	
9	Payments for members joining state scheme or fund		4	
5,168	Group transfers to other schemes or funds	17.0	0	
9,111	Individual transfers to other schemes of funds		11,804	
14,593				12,053
143,286				143,634
7,329	Net (addition)/withdrawals from dealing with members			(3,716)
11,039	Management expenses	14.0	13,121	
				13,121
18,368	Net (additions)/withdrawals including fund management expenses			9,405
	Investment income			
(34,687)	Dividends from equities		(14,077)	
(24,111)	Income from bonds		(23,806)	
(2,168)	Income from pooled investment vehicles		(1,986)	
(5,942)	Income from pooled property investments		(11,733)	
(160)	Interest on cash deposits		(45)	
(67,068)				(51,647)
(204,694)	(Profits) and losses on disposal of investments and changes in the value of investments	12.0	140,724	
(204,694)				140,724
853	Taxes on income		131	
853				131
(270,909)	Net returns on investments			89,208
(252,541)	Net (increase) / decrease in net assets available for benefits during the year			98,613
(3,206,094)	Opening net assets			(3,458,635)
(3,458,635)	Closing net assets			(3,360,022)

Net Assets Statement

2018/19			2019/20	
£'000		Note:	£'000	£'000
	Investment Assets	7.0		
676,076	Equities		629,437	
843,928	Bonds		896,429	
273,082	Pooled investment vehicles – open ended investment companies		92,721	
1,363,745	Pooled investment vehicles – managed funds		1,415,362	
260,851	Pooled property investments		287,697	
3,417,682				3,321,646
29,911	Cash deposits			25,885
	Other investment balances			
7,229	Accrued interest		7,392	
6,323	Investment debtors		5,357	
1,887	Tax recoverable		2,018	
15,439				14,767
3,463,032				3,362,298
	Investment Liabilities			
(3,991)	Investment creditors			(11,612)
(2,397)	Derivative contracts			(462)
3,456,644	Net Investment Assets			3,350,224
	Current assets			
6,116	Contributions due from employers and employees		6,366	
458	Other current assets		6,808	
6,574				13,174
	Current Liabilities			
(4,583)	Current liabilities			(3,376)
3,458,635	Net assets of the scheme available to fund benefits at period end			3,360,022

Notes to the Accounts

1.0 Significant Accounting Policies

1.1 Accruals of Expenditure and Income

Where material, accruals are made for employee and employer contributions, investment income, benefits paid, administration costs, investment management fees and advisors fees. Transfer values are accounted for on a cash basis, with the exception of material group transfers, which are accounted for during the year of effective date of transfer or the year in which the actuary values the transfer, if later.

1.2 Investment Valuation of Financial Instruments

In terms of "Fair Value", all investments have quoted prices in active markets, with the exception of Pooled Investment Vehicles managed by the WPP and Pooled Property Funds.

Listed securities are valued in accordance with IAS 39 – Financial Instruments, using bid prices as at 31st March 2020 obtained from recognised Stock Exchanges.

Fixed interest securities are valued "clean", excluding accrued interest. Sterling valuations of securities denominated in foreign currencies are based on closing exchange rates as at 31st March 2020.

Pooled Investment Vehicles managed by the WPP are valued using net asset values provided by Link, the WPP operator. These are reported at the closing single price. The Global High Alpha funds in which Rhondda Cynon Taf Pension Fund invests are accumulation units, therefore, no direct dividend income is received.

Pooled Property Funds are valued by Fund Managers using reliable valuation techniques to determine Fair Value. Property valuations are represented by unit prices, based on underlying independent professional valuations. No assets require significant judgements or assumptions to determine Fair Value.

1.3 Additional Voluntary Contributions (AVCs)

Scheme members may elect to make additional voluntary pension contributions from their salaries. These AVCs are not included in the Pension Fund accounts in accordance with regulation 5(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016.

The amount of AVCs paid by members during the year amounted to £1.174m (£1.230m in 2018/19) and the market value of invested AVCs at the Balance Sheet date was £8.010m (£8.169m in 2018/19). There are two AVC providers.

1.4 Acquisition and Disposal Costs

Transaction costs incurred in acquiring or disposing of investments are included as part of the purchase cost or netted off against sales proceeds, as appropriate. Transaction costs include fees, commissions and duties. Transaction costs incurred during 2019/20 amounted to £1.90m (£1.74m in 2018/19).

In addition to the direct costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

1.5 Taxation

As a registered public service scheme the Pension Fund is exempt from UK income tax and capital gains tax. Overseas investment income incurs withholding tax in the country of origin unless exemption is granted.

Irrecoverable tax is accounted for as an expense in the Fund Account, with any recoverable tax shown as an asset in the Net Assets Statement.

There is a small liability to income tax on refunds of contributions and compounded pensions (small pensions converted into lump sums). These amounts are paid to HMRC on a quarterly basis.

VAT is recoverable on all activities, so the accounts are shown exclusive of VAT.

1.6 Derivatives

The Fund uses derivative financial instruments to manage exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. The use of derivatives is managed in line with the investment agreement between the Fund and Investment Manager. Derivatives are held on the Net Asset Statement as assets or liabilities dependent upon the position as at 31st March 2020.

1.7 Cash and Cash Equivalents

Cash and Cash Equivalents are sums of money available for immediate use by the Pension Fund. Such items are deemed to be cash balances held in the Pension Fund's bank accounts and any overdrawn bank balances.

Short-term investments are deemed to be cash and cash equivalents. These funds are invested on a short term basis by Rhondda Cynon Taf CBC until it is required to meet its liabilities, or to transfer surplus cash to the Investment Managers for reinvestment.

1.8 Contingent Liabilities

A contingent liability is a possible item of expenditure that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the organisation's control. Such contingent liabilities are not reflected in the Net Assets Statement as it may not be probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

2.0 Accounting Standards Issued but not Adopted

The standards that may be relevant for additional disclosures that will be required in the 2019/20 and 2020/21 financial statements in respect of accounting changes that are introduced in the 2020/21 Code are:

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

Appendix C of the 2020/21 Code only includes standards adopted in the Code and therefore for 2019/20 local authorities are not required to include IFRS 16 in their consideration of accounting standards that have been issued but not yet adopted, although this is subject to approval of the 2020/21 Code.

3.0 Critical Judgements in Applying Accounting Policies

The Fund's liability is calculated every three years by the appointed actuary. The methodology used is in line with accepted guidelines. Assumptions underpinning the valuations are agreed with the actuary. The estimate is subject to significant variances based on changes to the underlying assumptions.

4.0 Assumptions Made about the Future and other major Sources of Estimation Uncertainty

The Pension Fund accounts contain estimated figures based on assumptions made taking into account historical experience, current trends and other factors. As balances cannot be determined with certainty, actual costs could be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimations of the liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries increase,	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in the

	changes in mortality rates and expected returns on pension fund assets. The actuary provides the Fund with advice regarding the assumptions to be used.	pension liability. An increase in assumed earnings inflation or assumed life expectancy would increase the value of the liabilities.
Pooled property fund valuations	The 31 st March 2020 property valuations provided by the property manager, has been predominantly based on either December 2019 or February 2020. This would not have included any Covid-19 impact. The majority of the underlying fund managers within the property mandate have recently attached a 'material valuation uncertainty' clause to their valuations.	The net asset value was prepared in accordance with the property manager's valuation policy, whilst any underlying property appraisals may have been qualified with a material valuation uncertainty clause. They are the valuer's opinion as at 31 st March 2020. Not all the portfolio would be affected by Covid-19 in the same way, therefore it is the fund manager's opinion that it is currently not possible to determine a percentage impact or a volatility metric.

The actuarial present value of promised retirement benefits includes the potential impact of the McCloud judgement. Refer to Note 6 for further details.

5.0 Events after the Reporting Date

The audited Statement of Accounts was authorised for issue by the Director of Financial and Digital Services, as Chief Finance Officer, on 25th November 2020. Events taking place after this date are not reflected in the financial statements or notes.

Where events taking place before this date provide information about conditions existing at 31st March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. There are no events that took place after 31st March 2020 requiring disclosure providing information that is relevant to an understanding of the Pension Fund's financial position.

6.0 Actuarial Position

The Fund's Actuary, AON Hewitt carried out an actuarial valuation of the Fund as at 31st March 2019 in compliance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2013. Actuarial valuations take place on a triennial basis with a number of key assumptions being made.

The methodology to calculate the Pension Fund liability reflects assumptions and estimates depending on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected return on Pension Fund assets.

Where a valuation reveals a deficiency (or surplus), employer contribution rates are adjusted to seek restoration of a 100% funding ratio. The recovery period for each employer is set by the Administering Authority in consultation with the Actuary.

The funding policy of the Scheme is to ensure that:

- Employer contribution rates are kept as nearly constant as possible and at reasonable cost to the employers and taxpayers.
- Sufficient resources are available to meet all liabilities as they fall due.
- Employers' liabilities are managed effectively by seeking regular actuarial advice.
- Income from investments is maximised within reasonable risk parameters.

The results of the 2016 and 2019 valuations are shown in the table below:

	31/03/2019	31/03/2016
	£'m	£'m
Funding Target	3,515	3,064
Market Value of Assets	3,459	2,485
Funding Deficit	56	579
Funding Ratio	98%	81%

The aggregate employer future service contribution rate is 19.6% of pensionable pay. To restore the funding ratio to 100% using a recovery period of 19 years the aggregate employer contribution rate is calculated to be 21.0%.

Contribution rates payable by each scheme employer will vary depending on their particular circumstances. Some employers will also phase in contribution increases over a maximum period of 3 years. Further details are available in the actuarial report.

Contribution rates have been calculated using the Projected Unit Method for most employers. The Attained Age Method has been used for some employers who do not permit new employees to join the Fund. The key assumptions made are listed in the following table:

Assumption	2019 Valuation	2016 Valuation
	% p.a.	% p.a.
Average in service discount rate	4.18%	4.5%
Average left service discount rate	3.79%	4.5%
CPI inflation	2.10%	2.0%
Pensionable Pay increases	3.35%	3.25%
Post-retirement mortality assumption – base table (for retirements in normal health)	S2N heavy tables with best-estimate scaling factors derived from experience analysis combined with postcode analysis	S2P tables with best-estimate scaling factors derived from experience analysis

Post-retirement mortality assumption – future improvements	CMI 2018 projections with Sk=7.5, A=0.0 and long term improvement rate of 1.5% p.a. for men and women	CMI 2014 core projections with long term improvement rate of 1.5% pa for men and women
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In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes. The actuary has also used valued ill health and death benefits in line with IAS 19.

The CIPFA Code of Practice on Local Authority Accounting also requires the disclosure of the relationship between the actuarial present value of promised retirement benefits and the net assets.

	Value as at 31/03/2019	Value as at 31/03/2016
	£'m	£'m
Fair Value of net assets	3,458.6	2,485.4
Actuarial present value of promised retirement benefits	4,645.0	3,470.8
Surplus / (deficit) in the Fund as measured for IAS 26 purposes	(1,186.4)	(985.4)

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2019 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

The above table, the Fund Account and Net Assets Statement does not include the potential impact of:

- Cost management process; and
- GMP equalisation and indexation, beyond indexation for members reaching State Pension Age before 5th April 2021.

Legislation requires HM Treasury and the Scheme Advisory Board (SAB) to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. This is referred to as the "Cost Management Process". HM Treasury and the SAB have paused their reviews following the "McCloud" judgement in the Court of Appeal which found that the transitional protection arrangements put in place when firefighters' and judges' pension schemes were reformed were age discriminatory. This is expected to have implications for other public sector schemes that were reformed around the same time (including the

LGPS) and could potentially lead to members deemed to be discriminated against being compensated. The Supreme Court denied the Government's application for permission to appeal this judgement on 27th June 2019.

The matter will now be referred back to the Employment Tribunal for a remedy hearing. Once a Tribunal makes a finding on remedy, compensation will be awarded and the schemes amended as appropriate.

The cost management process will recommence taking into account the remedy and any scheme amendments. No allowance has been made in the disclosures for the outcome of this process.

On 26th October 2018, the High Court ruled in the case of Lloyds Bank that equalisation for the effect of unequal Guaranteed Minimum Pensions (GMPs) is required. The ruling confirmed that trustees have a duty "to equalise benefits for men and women". HM Treasury have stated that "public sector schemes already have a method to equalise GMP benefits, which is why we will not have to change our method as a result of this judgement".

7.0 Analysis of Investments at Fair Value

	2018/19		2019/20	
	£'000	£'000	£'000	£'000
Equities				
UK	279,594		169,833	
Overseas	396,482		459,604	
		676,076		629,437
Bonds				
UK	767,811		800,807	
Overseas	76,117		95,622	
		843,928		896,429
Pooled funds				
UK	19,189		17,192	
WPP Global Equities	1,363,745		1,270,900	
Overseas - other	253,893		219,991	
		1,636,827		1,508,083
Pooled funds - property				
UK - other	260,292		287,562	
Overseas - other	559		135	
		260,851		287,697
Total long-term investments		3,417,682		3,321,646

The Fund has not participated in any stock lending arrangements during 2019/20 but has agreed to do so in 2020/21 for investments in the WPP.

All investments held are quoted investments with the exception of property, which is valued at Fair Value and no assets reclassified. Carrying values of assets held in the Net Assets Statement are the same as the Fair Values shown above.

The Pension Fund holds derivative contracts which are valued as a liability in the Net Asset Statement as at 31st March 2020.

All investments above are deemed to be Financial Instruments designated "Fair Value through Profit and Loss". All investment income, profits/losses on disposals of investments, and changes in the value of investments recognised in the Fund Account arise from Financial Instruments designated "Fair Value through Profit and Loss", with the exception of interest on cash deposits. Cash deposits are deemed to be Financial Instruments designated "Loans and Receivables".

Quoted equities and cash are classed as fair value hierarchy level 1. Bonds, pooled property, pooled investments within the WPP and derivative contracts are classified as fair value hierarchy level 2.

8.0 Fund Manager Asset Allocation

The market values of investments held by the Fund Managers employed by the Fund are detailed in the following table:

Fund Manager	Market Value		Proportion of Fund	
	31/03/2019 £'000	31/03/2020 £'000	31/03/2019 %	31/03/2020 %
Baillie Gifford (Global Equities)	799,135	728,101	23.2	21.7
BlackRock (Passive Equities)	153,809	144,528	4.4	4.3
BMOGAM (Bonds)	857,306	903,811	24.8	27.0
CBRE (Property)	263,792	290,497	7.6	8.7
Link (Global Growth)	1,091,893	1,011,978	31.6	30.2
Link (Global Opportunities)	271,852	258,922	7.9	7.7
Internally Managed	18,857	12,387	0.5	0.4
Total	3,456,644	3,350,224	100	100

No single investment accounted for more than 5% of the Fund's assets.

The market value of investments shown in this table includes short-term investments such as cash balances and money deposits, and so differs from the total of long-term investments only, as shown in note 7.0.

Investment risk is mitigated by employing a number of fund managers to diversify manager risk, with mandates covering a variety of assets including equities, bonds and property. Managers must maintain a diversified portfolio of investments and comply with the LGPS investment regulations, and any additional restrictions within their mandates. The underlying investments are further diversified by country and industry sector.

Each manager's performance is monitored quarterly against a target linked to an asset allocation benchmark, effectively constraining managers from deviating significantly from the intended approach, while still permitting some flexibility to enhance returns.

9.0 Geographical Spread of the Fund

The Fund Managers invest in shares in a number of countries. The table below shows the value of stocks and shares held by the Fund Managers as at 31st March 2020:

Area	£'000	%
UK Equities	269,841	8.1%
European Equities	175,921	5.2%
US and Canadian Equities	243,740	7.3%
Japanese Equities	56,221	1.7%
Pacific Equities	30,153	0.9%
Other International Equities	90,744	2.7%
Global Pooled Equities	1,270,900	37.9%
Bonds	896,429	26.7%
Property	287,697	8.6%
Cash & Equivalents	28,578	0.9%
Total	3,350,224	100%

10.0 Contingent Liabilities

There is a contingent liability of £968k (£836k in 2018/19) in respect of refundable contributions for leavers who have not yet claimed refunds.

11.0 Reconciliation of Investment Asset Valuation

A reconciliation of the opening and closing investment valuations is given below:

	Market Value 01/04/19	Purchases	Sales at Historic Book Cost	Change in Market Value	Market Value 31/03/20
	£'000	£'000	£'000	£'000	£'000
Bonds	843,928	270,841	(235,015)	16,675	896,429
Equities	676,076	125,748	(74,301)	(98,086)	629,437
Pooled Investments	1,636,827	4,217	(7,073)	(125,888)	1,508,083
Pooled Property	260,851	33,614	(3,362)	(3,406)	287,697
	3,417,682	434,420	(319,751)	(210,705)	3,321,646
Cash Deposits	27,514			69,981	25,423
Investment Debtors	15,440				14,767
Investment Creditors	(3,992)				(11,612)
Total	3,456,644			(140,724)	3,350,224

Comparative note for 2018/2019:

	Market Value 01/04/18	Purchases	Sales at Historic Book Cost	Change in Market Value	Market Value 31/03/19
	£'000	£'000	£'000	£'000	£'000
Bonds	581,747	596,804	(346,770)	12,147	843,928
Equities	1,973,190	285,107	(1,126,241)	(455,980)	676,076
Pooled Investments	393,868	1,295,035	(87,646)	35,570	1,636,827
Pooled Property	167,831	93,809	(9,530)	8,741	260,851
	3,116,636	2,270,755	(1,570,187)	(399,522)	3,417,682
Cash Deposits	80,192			604,216	27,514
Investment Debtors	15,295				15,440
Investment Creditors	(8,498)				(3,992)
Total	3,203,625			204,694	3,456,644

12.0 Profits and Losses on Investments

	2018/19	2019/20
	£'000	£'000
Profit on sales	657,501	102,515
Loss on sales	(51,788)	(41,542)
Net profit / (loss) on sales	605,713	60,973
Change in market value	(401,019)	(201,697)
Net increase/ (decrease) in value	204,694	(140,724)

13.0 Contributions Receivable and Benefits Payable

Contributions received and benefits paid are shown in the table below:

Type of Body	Member Contributions		Employer Contributions		Pensions, Lump Sums and Death Benefits	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000	£'000
Administering	8,480	9,025	35,181	38,100	35,904	34,967
Admitted	3,518	3,620	15,078	17,109	13,706	16,255
Scheduled	14,781	15,565	48,473	51,718	79,083	80,359
Total	26,779	28,210	98,732	106,927	128,693	131,581

Included in employer contributions are £11,428k of deficit funding contributions (£9,790k in 2018/19). There are no augmented contributions.

14.0 Management Expenses

The management expenses borne by the Fund in 2019/20 are set out below:

	2018/19	2019/20
	£'000	£'000
Administrative Costs	1,839	1,845
Investment Management Expenses	8,973	11,001
Oversight and Governance Costs	227	275
Total	11,039	13,121

Investment management expenses represent 0.33% (0.26% in 2018/19) of the value of the Pension Fund as at 31st March 2020.

2019/20 Audit Fees of £39k are included in Oversight and Governance Costs (£39k in 2018/19).

The investment management expenses borne by the Fund in 2019/20 are set out below:

	2018/19	2019/20
	£'000	£'000
Management Fees	6,843	8,590
Custody Fees	390	473
Transaction Costs	1,740	1,938
Total	8,973	11,001

Included in the management expenses above, is the cost of the Fund's involvement in the WPP collective investment pooling arrangement, as set out below:

	2018/19	2019/20
	£'000	£'000
WPP Oversight and Governance Costs		
Set up Costs	33	0
Running Costs	20	58
WPP Investment Management Expenses		
Fund Managers Fees	733	4,317
Transaction Costs	0	1,538
Custody Fees	114	215
Total	900	6,128

The oversight and governance costs are the annual running costs of the Pool, which includes the Host Authority costs and other external advisor costs. These costs are funded equally by all eight of the Local Authority Pension Funds in Wales. The investment management expenses are fees payable to Link Fund Solutions (the WPP operator) and include fund manager fees, transaction costs (which also includes the operator fee) and custody fees. These costs are based on each Fund's percentage share of the WPP pooled assets and are deducted from the Net Asset Value (NAV).

15.0 Transactions with Related Parties

In the course of fulfilling its role as Administering Authority to the Fund, Rhondda Cynon Taf CBC provided services to the Fund for which it charged £1.5m (£1.5m in 2018/19). These costs are mainly in respect of those staff employed in ensuring that the pension service is delivered.

At the year-end, contributions outstanding from the Employing Bodies in the Fund amounted to £6.4m (£6.1m in 2018/19), of which £4.9m related to employer contributions and £1.5m to employee contributions.

There are members of the Pension Fund Investment and Administration Advisory Panel, the Pensions Board and the Pension Fund Committee who are also members of the Rhondda Cynon Taf Pension Fund.

The administration of the Rhondda Cynon Taf Pension Fund is a function of full Council, with responsibility for day to day decisions being delegated to the Director of Finance and Digital Services. As such, the post holders are required to declare any interests with related parties. The disclosure can be found in the Statement of Accounts of Rhondda Cynon Taf County Borough Council.

The Committee Members and Senior Officers that advise the Committee are required to declare their interest at each meeting.

Officer remuneration and Members allowances can be found in the Statement of Accounts of Rhondda Cynon Taf County Borough Council.

16.0 Membership of the Fund

Fund membership at 31st March is as follows:

	2019	2020
Active Employers	49	53
Contributors	23,329	23,696
Pensioners	17,025	17,512
Dependants	2,679	2,726
Deferred Beneficiaries	27,104	28,108

17.0 Group Transfers

There were no group transfers in 2019/20. The Fund transferred £5.2m to Cardiff and Vale of Glamorgan Pension Fund in 2018/19 in respect of regulatory joint working.

18.0 Nature and Extent of Risks Arising From Financial Instruments

A financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability (or equity instrument) of another entity. There are three main ways in which the Pension Fund is exposed to risk from financial instruments:

- Credit Risk;
- Liquidity Risk; and
- Market Risk.

The overall objective is to minimise the risk of a reduction in the value of the Fund, and to maximise the opportunity for gains within reasonable risk parameters.

The Funding Strategy Statement identifies key risks to the Pension Fund together with the countermeasures undertaken to mitigate the risks.

18.1 Credit Risk

Credit risk is the possibility that a counterparty will fail to discharge its obligation to the Pension Fund, causing a financial loss. Counterparties considered are banks and financial institutions with whom investments are placed, employers within the Fund and Investment Managers. The risk of counterparties failing to discharge obligations is managed in a number of ways:

- Counterparties for cash investments made by the Administering Authority must meet the strict credit criteria set out in the Rhondda Cynon Taf CBC Treasury Management Strategy.
- Participating employers may be required to provide a bond to cover the risk to the Fund should they be unable to meet their pension contribution obligations.
- Investment Managers manage funds that are held in the name of the Pension Fund, not in the name of the Investment Managers. In the event of the Investment Manager being unable to fulfil their obligations the Fund's investments will not be considered part of their asset portfolio.

The Pension Fund has had no experience of counterparty default in the last five years. Cash deposits held by the Administering Authority for the Pension Fund as at 31st March 2020 amounted to £9.97m with the institutions shown in the table below:

Institution	Balance at 31/03/20 £'000	Maturity Date
Debt Management Office	9,970	01/04/20
Total	9,970	

18.2 Liquidity Risk

Liquidity risk is the risk that the Pension Fund will not be able to meet its financial obligations as they fall due. This risk is managed by:

- Maintaining a robust cash flow monitoring and forecasting model.
- Ensuring that the Pension Fund has access to cash in the short and medium-term to pay pensions by managing cash flow from money-market investments.
- Taking actuarial advice to set employer contribution rates at triennial valuations in order to meet the long-term funding requirements to pay pensions and other commitments.

The Administering Authority has immediate access to internally managed Pension Fund cash balances held with its own bank, Barclays. The Authority also invests Pension Fund cash in short-term deposits with the Debt Management Office or other UK public bodies for periods normally less than 3 months.

18.3 Market Risk

Market risk is the risk of a loss in the value of investment assets from movements in investment markets e.g. asset prices, interest rates and currency exchange rates. This risk is managed by ensuring that the Fund invests in a broad range of assets diversified by Investment Manager, asset class and geographical region.

Following analysis of historic data, Pensions & Investment Research Consultants (PIRC), the Fund's pension performance analytics company, has provided a view of potential market movements for the 2020/21 financial year. The possible impact of movements in each asset type is shown in the following table:

Asset type	31/03/20 Value	Change %	Value on increase	Value on decrease
	£'000		£'000	£'000
Core Equity Mandate	872,629	13.2	987,428	757,830
Global Equity Mandate	1,270,900	13.2	1,438,659	1,103,141
Bond Mandate	903,811	5.9	957,233	850,389
Property Mandate	290,497	2.4	297,462	283,532
Internal Mandate	12,387	0.5	12,448	12,326

PIRC also advised that the potential market movement for the Fund as a whole, could be 9.3%. The possible impact is shown below:

	31/03/20 Value	Change %	Value on increase	Value on decrease
	£'000		£'000	£'000
Fund Asset Total	3,350,224	9.3	3,660,952	3,039,496

The Fund's interest rate risk is monitored regularly with the advice of the Administering Authority's treasury advisors. Interest rate changes can affect Fund income and asset values.

Assuming that all other variables, particularly exchange rates, remain unchanged, a movement in interest rates of 1% for the 2020/21 financial year would have the following effect:

Asset type	31/03/20 Value	Value on increase	Value on decrease
	£'000	£'000	£'000
Bond securities	896,429	905,393	887,465
Cash deposits & balances	28,578	28,864	28,292
Total	925,007	934,257	915,757

Currency risk is the risk to income and investment asset values from changes in exchange rates. The Fund is exposed to this risk from non-sterling denominated investments in a range of assets.

A movement in currency exchange rates of 7.4% would have the following effect:

Asset type	31/03/20 Value	Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas Equities	596,799	640,962	552,636
Overseas Bonds	95,622	102,698	88,546
Overseas Pooled Property	135	145	125
Total	692,556	743,805	641,307

The independent auditor's report of the Auditor General for Wales to the members of Rhondda Cynon Taf County Borough Council as administering authority for Rhondda Cynon Taf Pension Fund

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Rhondda Cynon Taf Pension Fund for the year ended 31 March 2020 under the Public Audit (Wales) Act 2004. Rhondda Cynon Taf Pension Fund financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-2020 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-2020.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the pension fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter – effects of the Covid-19 pandemic on the valuation of property fund and alternative assets

I draw attention to Note 4 of the financial statements, which describes the impact of a material uncertainty disclosed in the fund managers' year-end valuation reports for the UK property fund and alternatives fund they manage on behalf of the Rhondda Cynon Taf Pension Fund. The Fund has disclosed this material uncertainty and my audit opinion is not modified in respect of this matter.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The responsible financial officer is responsible for the other information in the pension fund accounts. The other information comprises the information included in the pension fund accounts other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the introduction for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In the light of the knowledge and understanding of the pension fund and its environment obtained in the course of the audit, I have not identified material misstatements in the pension fund accounts.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns;
or
- I have not received all the information and explanations I require for my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Rhondda Cynon Taf Pension Fund in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the financial statements set out on pages 4 to 5, the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the responsible financial officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.



Adrian Crompton
Auditor General for Wales
26 November 2020

24 Cathedral Road
Cardiff
CF11 9LJ

The maintenance and integrity of Rhondda Cynon Taf County Borough Council website is the responsibility of the Accounting Officer; the work carried out by auditors does not involve consideration of these matters and accordingly auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Glossary of Terms

Accrual

An accrual is a sum shown in the accounts representing income or expenditure relating to the accounting period, which had not actually been received or paid as at the date of the net asset statement.

Active/Passive Management

Active management is the traditional form of investment management involving a series of individual investment decisions that seek to maximise returns by exploiting price inefficiencies i.e. 'beat the market'.

Passive management is a low cost alternative where managers normally hold stocks in line with a published index, such as the FTSE All-Share, not seeking to outperform but to keep pace with the index being tracked.

Actuary

An actuary is an individual or organisation that calculates insurance premiums and liabilities and pension obligations.

Actuarial Gains and Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation, or the actuarial assumptions have changed.

Admitted Body

An organisation, whose staff can become members of the Fund by virtue of an admission agreement made between the Council and the organisation. It enables contractors who take on the Council's services with employees transferring, to offer those staff continued membership of the Fund.

Asset Allocation

Apportionment of investment funds among categories of assets, such as Bonds, Equities, Cash and Property. Asset allocation affects both risk and return.

Attained Age Method

An Actuarial method of calculating a contribution rate to the Pension Fund. It calculates the present value of the benefits estimated to accrue to members over their expected remaining membership, expressed as a percentage of their expected future pensionable pay.

Audit

An audit is an independent examination of activities.

Cash and Cash Equivalents

Sums of money available for immediate use and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Chartered Institute of Public Finance and Accountancy (CIPFA)

CIPFA is responsible for issuing financial guidance to public bodies.

Contingent Liabilities or Assets

These are amounts potentially due to or from individuals or organisations which may arise in the future but which at this time cannot be determined accurately and for which provision has not been made in the Pension Fund's accounts.

Creditor

A creditor is an organisation/individual owed money by the Pension Fund at the end of the financial year for goods/services received.

Custodian

Bank or other financial institution that keeps custody of stock certificates and other assets of a client, collects dividends and tax refunds due and settles any purchases and sales.

Current Assets

These are short-term assets that are available for the Pension Fund to use in the following accounting period.

Current Liabilities

These are short-term liabilities that are due for payment by the Pension Fund in the following accounting period.

Debtor

A debtor is an organisation/individual who owes the Pension Fund money at the end of the financial year for goods/services received.

Debt Management Office (DMO)

The DMO is an Executive Agency of Her Majesty's Treasury. Its responsibilities include debt and cash management for the UK Government, lending to Local Authorities and managing certain public sector funds.

Defined Benefit Scheme (Pensions)

This is a pension or other retirement benefit scheme other than a defined benefit contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Defined Contribution Scheme (Pensions)

A Defined Contribution Scheme is a pension or other retirement benefit scheme into which an employer pays regular contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Derivatives

A derivative instrument is a contract whose value is based on the performance of an underlying financial asset, index, or other investment.

Employer Contribution Rates

The percentage of the salary of employees that employers pay as a contribution towards the employees' pension.

Equities

Ordinary shares in UK and overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and may normally vote at shareholders' meetings.

Fair Value Hierarchy

Level 1 – Assets and liabilities at level 1 are those where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 – Assets and liabilities at level 2 are those where quoted market prices are not available.

Level 3 – Inputs not based on observable market data. The values of investment in private equity are based on valuations provided by the general partners to the private equity funds. If the company's year-end does not coincide with the Pension Fund's year end, the valuation is updated with regard to the calls and distributions made between the Private Equity Fund's audited account date and the Pension Fund's year end.

Financial Assets

Financial assets are cash, equity instruments within another entity e.g. shares, or a contractual right to receive cash or another asset from another entity e.g. debtors, or exchange financial assets or financial liabilities under favourable conditions e.g. derivatives.

Financial Year

This is the accounting period. For local authorities it starts on 1st April and finishes on 31st March of the following year.

Fixed Interest Securities/Bonds

Investments, especially in government stocks, with a guaranteed rate of interest. Conventional bonds have fixed rates, whilst Index Linked vary with inflation. They represent loans repayable at a stated future date and which can be traded on a stock exchange in the meantime.

Fund of Funds

A pooled fund that invests in other pooled funds. They are able to move money between the best funds in the industry and thereby aim to lower stakeholder risk with greater diversification than is offered by a single fund.

GMP

Guaranteed Minimum Pension.

Impairment

Impairment occurs when the value of a long-term asset falls below the value it is currently held at in the Fund Account.

International Accounting Standard (IAS)

Financial Regulations to be followed as set by the International Accounting Standards Board (IASB).

International Financial Reporting Standards (IFRS)

International Financial Reporting Standards are produced by the IASB (International Accounting Standards Board) with the aim of ensuring consistency within the countries adopting the standards.

Liability

A liability is an obligation to transfer economic benefits as a result of past transactions or events.

Pooled Funds

Pooled investment vehicles issue units to a range of investors. Unit's prices move in response to changes in the value of the underlying portfolio and investors do not own directly the assets in the fund. The main types are: unit trusts, open-ended investment companies (OEICs), insurance linked vehicles and investment trusts.

Portfolio

A collective term for all the investments held in a fund, market or sector. A segregated portfolio is a portfolio of investments of a specific type held directly in the name of the investor e.g. Global Bonds, or a specific market e.g. UK Equities, Far East Equities.

Prior Year Adjustment

Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of material errors.

Provision

A provision is an obligation to transfer economic benefits as a result of past events where a reliable estimate can be made of the obligation, but the amount or timing of which cannot yet be determined accurately.

Related Party

A related party exists where there is control or influence by one party over another.

Return

The total gain from holding an investment, including both income and any increase or decrease in market value. Returns over periods longer than a year are usually expressed as an average annual return.

Scheduled Bodies

An organisation that has the right to become a member of the Local Government Pension Scheme under the scheme regulations. Such an organisation does not need to be admitted, as its right to membership is automatic.

Unrealised Gains/Losses

The increase or decrease in the market value of investments held by the Pension Fund since the date of their purchase. Note: values throughout these accounts are presented rounded to whole numbers. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match to the core statements or other tables due to rounding differences.

Strain on Funds

When an employee retires early and is immediately paid a pension, without actuarial reduction, the lost contribution income and interest cost arising from the associated earlier increased cash flow is referred to as pension strain cost. The pension strain cost is determined by actuarial calculation.

Audit of Accounts Report – Rhondda Cynon Taf Pension Fund

Audit year: 2019-20

Date issued: November 2020

Document reference: 2146A2020-21

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to Audit Wales at infoofficer@audit.wales.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Contents

We intend to issue an unqualified audit report on your Accounts. There are no issues to report to you prior to their approval.

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Audit of Accounts Report

Introduction

- 1 We summarise the main findings from our audit of your 2019-20 annual accounts in this report.
- 2 We have already discussed these issues with Director of Finance and Digital Services
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £33.6m for this year's audit.
- 5 There are some areas of the accounts that may be of more importance to the reader, including related parties.
- 6 We have now completed this year's audit work.
- 7 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and, our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

Impact of COVID-19 on this Year's Audit

- 8 The COVID-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You are required by law to prepare accounts and it is of considerable testament to the commitment of your accounts team that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. We are extremely grateful to the professionalism of the team in supporting us to complete our audit in such difficult circumstances.
- 9 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. The detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year's audit process.

Exhibit 1 – impact of COVID-19 on this year's audit

Timetable	<ul style="list-style-type: none"> We received the draft accounts on 15th July 2020. We expect your audit report to be signed on 26th November 2020.
Electronic signatures	<p>Given current social distancing requirements, it may be difficult for signing and certification of the accounts in hard copy this year. We may need to use electronic signatures for this purpose. We will liaise with management to ensure arrangements are in place irrespective of the approach taken.</p>
Audit evidence	<p>As in previous years, we received the majority of audit evidence in electronic format. We have used various techniques to ensure its validity. Where we have been unable to obtain access to paper documents because of COVID-19 restrictions we have devised alternative audit methodologies to obtain sufficient audit evidence. Specifically:</p> <ul style="list-style-type: none"> officers provided electronic working papers in accordance with our agreed Audit Deliverables Report; officers provided audit evidence to the audit team via email or the shared folder accessible by auditors through the Council laptops; officers were available by video conferencing for discussions, and for the sharing of on-screen information/evidence; and <p>Audit Wales also secured remote read only access to the ledger system which enabled the audit team to run reports and view evidence.</p>
Other	<ul style="list-style-type: none"> Video conferencing has enabled the audit team to correspond effectively with officers throughout the audit. Video conference-based Audit Committee meetings have enabled us to proficiently discharge our responsibility for reporting to those charged with governance

- 10 We will be reviewing what we have learned for our audit process from the COVID-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process.

Proposed Audit Opinion

- 11 We intend to issue an unqualified audit opinion on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 12 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 13 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards.
- 14 Our proposed audit report is set out in **Appendix 2**. This audit report includes an emphasis of matter paragraph. The aim of this paragraph is to draw the attention of the reader of the accounts to note 4 which includes reference to material uncertainty clauses disclosed in year-end valuation reports for a pooled property fund.
- 15 The audit opinion is not modified in respect of this matter.

Significant Issues arising from the Audit

Uncorrected misstatements

- 16 There are no misstatements identified in the financial statements which remain uncorrected.

Corrected misstatements

- 17 There were no corrected misstatements to the accounts, only minor narrative and presentational changes throughout the course of the audit.

Other Significant Issues arising from the Audit

- 18 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year.

Appendix 1

Final Letter of Representation

[Audited body's letterhead]

Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

[Date]

Representations regarding the 2019-20 financial statements

This letter is provided in connection with your audit of the financial statements of Rhondda Cynon Taf Pension Fund for the year ended 31 March 2020 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for:

- The preparation of the financial statements in accordance with legislative requirements and CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom UK 2019-20; in particular the financial statements give a true and fair view in accordance therewith.
- The design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- Full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;

- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects the Pension fund and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions.

Representations by Rhondda Cynon Taf County Borough Council

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Council on 25 November 2020.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

[Officer who signs on behalf of management]

Date:

Signed by:

[Officer or Member who signs on behalf of those charged with governance]

Date:

Appendix 2

Proposed Audit Report

The independent auditor's report of the Auditor General for Wales to the members of Rhondda Cynon Taf County Borough Council as administering authority for Rhondda Cynon Taf Pension Fund

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Rhondda Cynon Taf Pension Fund for the year ended 31 March 2020 under the Public Audit (Wales) Act 2004. Rhondda Cynon Taf Pension Fund financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the pension fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter – effects of the Covid-19 pandemic on the valuation of property fund and alternative assets

I draw attention to Note 4 of the financial statements, which describes the impact of a material uncertainty disclosed in the fund managers year-end valuation reports for the UK property fund and alternatives fund they manage on behalf of the Rhondda Cynon Taf Pension Fund. The Fund has disclosed this material uncertainty and my audit opinion is not modified in respect of this matter.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The responsible financial officer is responsible for the other information in the pension fund accounts. The other information comprises the information included in the pension fund accounts other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the introduction for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In the light of the knowledge and understanding of the pension fund and its environment obtained in the course of the audit, I have not identified material misstatements in the pension fund accounts.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Rhondda Cynon Taf Pension Fund in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the financial statements set out on pages 4 to 5, the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the responsible financial officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Adrian Crompton
Auditor General for Wales
26 November 2020

24 Cathedral Road
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We welcome correspondence and telephone calls in Welsh and English.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.