



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

COMMITTEE SUMMONS

C Hanagan
Service Director of Democratic Services & Communication
Rhondda Cynon Taf County Borough Council
The Pavilions
Cambrian Park
Clydach Vale CF40 2XX

Meeting Contact: Sarah Daniel - Senior Democratic Services Officer (07385 086 169)

YOU ARE SUMMONED to a meeting of the **PENSION FUND COMMITTEE** to be held virtually on **MONDAY, 13TH DECEMBER, 2021** at **2.00 PM.**

AGENDA

**Page
No's**

1. DECLARATION OF INTEREST

To receive disclosures of personal interest from Members in accordance with the Code of Conduct

Note:

1. Members are requested to identify the item number and subject matter that their interest relates to and signify the nature of the personal interest: and
2. Where Members withdraw from a meeting as a consequence of the disclosure of a prejudicial interest they must notify the Chairman when they leave.

2. MINUTES

To receive the minutes of the previous meeting of the Pensions Fund Committee held on 11.10.2021

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**3. LEARNING AND DEVELOPMENT - PENSIONS FUND
ADMINISTRATION**

4. DELEGATED FUNCTIONS REPORT

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5. PENSION FUND RISK REGISTER	25 - 36
6. WALES PENSION PARTNERSHIP	37 - 40
7. PENSION FUND STATEMENT OF ACCOUNTS AND AUDIT WALES REPORT	41 - 104
8. URGENT BUSINESS	
To consider any urgent items as the Chairman feels appropriate	

Service Director of Democratic Services & Communication

Circulation:

The Chair and Vice-Chair: (County Borough Councillor M Norris and County Borough Councillor M Griffiths respectively)

County Borough Councillors: Councillor G Caple, Councillor E Webster and Councillor L Hooper



RHONDDA CYNON TAF COUNCIL PENSION FUND COMMITTEE

Minutes of the meeting of the Pension Fund Committee held virtually on Monday, 11 October 2021
at 2.00 pm

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

Councillor M Norris (Chair)
Councillor M Griffiths Councillor G Caple
Councillor E Webster Councillor L Hooper

Officers in attendance:-

Mr B Davies, Director of Finance & Digital Services
Mr I Traylor, Service Director, Pensions, Procurement & Transactional Services
Mr P Griffiths, Service Director - Finance and Improvement Services
Ms Yvonne Keitch, Senior Accountant Pensions and Treasury Management

Others in attendance

Lucy Haddow – Baillie Gifford
Tim Gooding – Baillie Gifford
Gareth Roberts – Baillie Gifford

8 Declaration of Interest

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

9 Minutes

It was **RESOLVED** to approve the minutes of the 13th July 2021 as an accurate reflection of the meeting.

10 TO CONSIDER PASSING THE FOLLOWING RESOLUTION

RESOLVED: Members **RESOLVED** "That the press and public be excluded from the meeting under Section 100A(4) of the Local Government Act (as amended) for the following item 11 of business on the grounds that it involves the likely disclosure of the exempt information as defined in paragraph 14 of Part 4 of the Schedule 12A of the Act".

11 Learning and Development

Members received a presentation on Responsible Investing from representatives at Baillie Gifford.

Upon conclusion of the presentation members **RESOLVED** to note the update.

12 Delegated Functions Report

The Director Finance and Digital Services set out the key issues being addressed as delegated functions, as specified in the Pension Fund Governance Policy Statement.

Members were advised that during the quarter ended 30th June 2021, the overall value of the Fund increased from £4,493 million to £4,725 million. The rolling 3 year performance of the Fund is 11.9% positive as compared to a benchmark of 8.7%. For the last quarter, Baillie Gifford, UK Credit and BlackRock Passive Equity outperformed their benchmarks; CBRE and BlackRock passive gilts performed in line with benchmark; and Global Growth and Global Opportunities underperformed their benchmark. Baillie Gifford traditional equity portfolio outperformed their rolling 3 year rolling benchmark achieving a return of 18.1% against a benchmark of 8.1%.

Members were reminded that the March 2021 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 together with the current allocation as shown at 4.7 of the report.

Members were informed that with regard to infrastructure, it is proposed that the Fund invests over a number of years in order to secure and optimise opportunities across the different time periods.

The Chairman congratulated officers on the positive results in the report.

The Service Director Pensions, Procurement & Transactional Services then provided Members with an administration update.

At the end of July 2021, the Public Service Pensions and Judicial Officers Bill, dealing with the remedy for the 'McCloud' age discrimination, was laid before Parliament. The Bill includes retrospective measures and confirms the remedy period covering membership from the date of reform - 1 April 2014 to 31 March 2022 for eligible members. The Bill enables LGPS regulations to make provision for final salary benefits to be paid in respect of the remedy period and draft LGPS regulations are expected by the end of 2021. The Service Director added that work is underway with employers on data collection, ahead of the regulations being finalised, and the Fund's software provider is also developing reporting capabilities to support compliance with the new legislation.

The Service Director continued by indicating that following recent ministerial changes, on the 19th September it was announced that the Ministry of Housing, Communities and Local Government (MHCLG), the department responsible for the Local Government Pension Scheme, will become the Department for Levelling Up, Housing and Communities (DLUHC).

The Fund published all Annual Benefit Statements prior to the statutory deadline of the 31st August 2021 and this exercise was followed by the 'Annual Allowance' review with pension saving statements issued by the deadline of the 6th October 2021.

A meeting of the Fund's Communications Forum was held on 22nd July 2021 and the main focus of discussion beyond the standard agenda items, included McCloud and the 2022 Valuation data validation requirements.

Members were informed that data quality and compliance remains a key priority for the Pension Fund and further to the previous update to the Committee, the Fund has been working closely with the two Employers yet to implement the I-Connect monthly data transfers.

The Service Director updated the Committee in respect of the national 'Pension Dashboards' programme implications, and the likelihood that the RCT Fund could be an early adopter given the membership size.

With regard to Performance Service Standards, the Service Director fed back that performance during August 2021 was behind performance standards for a number of areas; however it was noted the significant numbers of cases that had been processed during this period.

The Fund's new graduate officer and apprentices (2) commenced their employment during September 2021 and a process of 'face to face' training and development has been undertaken with these new officers and the existing team.

The Service Director confirmed that whilst some performance improvements have been noted with the Fund's 'Additional Voluntary Contributions' partner, there remain areas of concern which will need to be addressed and arrangements are in place to monitor progress in this regard.

The Service Director indicated that the Annual General Meeting will be held virtually and has been scheduled for Monday 22nd November 2021 and the Fund Actuary will provide a position update in the lead up to the 2022 Valuation exercise.

The Pension Board last met virtually on 9th August 2021, with the next meeting scheduled to take place on 15th November 2021. There were no items noted for referral back to Committee. The Service Director added that one of the longstanding 'Scheme Member' Pension Board Members is stepping down from the role at the end of October. The Fund is currently going through a recruitment process to appoint a replacement and as part of the recruitment and the recent personnel changes within the Service, the Fund has registered a number of places on the LGA 'Fundamentals Training programme' planned for the Autumn.

A letter of thanks will be sent from the Committee to the Scheme Member stepping down to recognise their contribution to the work of the Pension Board.

A Member commented that face to face advice was very important for scheme members and asked how this will continue going forward.

The Service Director Pensions, Procurement and Transactional Services advised that measures were being established to allow face to face appointments to be undertaken on an appointment basis to ensure the continued safety of staff and members of the Fund.

The Director of Finance and Digital Services advised the Committee that the Fund has been put forward for an investment award. The Chairman added that this was appreciated as he felt it showed our recognition for the work undertaken by the staff.

Following discussions it was **RESOLVED**:

To note the issues being addressed in the report.

13 Pension Fund Risk Register - Risk Register Overview

The Service Director Finance and Improvement Services presented the report to Members in respect of the arrangements in place to manage risk within the Pension Fund.

He advised Members that the Risk Register had been reviewed and updated and contained 37 risks in total: 1 high risk, 15 medium risks and 21 low risks.

He added that two updates had been incorporated into the Risk Register as suggested by the Pension Board, firstly within the Investments category and reflecting the control measure of reporting malpractices to the Financial Conduct Authority, and secondly within the Operational category, a new risk included to reflect that the Pension Fund will clearly mark any confidential / commercially sensitive data that it shares.

A Member commented on the risk in respect of financial markets being suppressed by, in particular Brexit, and asked if the risk should be categorised as high for a specific time limited period only.

The Director of Finance and Digital Services advised that the Fund invests over the long term and has a diversified portfolio to manage risk, such as changes in the economic climate, and at the same time optimise return. The Director added there has been a sustained period of market improvement / growth and this will be kept under on-going review as part of the Fund's long term approach to investment, and where required, updates will be incorporated into the Risk Register.

The Chairman added that Brexit does pose a risk at present and provided an example where payments were not accepted in Euros and also indicated that legislation could change.

14 Wales Pension Partnership - Update

The Senior Accountant Pensions and Treasury Management provided an update for Members on the Wales Pension Partnership (WPP) and Joint Governance Committee (JGC).

The Senior Accountant reminded Members that the UK Government's requirement for all pension funds to pool their investments has been progressing in Wales through the WPP and Partnership governance arrangements included a JGC which meets 4 times a year. Each pension fund in Wales is represented on the Committee by their Chair or Vice Chair.

The Senior Accountant advised Members that the last meeting of the JGC was held on the 22nd September 2021 with the following updates provided:

Work continuing to develop in a number of key areas:

- 2020/21 Annual Report;
- Ministry of Housing, Communities and Local Government update;
- Quarterly operator review with Link and Hymans Robertson;
- Private Markets Allocator procurement process; and
- Officer Working Group sub-groups:
 - Private Markets sub-group.
 - Responsible Investment sub-group.
 - Risk Register sub-group.

The Senior Accountant also set out an update on next steps / priorities and informed the Committee that the next JGC meeting is scheduled to take place on 1st December 2021.

RESOLVED: Members noted the update

15 Review of Funding Strategy Statement and Pension Fund Administration Strategy

The Service Director Pensions, Procurement and Transactional Services updated Members on the Funding Strategy Statement and Administration Strategy governance documents which fall within the remit of the Committee as detailed in the terms of reference.

Following consideration by the Committee it was **RESOLVED:** to approve the Funding Strategy Statement and Administration Strategy.

16 Urgent Business

None received.

This meeting closed at Time Not Specified

**CLLR M. NORRIS
CHAIR.**

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RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2021-22

PENSION FUND COMMITTEE
13th DECEMBER 2021

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

AGENDA ITEM NO 4
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 23rd November 2021.

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 2021.
- 4.2 During the quarter ended 30th September 2021, the overall value of the Fund increased from £4,725 million to £4,744 million.

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

Total Portfolio

	2018	2019				2020				2021			3yr
Quarter	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
Fund	-8.1	7.9	5.0	1.9	2.6	-11.4	16.6	3.5	9.5	1.6	5.4	0.3	11.0
B'mark	-6.2	7.0	4.1	3.1	0.7	-10.6	12.5	1.6	6.5	1.1	5.1	0.7	8.1
Relative	-2.0	0.9	0.9	-1.2	1.9	-0.8	4.1	1.9	3.0	0.5	0.3	-0.4	2.9

- 4.4 As shown, the rolling 3 year performance of the Fund is 11.0% positive as compared to a benchmark of 8.1%. For the last quarter (i.e. quarter 3), UK Credit, CBRE and BlackRock Passive Equity outperformed their benchmarks; BlackRock passive gilts performed in line with benchmark; and Baillie Gifford, Global Growth and Global Opportunities underperformed their benchmark. Baillie Gifford global core equity portfolio outperformed their rolling 3 year rolling benchmark achieving a return of 16.6% against a benchmark of 7.6%.
- 4.5 The November 2021 Panel included a review of fund managers' performance. Presentations were received from Fidelity International, fund manager of the WPP UK Credit Fund, Baillie Gifford, the global equity manager and Pzena, one of the underlying managers in the WPP Global Growth Fund.
- 4.6 The asset allocation of the Fund by fund manager and mandate as at 30th September (which includes cash) is shown in the table below.

Baillie Gifford Traditional	Global Equities	22%
Link – Global Opportunities Fund	Global High Alpha Equities	8%
Link – Global Growth Fund	Global High Alpha Equities	34%
Link – UK Credit Fund	UK Credit	13%
BlackRock	Passive Global Equities	5%
Blackrock	Passive UK Gilts	11%
CBRE	UK Property	7%
Internal	Cash	0%

- 4.7 As Members will be aware the March 2021 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 together with the current allocation as show in the table below.

Asset Class	Current Allocation	Step 1	Step 2	Step 3
Total Equities	69%	64%	59%	54%
Infrastructure	0	0	5%	10%
Property	7%	7%	7%	7%
Government Bonds (UK)	12%	12%	12%	12%

Corporate Bonds (UK)	12%	15%	15%	15%
Cash	0%	2%	2%	2%
Absolute Return (10 years pa)		5.3%	5.5%	5.6%
Volatility (10 years pa)		13.3%	12.7%	12.3%

- 4.8 Step 1 of the revised asset allocation strategy has been completed. Baillie Gifford's mandate was reduced by £225 million increasing the allocation in UK Government Bonds by £180 million (9th June 2021) and the UK Credit by £45 million (7th July 2021).
- 4.9 With regard to infrastructure, it is proposed that the Fund invests over a number of years in order to secure and optimise opportunities across the different time periods (and vintage years). Due diligence has now been completed on an initial investment in this regard.

5.0 **ADMINISTRATION UPDATE**

- 5.1 Further to the position reported to the 11th October 2021 Pension Fund Committee in respect of the Public Service Pensions and Judicial Officers Bill, dealing with the remedy for the 'McCloud' age discrimination, there have been no developments to report since this time and the draft LGPS regulations are expected during 2022.
- 5.2 On 8 November 2021, the UK Government published its response to '[Pension scams: empowering trustees and protecting members' consultation](#)'. The Government also laid [The Occupational and Personal Pension Schemes \(Conditions for Transfers\) Regulations 2021](#), with the regulations taking effect from 30 November 2021 and apply to the LGPS in England, Wales and Scotland.
- 5.3 The Fund held its Annual Employers Meeting on 22nd November 2021, this being run virtually for the second year, and positive feedback has been received from a number of attendees following the meeting. The Fund Actuary provided an updated position for the Fund Employers in consideration of the 2022 Triennial Valuation exercise.
- 5.4 Following the conclusion of the audit of Pension Fund Accounts for 2020/21, 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.
<https://www.rctpensions.org.uk/EN/RelatedDocuments/AnnualReport/PensionFundAnnualReport2021.pdf>

- 5.5 The Scheme Advisory Board (SAB) no longer require death statistical information from Administering Bodies. The statistics continue to be collated by the Fund and the table below provides an update and comparison on death numbers:

Month	<u>2021</u>	<u>2020</u>	<u>2019</u>
January	83	61	-
February	98	52	-
March	64	60	-
April	50	129	39
May	41	66	51
June	35	66	46
July	41	65	43
August	39	38	46
September	56	54	55
October	48	59	84
November		66	61
December		55	43

- 5.6 Data quality and compliance remains a key priority for the Pension Fund. The Fund continues to proactively monitor data quality and a 'Valuation' data quality exercise is underway to support the Fund Actuary in advance of the 2022 Valuation. Work also continues with applicable Employers to support their implementation of the I-Connect monthly data transfers.
- 5.7 The Fund's annual 'Data Quality Scores' have been provided to the Pension Regulator in compliance with the scheme return requirement and submitted by 10th November:

	Common Data	Scheme Specific
2020	97%	97%
2021	97%	99%

- 5.8 The Pension Fund website has been updated and re-launched to enhance its compliance with the national 'Accessibility Standards', and Member Self-Serve (MSS) is available bilingually and continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members are shown below (as at November 2021).

	<u>Member Numbers</u>	<u>MSS Registrations</u>	<u>Current Percentage Take-up</u>	<u>Percentage Reported Previously</u>
Actives	23,996	10,648	44.37%	42.64%
Deferred	28,673	9,294	32.41%	30.81%
Pensioners	18,038	4,504	24.97%	23.91%
Dependants	2,841	152	5.35%	4.98%

- 5.9 The Service's eight 'Key Performance Service Standards' are regularly monitored by the Panel and Pension Board. At the time of writing, a number of Performance Service Standards were behind target for the year-to-date, this being primarily due to continued high service demands, and, as part of the on-going development of the service, work is being prioritised to support new team members to further enhance capacity (including face-to-face training and development).
- 5.10 The Fund and the Scheme Advisory Board continue to monitor the performance of its Additional Voluntary Contributions partner and dialogue is on-going in respect of areas of concern.
- 5.11 The number of 'Internal Dispute Resolution Procedure' Appeals in progress continues to be extremely low, with no obvious trends or concerns to report. In line with the Fund's Breaches Policy considerations, there were no potential breaches to report during the period.

6.0 PENSION BOARD

- 6.1 The Pension Board last met virtually on 15th November 2021, with the next meeting scheduled to take place on 31st January 2022. There were no items noted for referral back to Committee.
- 6.2 The Board welcomed a new 'Scheme Member' representative, Ms Sindy Absalom, to her first meeting. As part of this recruitment and the recent personnel changes within the Service, the Fund has registered a number of places on the LGA 'Fundamentals Training programme' planned for November and December 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 2021.

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
2021



**Shell, Rio Tinto,
ArcelorMittal,
National Grid,
SSE, Anglo
American**

CLIMATE EMERGENCY



LAPFF Chair Visits Tailings Dam in Devon

Objective: Although LAPFF’s plans to visit Brazilian communities affected by tailings dams have been postponed due to Covid, LAPFF’s work with the communities has continued apace over the last year and a half. As part of building an understanding of how tailings dams function, LAPFF Chair, Cllr Doug McMurdo, visited a mine in Devon that has a tailings dam (pictured above and on cover).

Achieved: Cllr McMurdo visited the tungsten mine at the beginning of July. He was shown round the various mining functions by the mine’s CEO and other staff, and part of this tour included the tailings dam. The Devon tailings dam was of a downstream construction. When asked about the construction type, the mine staff explained that they would not use an upstream dam because this type of construction is too dangerous. One of

the big problems faced by communities affected by tailings dams globally is that they are potentially in the path of run off from upstream dams.

In Progress: LAPFF is continuing to engage with companies, communities, and other stakeholders, as well as undertaking research to prepare for its visit to Brazil, whenever that might be.

Shell

Objective: LAPFF had some serious concerns about the out-going Shell Chair’s statement that oil and gas would be needed as part of the company’s portfolio for the foreseeable future. Various conversations and interactions with the CEO had also raised concerns about the company’s trajectory, both from a carbon perspective and from a business perspective.

Consequently, LAPFF was keen to meet the new Shell Chair, Andrew Mackenzie, formerly CEO of BHP and no relation to current BHP Chair, Ken MacKenzie.

Achieved: The meeting took place in early September, with the conversation focused primarily on Shell’s financial performance and how the company’s approach to fossil fuels would impact on that performance. LAPFF Chair, Cllr Doug McMurdo, noted that compared to BHP’s total shareholder returns over the last ten years, Shell had performed poorly and that net zero objectives would not enable the company to achieve Paris-aligned climate targets. While LAPFF was grateful to Sir Andrew for his engagement and welcomed his willingness to take suggestions, significant inconsistencies in Shell’s business strategy, business model, and climate strategy appear to persist.

CLIMATE EMERGENCY

In Progress: LAPFF will continue to engage with Shell to work toward a truly Paris-aligned climate and business plan for the company.

Rio Tinto

Objective: This year, LAPFF attended Rio Tinto's AGM to push the company on recognising the financial impacts of its social challenges. Therefore, Cllr McMurdo was pleased to meet Rio Tinto's Chief Financial Officer, Peter Cunningham, to discuss this issue further. Mr. Cunningham took over as interim CFO when Jakob Stausholm became CEO but has been made permanent recently.

Achieved: It appears that Mr Cunningham understands and agrees with the proposition that social impacts affect financial materiality at companies. However, everyone LAPFF has spoken to at Rio Tinto acknowledges that despite progress since Juukan Gorge, the company has some way to go to regain investor and affected community trust in its operations.

One area where Rio Tinto has improved substantially is in its willingness to engage with LAPFF. After the destruction of the Juukan Gorge rock shelters, LAPFF tried in vain to obtain meetings with the Chair to discuss what had happened but did not manage to do so for over six months after the shelters were destroyed. This year, LAPFF has met not only with Peter Cunningham but also with Mr. Stausholm and Chair Simon Thompson. The company continues to offer meetings with various specialist staff and affected community members with which the company engages.

LAPFF recognises that engagement is not progress. It also recognises that the staff and community members put forward by Rio Tinto probably have a particular bias or perspective on Rio Tinto's activities, especially since LAPFF continues to hear contradictory information from affected community representatives. However, engagement with all affected parties is useful for LAPFF to understand what questions to ask the various parties involved.

In Progress: Therefore, LAPFF is continuing to liaise with other interested investors, Rio Tinto, and affected communities and their representatives in Australia, the

US, Papua New Guinea, and elsewhere. This triangulated communication helps to paint a more complete picture for LAPFF of Rio Tinto's progress from an environmental, social, and financial perspective.

As a follow-up, the LAPFF Chair also met with Rio Tinto staff to discuss the forthcoming 'say on climate' vote at the 2022 AGM. The challenge as ever is addressing Scope 3 emissions, which comprise 95% of total emissions. In doing so, the pace of roll-out of zero-carbon technologies by the company's steel customers was noted.

Anglo American

Objective: LAPFF has been concerned that Anglo American's board and management have not been sufficiently engaged with community members affected by the company's operations. However, LAPFF learned at the Anglo American AGM that the company's CEO, Mark Cutifani, had visited the company's controversial Colombian joint venture with Glencore and BHP, Cerrejon. Therefore, Cllr McMurdo met with Mr. Cutifani to hear about the CEO's experience of visiting the project.

Achieved: LAPFF appreciated Mr. Cutifani's openness in discussing the political, cultural, and environmental challenges surrounding Cerrejon. The project is a thermal coal mine, and just days after speaking to both Mr. Cutifani and BHP Chair, Ken MacKenzie, LAPFF received news that both Anglo American and BHP were pulling out of the joint venture to leave Glencore as the sole mining giant involved with the project. Subsequently, LAPFF representatives also met with Anglo American to discuss the company's next 'say on climate' resolution.

Anglo American has developed a detailed community engagement approach as part of its Social Way programme. However, the fact remains that all three companies have been investors in Cerrejon during a time when there have been allegations of severe human rights and environmental violations. All three companies have been named in a complaint filed with a number of OECD National Contact Points on these grounds.

In Progress: LAPFF will continue to engage with Anglo American on its community engagement approach and its climate approach.

BHP Voting Alert

LAPFF issued a voting alert to oppose BHP's climate plan. While LAPFF commended BHP for putting its plan to a vote, the plan is not aligned with the goals of the Paris Agreement. BHP has undoubtedly made progress on climate, but given the pressing nature of the climate crisis, LAPFF expects all climate plans to be Paris-aligned at this stage. As the alert stated, climate change is not a negotiation.

BHP

Objective: There is a debate raging in Western Australia about a proposed cultural heritage law to increase protections for Indigenous communities in the area. LAPFF had spoken to Rio Tinto about the law, and the company had not seen the final draft. However, affected communities are apparently not pleased with either the process or the content of the law. As BHP is another company affected by the law, LAPFF had a meeting with the company's Indigenous Affairs representative to find out more about the law. LAPFF is also seeking a meeting with the affected Indigenous communities.

Achieved: LAPFF was able to understand from the discussion with BHP that the main point of contention appears to be the level of say affected communities have over whether projects move forward, a so-called 'right of veto'. While there are apparently improvements from the last piece of legislation, the question is whether sufficient positive change will be made to the new legislation to protect affected communities from another Juukan Gorge.

In Progress: LAPFF will continue to engage with BHP, Rio Tinto, and affected community members to see if there is a role for LAPFF to play in promoting a positive outcome to this debate and the eventual legislation.

COMPANY ENGAGEMENT

ArcelorMittal

Objective: After the long-awaited issuing of the company's second Group Climate Action report, a meeting was held with company representatives and other CA100+ investors to discuss company progress.

Achieved: ArcelorMittal now has a group-wide emission intensity reduction target for 2030 of 25%, and 35% for Europe. The LAPFF Vice-Chair, Cllr Chapman commended the strengthening of targets and announcements of zero carbon steel plants in Spain and Canada. On request, the report also included a mapping of the company progress against the CA100+ benchmark. This mapping will be used by many investors to inform AGM voting. Also raised were Paris-aligned accounts, climate considerations in remuneration, consulting shareholders on a transition plan vote at the 2022 AGM and requesting that the company run the 2022 AGM as openly as it did the 2021 AGM when the meeting was run on a virtual platform.

In Progress: Given the strengthened decarbonization targets and 'real world' impact of the new zero carbon steel plants, this engagement was considered to have shown substantial progress.

National Grid

Objective: LAPFF has had long-term ongoing engagement with National Grid, most recently as joint-lead investor in the Climate Action 100+ (CA100+) engagement. This engagement culminated in the board putting a 'say on climate' resolution to the AGM, which asked shareholders, from 2022, to approve annual reporting on the company's net zero strategy, 2030 action plan, and progress against emission reduction targets. Cllr Rob Chapman, the LAPFF Vice-Chair, met with the new chair, Paul Rasput Reynolds, and attended the AGM to encourage robust decarbonization plans.

Achieved: A voting alert recommended that members support the board's accountability for annual approval of a transition plan as well as article amendments supporting provisions for holding 'hybrid' annual meetings. The latter provides greater opportunities for shareowners to participate and ask

questions of board members. At the meeting with the chair, LAPFF questions focused on seeking more ambition due to the new International Energy Agency Net Zero pathway, on phasing out gas, on setting short term targets up to 2025, and on looking for changes in planned capex to allow for a larger take up of electrification for heating. At the AGM the following week, LAPFF posed questions; the questions and responses from the board can be viewed [here](#). Ms. Reynolds noted there would be a board meeting following the AGM to consider how the UK and US transition plans are implemented and remain fit for purpose.

In Progress: It was considered the outcome of the meeting was 'change in progress'.

SSE

Objective: Cllr Rob Chapman also met with SSE to discuss the company's 'say on climate' resolution ahead of SSE's AGM in July. LAPFF and SSE have a long-standing dialogue on environmental, social, and governance issues, including a just transition. The Forum is keen to continue this dialogue as SSE has been particularly constructive in its discussions with LAPFF over the years and has undertaken some innovative work in both the social and the environmental areas, not least a just transition to a zero-carbon economy.

Achieved: Acknowledging that SSE is ahead of the game on much of its transition planning, LAPFF raised some concerns in particular around Scope 3 emissions measurement and targets. A number of just transition challenges for the company were also discussed, along with a further discussion on the relevance of and uses for carbon capture and storage (CCS).

After the engagement meeting, Cllr Chapman also attended SSE's AGM by virtual means to ask questions around CCS and grid structure in relation to SSE's climate goals.

In Progress: LAPFF and SSE have agreed to continue dialogue and speak as necessary, but in particular prior to SSE's next 'say on climate' resolution.

HSBC

Objectives: The LAPFF chair met with HSBC representatives to ascertain how HSBC will be assisting its clients to set and implement coal phase-out plans in line with the bank's own commitment and timeline. Clarity was also sought on how the company is progressing on pulling out of coal-intensive industries.

Achieved: Representatives noted that the International Energy Agency scenario 'net zero by 2050' will be used to benchmark progress. The company has undertaken new analysis, with more data to be considered. The company joined the net zero banking alliance in April to help understand the transition journeys clients are on, and how the bank can have impact. On retreating from coal-intensive industries, it was noted that coal exposure represents 0.2% of wholesale loans and advances as measured under the Taskforce on Climate-related Financial Disclosure metrics in 2020. However, it was recognised this still represents investments of £1.2 billion, but as existing, not new, commitments.

In Progress: Representatives noted that they are developing the methodology for a transition risk questionnaire for clients and that commitments would be made in 2021. A further request was made to disclose fossil fuel investments in the annual report. This disclosure is done at 'top level' but would not separate out renewables investments made by such companies. At this stage, the outcome was considered 'change in progress'.

Standard Chartered

Objectives: The LAPFF chair met with the Standard Chartered chair, José Viñals, to ascertain how the company is progressing working with clients on climate change to reduce emissions and align with the bank's net zero by 2050 policy.

Achieved: Of concern has been the bank's funding of Adaro, a major coal supplier which Standard Chartered's own analysis shows to be aligned with an increase of 5-6°C in global warming. Standard Chartered will be issuing a roadmap setting out its route to net zero in October 2021, and the board is putting a 'say on climate' resolution to the 2022 AGM.

COMPANY ENGAGEMENT

In Progress: It appears that an NGO is considering filing a resolution to the Standard Chartered AGM asking for commitments not yet evident in the company's current transition plans. LAPFF met with this NGO to hear more of its concerns.

Mitsubishi Financial

Objective: Cllr Glyn Caron, of the LAPFF Executive, joined a collaborative investor call organised by Asia Research and Engagement with Mitsubishi UFJ Financial (MUFJ). The meeting sought to cover constituent details of a plan which would align financing to the goals of the Paris agreement and the setting of a net zero financed emissions target. This call followed LAPFF correspondence with the company on the issuing of a voting alert for the company's June AGM supporting the company issuing a plan to align financing with the Paris Agreement. The engagement was followed by media coverage on concerns over the bank's provision of finance to fossil fuel expansion and deforestation.

Achieved: In May, MUFJ made a net zero declaration, and as part of this commitment joined the Net Zero Banking Alliance. The company is committed to developing a plan but has only just started addressing policy formulation and implementation. This initial activity has been through setting up working groups to see if improvement can be made on the current investment threshold of 50% coal, which is 50% of 'total capacity'. The company representative noted this standard would be revised and a goal set, which will be shown in due course. On physical risk, currently only flooding impact is mapped.

In Progress: It was agreed further correspondence would follow, including sharing examples of good practice from other financial institutions and benchmarking of these companies on coal policies. It was noted further physical risks could be considered going forward. Overall, the outcome from the meeting illustrated there was a 'change in process'.



Sainsbury

Objective: LAPFF attended Sainsbury's 'Plan for Better' event and posed questions, both at this event and at the AGM, on the company's packaging practices, electric vehicles, supply chains, climate change and 'say on climate'.

Achieved: Sainsbury's 'Plan for Better' ESG event covered a broad range of ESG topics, noting targets and progress against them. In 2020, Sainsbury announced its climate target to be net zero by 2040 and has this year announced Scope 3 emissions target, which followed with a key theme of this year's ESG event being that the company was engraining ESG at the core of its business strategy. It is taking a number of steps in stores to tackle plastic packaging, opting for loose veg as opposed to prepacked. These steps have led Sainsbury to be recognised by Greenpeace as the retailer with the second highest proportion of loose fruit and vegetables in the market.

A large part of Sainsbury's strategy with plastic packaging is attempting to enable a circular economy, having launched an initiative in June, offering customers the opportunity to bring back any flexible plastic packaging to front of store collection points in 520 supermarkets for recycling. LAPFF has also co-led an engagement with Sainsbury in a coalition led by First Sentier Investors, pushing for suppliers and distributors of domestic and commercial washing machines to fit, as a standard procedure, filters to their products to prevent plastic microfibres entering the world's ecosystems. Sainsbury responded that they had engaged with white goods suppliers and were looking at viable options.

In Progress: LAPFF will be meeting with Sainsbury for a more in-depth conversation on the company's approach to a zero-carbon transition and will be querying the company further on a 'say on climate' vote.

COMPANY ENGAGEMENT



Persimmon

Objective: LAPFF has been engaging with Persimmon over a number of years following serious concerns about excessive executive pay, customer care and build quality. The Forum has also identified housebuilders as an important sector for climate change engagements, given the level of emissions from residential property. The Forum therefore sought to meet with the Chair of Persimmon, Roger Devlin, to discuss improvements in customer care and executive pay alongside how it was seeking to move to a net zero business model.

Achieved: It was noted how the company had made changes to its approach to

customer care following a review by Stephanie Barwise QC. The meeting covered inspections of properties following historic build quality concerns and the company's improved customer ratings. The issue of executive pay was covered, including resolving issues that led to the high pay award of the former chief executive.

On climate change, Persimmon's targets to reach net zero were discussed. Persimmon has made a commitment that all new homes will be net-zero by 2030 and for the company, including its operations, to be net zero by 2040. Gas boilers are being banned in new homes from 2025 and the discussion focused on how Persimmon was seeking to get ready for this change.

In progress: The company has made improvements to customer care but there is scope for further improvements. While emission targets have been set it will be important to monitor their progress towards net zero.

OCCUPIED PALESTINIAN TERRITORIES (OPT) ENGAGEMENTS

Objective: There are short-term and long-term objectives with this engagement. The short-term objective is to have the LAPFF target companies operating in this area engage meaningfully with LAPFF on their human rights practices in the OPT. The long-term objective is to have these companies produce credible, robust, independent human rights impact assessments of their practices in the OPT so that LAPFF members can assess whether the companies' human rights practices meet international human rights and humanitarian law standards.

Achieved: In line with the UN Guiding Principles on Business and Human Rights, LAPFF has been working for some months with a business and human rights expert to help with this engagement. This expert has joined LAPFF engagements with Altice and Booking Holdings this quarter, providing invaluable contributions to the engagements and ideas for how to proceed with the engagement. Both companies provided insights into their human rights due diligence processes and Booking Holdings has publicly announced that it is in the process of drafting its Human Rights Statement.

In Progress: LAPFF sent a follow up meeting request to the target companies and was able to schedule a few more meetings this time round. It will continue to approach companies for engagement and to request meaningful responses to information requests. Specifically, LAPFF is not content with the explanation that companies are abiding by the relevant law in the way they conduct business in the OPT. In all of LAPFF's work globally, this response is a red flag to LAPFF that companies are treading a thin line between legality and illegality in their conduct. This margin is not acceptable to LAPFF.

COMPANY ENGAGEMENT

PHARMACEUTICAL COMPANY ENGAGEMENTS

Objective: Some of LAPFF's largest holdings are in pharmaceutical companies. Many of these companies have been contributing to the development of Covid vaccines and have faced significant challenges over the last couple of years. LAPFF is interested in finding out how the Covid pandemic has affected these companies.

Achieved: LAPFF has written to five of the companies in which members hold a large number of shares in aggregate to find out whether the Covid pandemic has had an impact on their business strategies or business models. The companies of interest are AstraZeneca, GlaxoSmithKline, Novartis, Roche Holding, and Sanofi.

In Progress: LAPFF is in the process of arranging meetings with these companies, most of whom have responded that they are willing to meet and discuss this issue.

COLLABORATIVE ENGAGEMENTS

Chair's Quote: "The speed with which the 'say on climate' initiative has taken root is indicative of its importance. I am heartened to see the number of companies putting their climate plans to a vote. However, the number of plans that fail to meet the goals of the Paris Agreement is alarming. I have always shared the view that Covid is a dress rehearsal for climate change; we must learn and take meaningful action much more quickly on both fronts."

The Institutional Investor Group on Climate Change has published a guide on Investor Expectations of Companies on Physical Climate Risks and Opportunities. LAPFF has co-signed letters to 50 companies in sectors highly exposed to physical climate risk asking them to adopt the expectations set out in the guide. These expectations very broadly are to establish a climate governance framework,

to undertake physical climate risk and opportunity assessment, to develop and implement a strategy for building climate resilience, and to identify and report against metrics to demonstrate progress over time.

COLLABORATIVE INVESTOR MEETINGS

LAPFF continued to engage with other investors in the 30% Club, the Investors for Opioid and Pharmaceutical Accountability (IOPA) and the 'Financing a Just Transition Alliance'. It is also continuing to work with CA100+ on carbon reduction at widely held companies, and with Sarasin on Paris-aligned auditing of accounts. LAPFF continues to participate in investor collaborations to combat modern slavery too and is considering how best to expand engagement on this topic.

COLLABORATIVE COMMUNITY MEETINGS

LAPFF was pleased to learn that JGP Credito, a Brazilian investor with which LAPFF has been liaising in relation to the Samarco and Brumadinho tailings dam collapses in Brazil, visited communities affected by those disasters at the end of August. One of the main asks from the communities was that LAPFF get Brazilian investors involved to help highlight the communities' struggles in the wake of the dam collapses. JGP has been an excellent partner in this regard, but it has been a struggle for LAPFF to engage other Brazilian investors. In any case, LAPFF is planning to continue its quarterly meetings with affected community members to monitor their experiences and to see what LAPFF can do to help meet their needs.

POLICY ENGAGEMENT

Further to the setting up of the UK Accounting Standards Endorsement Board, which has taken over from the EU Commission in endorsing international accounting standards for use in the UK, the Chair of LAPFF has written to the Chair of the Board, Pauline Wallace. The letter requests production of the guidance used by the UKEB in endorsing standards in respect of 'true and fair view'. This

request comes after the former CEO of the FRC told Parliament that government lawyers had "concluded that they agreed" with "legal advice from Martin Moore QC who [had] concluded almost exactly the opposite of what [George Bompas, QC for the Local Authorities Pension Fund Forum (LAPFF)] had concluded." However, a Freedom of Information request revealed the government position: "We have never said that the views [of the LAPFF] are incorrect and may be disregarded. ... Ultimately, whether the views of the LAPFF are incorrect would be a matter for the courts".

In September, LAPFF – as part of a 587 investors strong group representing over USD \$46 trillion in assets – participated in sending the 2021 Global Investor Statement to Governments on the Climate Crisis. Considered the 'strongest ever call by global investors for governments to raise their climate ambition and implement meaningful policies to support investment in solutions to the climate crisis' the statement calls on all governments to undertake five priority actions in 2021. For further information on this statement, please access [here](#).

CONSULTATION RESPONSES

There has been a series of consultations by the government relating to the UK's commitments on carbon reductions, including the interim goal of reducing emissions by 78% by 2035 over 1990 levels.

Transport, is the sector with the fastest growing source of carbon emissions and LAPFF has provided three related responses to relevant government consultations. In its response to the Department of Transport's 'Jet Zero' consultation on the strategy for net zero aviation, LAPFF considers that the government should take the opportunity to support the development of UK leadership in electric flight. In the response to the DWP consultation on ending the sale of new non-zero emission heavy goods vehicles, LAPFF supports a clearly identified legislative framework for carbon reductions, so companies can make the necessary decisions and financial commitments to provide the crucial short and long-term solutions to decarbonising the economy. Responding to the Department for Transport Consultation on a new CO₂

ENGAGEMENT

emissions regulatory framework, LAPFF supports deploying the zero-emission vehicle mandate. To maximise zero emission capability, the government should ensure there is a focus on electric drive-train technology for all road vehicles. For cars or vans, the Department for Business, Energy and Industrial Strategy has already recognised that this approach is the lowest cost route to zero emissions. All responses can be viewed [here](#).

MEDIA COVERAGE

Investors with \$4 trln assets aim to tackle Asian firms on climate change goals <https://www.reuters.com/article/marketsNews/idUSL8N2QU68V?il=0>
<https://finance.yahoo.com/news/investors-4-trln-assets-aim-013000164.html>
<https://www.dealstreetasia.com/stories/investors-asian-firms-climate-change-262764/>
<https://www.straitstimes.com/business/economy/investors-handling-54-trillion-throw-weight-behind-new-platform-pushing-for-green>

LGPS – Making Net Zero Add up To Something Real <https://www.room151.co.uk/blogs/lgps-making-net-zero-add-up-to-something-real/>

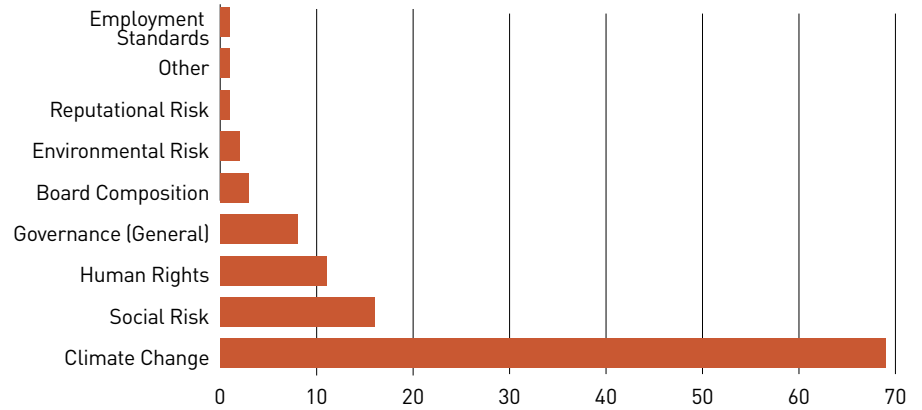
Legal Experts Warn on Issues with ICAEW Dividends guidance <https://www.ipe.com/news/legal-experts-warn-on-issues-with-icaew-dividends-guidance/10055010.article>

Phil Triggs: LGPS needs fine judgement on climate change and pooling <https://www.lgcplus.com/investment/phil-triggs-lgps-needs-fine-judgement-on-climate-change-and-pooling-08-09-2021/>

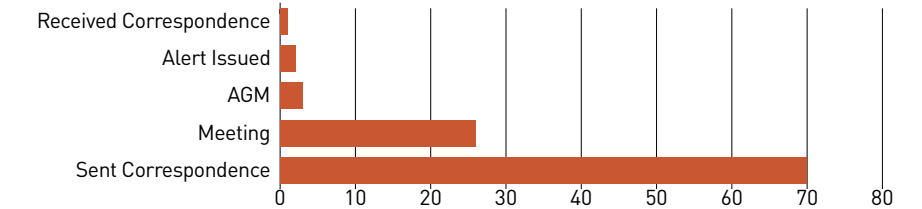
Sharp drop in LGPS fund and Pool signatories of stewardship code <https://www.lgcplus.com/investment/sharp-drop-in-lgps-fund-and-pool-signatories-of-stewardship-code-06-09-2021/>

ENGAGEMENT DATA

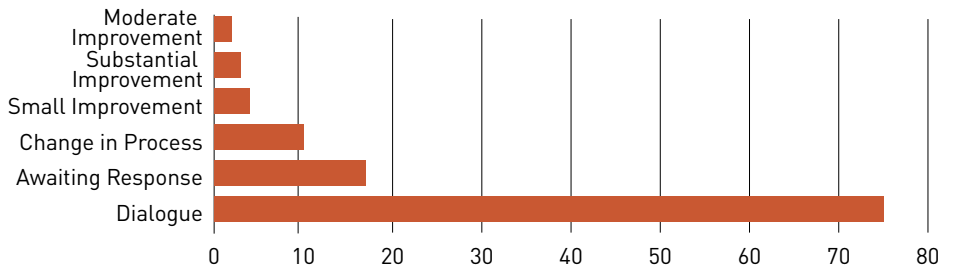
ENGAGEMENT TOPICS



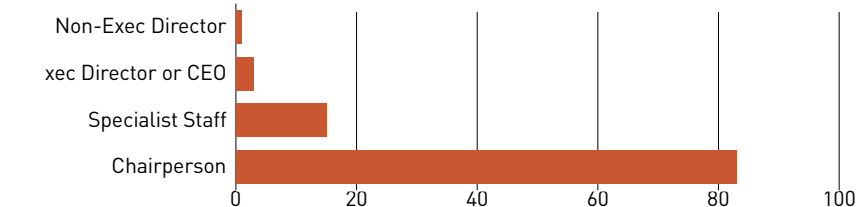
ACTIVITY



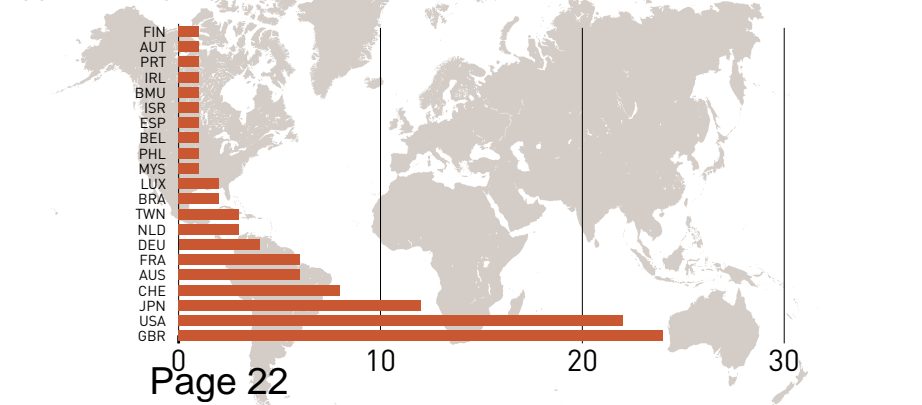
MEETING ENGAGEMENT OUTCOMES



POSITION ENGAGED



COMPANY DOMICILES



COMPANY PROGRESS REPORT

82 Companies engaged over the quarter

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

Company/Index	Activity	Topic	Outcome
A G BARR PLC	Meeting	Other	Small Improvement
ABOITIZ EQUITY VENTURES INC	Sent Correspondence	Climate Change	Dialogue
AIR LIQUIDE SA	Sent Correspondence	Climate Change	Dialogue
AJINOMOTO CO INC	Sent Correspondence	Climate Change	Dialogue
ALLERGAN PLC	Sent Correspondence	Climate Change	Dialogue
ALSTOM SA	Meeting	Human Rights	Small Improvement
AMS AG	Sent Correspondence	Climate Change	Dialogue
ANGLO AMERICAN PLC	Meeting	Climate Change	Change in Process
ARCELORMITTAL SA	Meeting	Climate Change	Substantial Improvement
ARKEMA	Sent Correspondence	Climate Change	Dialogue
ASTRAZENECA PLC	Sent Correspondence	Governance (General)	Dialogue
BANK LEUMI LE-ISRAEL BM	Sent Correspondence	Human Rights	Awaiting Response
BHP GROUP LIMITED (AUS)	Alert Issued	Climate Change	Dialogue
BOOKING HOLDINGS INC.	Meeting	Human Rights	Small Improvement
CAMPBELL SOUP COMPANY	Sent Correspondence	Climate Change	Dialogue
CENTRICA PLC	Sent Correspondence	Climate Change	Dialogue
COCA COLA BEVERAGES PLC	Sent Correspondence	Social Risk	Awaiting Response
CONAGRA BRANDS INC.	Meeting	Social Risk	Awaiting Response
COVESTRO AG	Sent Correspondence	Climate Change	Dialogue
CSX CORPORATION	Sent Correspondence	Climate Change	Dialogue
DANONE	Sent Correspondence	Social Risk	Dialogue
DELTA AIR LINES INC	Sent Correspondence	Climate Change	Dialogue
DIALOG SEMICONDUCTOR PLC	Sent Correspondence	Climate Change	Dialogue
DOMINION ENERGY INC	Sent Correspondence	Climate Change	Dialogue
ENDO INTERNATIONAL PLC	Sent Correspondence	Climate Change	Dialogue
FIRSTGROUP PLC	Sent Correspondence	Climate Change	Dialogue
FORMOSA PLASTICS CORP	Sent Correspondence	Climate Change	Dialogue
GALP ENERGIA SGPS SA	Sent Correspondence	Climate Change	Dialogue
GENERAL MILLS INC	Sent Correspondence	Social Risk	Awaiting Response
GLAXOSMITHKLINE PLC	Sent Correspondence	Governance (General)	Dialogue
GRIFOLS SA	Sent Correspondence	Climate Change	Dialogue
HSBC HOLDINGS PLC	Meeting	Climate Change	Change in Process
INFINEON TECHNOLOGIES AG	Sent Correspondence	Climate Change	Dialogue
JABIL CIRCUIT INC	Sent Correspondence	Climate Change	Dialogue
KELLOGG COMPANY	Meeting	Social Risk	Awaiting Response
KERRY GROUP PLC	Sent Correspondence	Climate Change	Dialogue
KEURIG DR PEPPER	Sent Correspondence	Social Risk	Awaiting Response
LANXESS AG	Sent Correspondence	Climate Change	Dialogue
LITEON TECHNOLOGY CORP	Sent Correspondence	Climate Change	Dialogue
LOGITECH INTERNATIONAL S.A.	Sent Correspondence	Climate Change	Dialogue
LONZA GROUP AG	Sent Correspondence	Climate Change	Dialogue
LYONDELLBASELL INDUSTRIES N.V.	Sent Correspondence	Climate Change	Dialogue
MARVELL TECHNOLOGY GROUP LTD	Sent Correspondence	Climate Change	Dialogue
MEDTRONIC PLC	Sent Correspondence	Climate Change	Dialogue
MEIJI HOLDINGS CO LTD	Sent Correspondence	Social Risk	Awaiting Response
MISC BERHAD	Sent Correspondence	Climate Change	Dialogue
MITSUBISHI UFJ FINANCIAL GRP	Meeting	Climate Change	Change in Process
MONDELEZ INTERNATIONAL INC	Sent Correspondence	Social Risk	Awaiting Response
NAN YA PLASTICS CORP	Sent Correspondence	Climate Change	Dialogue
NATIONAL GRID PLC	AGM	Climate Change	Change in Process
NESTLE SA	Sent Correspondence	Climate Change	Dialogue
NEXTERA ENERGY INC	Received Correspondence	Climate Change	Substantial Improvement
NIPPON EXPRESS CO LTD	Sent Correspondence	Climate Change	Dialogue
NISSIN FOOD HLDGS CO LTD	Sent Correspondence	Climate Change	Dialogue
NOKIA OYJ	Sent Correspondence	Climate Change	Dialogue

COMPANY PROGRESS REPORT

82 Companies engaged over the quarter

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

NORFOLK SOUTHERN CORPORATION	Sent Correspondence	Climate Change	Dialogue
NOVARTIS AG	Sent Correspondence	Governance (General)	Dialogue
PANALPINA WELTTRANSPORT AG	Sent Correspondence	Climate Change	Dialogue
PEPSICO INC.	Sent Correspondence	Social Risk	Awaiting Response
PERSIMMON PLC	Meeting	Climate Change	Moderate Improvement
PUBLIC SERVICE ENTERPRISE GROUP INC	Sent Correspondence	Climate Change	Dialogue
RENESAS ELECTRONICS CORP	Sent Correspondence	Climate Change	Dialogue
RIO TINTO GROUP (AUS)	Meeting	Governance (General)	Dialogue
RIO TINTO PLC	Meeting	Climate Change	Change in Process
ROCHE HOLDING AG	Sent Correspondence	Climate Change	Dialogue
ROHM CO LTD	Sent Correspondence	Climate Change	Dialogue
ROYAL DUTCH SHELL PLC	Meeting	Governance (General)	Dialogue
SAINSBURY (J) PLC	AGM	Environmental Risk	Dialogue
SANOFI	Sent Correspondence	Climate Change	Dialogue
SANWA HOLDINGS CORP	Sent Correspondence	Board Composition	Dialogue
SEAGATE TECHNOLOGY PUBLIC LIMITED COMPANY	Sent Correspondence	Climate Change	Dialogue
SOLVAY SA	Sent Correspondence	Climate Change	Dialogue
SSE PLC	Meeting	Climate Change	Change in Process
STANDARD CHARTERED PLC	Meeting	Climate Change	Dialogue
STMICROELECTRONICS NV	Sent Correspondence	Climate Change	Dialogue
SUMITOMO MITSUI FINANCIAL GROUP	Meeting	Board Composition	Moderate Improvement
SUNTORY BEVERAGE & FOOD LTD	Sent Correspondence	Social Risk	Awaiting Response
SWATCH GROUP AG	Sent Correspondence	Climate Change	Dialogue
THE CLOROX COMPANY	Sent Correspondence	Climate Change	Dialogue
THE KRAFT HEINZ COMPANY	Sent Correspondence	Social Risk	Awaiting Response
UNILEVER PLC	Sent Correspondence	Social Risk	Awaiting Response
VALE SA	Meeting	Human Rights	Dialogue

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

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

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2021-22

PENSION FUND COMMITTEE

13TH DECEMBER 2021

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

AGENDA ITEM NO. 5

PENSION FUND RISK REGISTER – RISK REGISTER OVERVIEW
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**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 2021, is attached as Appendix 1 for review and consideration by the Committee, and includes minor updates to reflect, for example, changes to titles for Department for Levelling Up, Housing and Communities (formerly Ministry of Housing, Communities and Local Government) and Governance and Audit Committee (formerly Audit 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.

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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

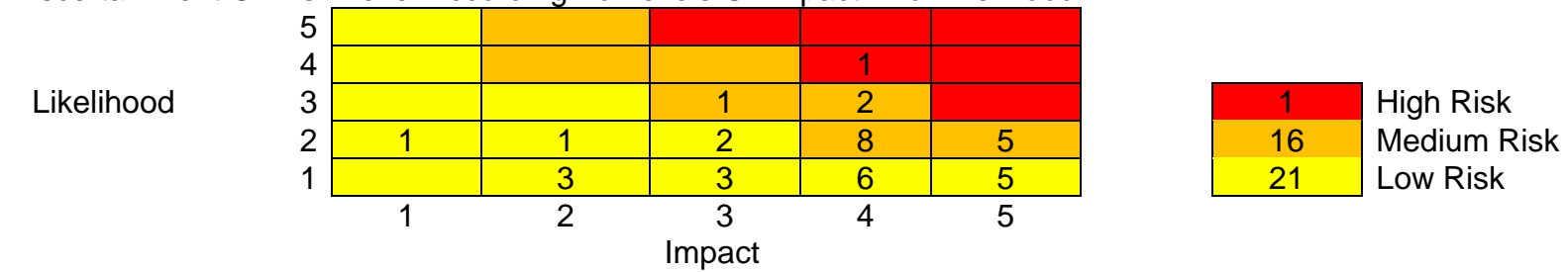
Likelihood Assessment Matrix:

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 2021 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 remedies of the McCloud case and ensuring appropriate provision is made against the Fund's liabilities. 	Wording amended around McCloud liabilities
	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. Regular review of the asset allocation strategy by the Committee (with advice from the Advisory Panel), covering both the fund strategy and the asset allocation. Post 2019 valuation review completed and implementation in progress. 	
	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 and adjust as necessary. 	

	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. 	
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 or the WPP, 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. 	
	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 arrangements 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. Ensure the appropriate 'wrappers' for the investments in illiquid assets. 	

	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. Investment malpractices are reported to the FCA. 	
	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	2	10	MR	<ul style="list-style-type: none"> Joint Governance Committee and Officer Working Group has been formally constituted. Establishment of sub groups of the WPP for specialisation. Wales Pension Partnership's CIV proposal approved by FCA on 24th July 2018, further submissions approved to allow for the development of additional sub funds. Participation on consultation papers. Engagement with local pension boards. Creation of sub funds continues to be effectively progressed. Pension Board Engagement days held to update Pension Board Chairs and provide feedback. Development of appropriate business plans, policies and procedures. 	

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 (now Department for Levelling Up, Housing and Communities) guidance. • Benchmark against regulator on code of practice. • Submit Annual Pension Scheme Regulator Return on time. • Good governance review currently being considered by MHCLG (now Department for Levelling Up, Housing and Communities).
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 Skills 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 the policy on voting decisions and the impact should UK shareholder lose voting rights in EU companies. • 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 Fund's passive equities are invested in a low carbon product. • External Audit and Governance and Audit Committee.
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.
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. 	
	Inability to implement the 'McCloud' remedies within expected timelines	5	2	10	MR	<ul style="list-style-type: none"> Project Team established. Investment in team resources. Data retrospection solutions discussed and agreed through the Fund's Employer Comms Forum. Monitor and contribute to remedy draft regulations when available. Early engagement with Pensions Software Supplier. Sharing best practice through the various LGPS forums. 	New risk added to recognise the difficulties and risk associated with the delivery of the McCloud remedies implementation
	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. 	
	Confidential / commercially sensitive data is leaked, stolen or misplaced	5	1	5	LR	<ul style="list-style-type: none"> The Pension Fund will clearly mark any confidential / commercially sensitive data that it shares. 	

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 the 2022 Triennial Valuation	5	1	5	LR	<ul style="list-style-type: none"> • 2021 Data Cleaning exercise. • Actuarial 'Employer Covenant' reviews. 	
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. 	
Operational disaster (fire / flood, etc)	4	1	4	LR	<ul style="list-style-type: none"> • Business continuity procedures are in place and tested. 	
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'. 	
	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 (now revoked). 	
	Non compliance of procurement rules	1	2	2	LR	<ul style="list-style-type: none"> Regular budget monitoring. Periodic review of suppliers. Contract Procedure Rules. 	

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2021-22

PENSION FUND COMMITTEE

13th DECEMBER 2021

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

AGENDA ITEM 6
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 RECOMMENDATIONS

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 1st December 2021. The agenda can be accessed [here](#), which was shared with all Committee (and board) members before the meeting.

3.4 At the December 2021 meeting, the Host update included:

Work continuing to develop in a number of key areas:

- 2020/21 Annual Report;
- Become a signatory to the UK Stewardship Code;
- New policies and policy reviews;
- Responsibilities Matrix;
- Operator Review meetings;
- Launch of the Emerging Markets Sub Fund;
- Private Market Allocator procurement process;
- IAA addendum; and
- Officer Working Group sub-groups:
 - Private Markets sub-group.
 - Responsible Investment sub-group.
 - Risk Register sub-group.

Next Steps / Priorities:

- Commence the appointment process for the Scheme Member Representative; and
- Development of Private Market Sub Funds:
 - September 2021 to February 2022 – Procurement of Private Debt and Infrastructure (X2) allocators
 - JGC to approve allocator appointments at the 23rd March 2022 JGC
 - March 2022 to December 2022 – Private Debt and Infrastructure sub funds to be developed, approved and launched

Other Key areas:

- Virtual training sessions continue.
- The website continues to be updated with relevant news and publications.

3.5 A number of Constituent Authorities have expressed an interest in launching a sustainable equity sub-fund. Work is underway to set out and scope the sub fund including the appetite of Funds to such an option.

3.6 Over time the objective of the WPP is for local investment opportunities to be facilitated via the private markets sub fund and appointed allocators. Initial opportunities continue to be explored in this regard.

3.7 At the Rhondda Cynon Taf County Borough Council full Council meeting on 24th November 2021, proposed amendments were agreed to the WPP Inter Authority Agreement to reflect current ways of working, requirements for further investment arrangements and to agree the appointment of a (non-voting) Scheme Member Representative onto the Joint Governance Committee.

3.8 The next JGC meeting is scheduled to take place on 23rd March 2022.

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.

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RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2021-22

PENSION FUND COMMITTEE

13th DECEMBER 2021

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

AGENDA ITEM 7

PENSION FUND STATEMENT OF ACCOUNTS (2020/21) AND AUDIT WALES REPORT
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**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 2020/21.

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) and Letter of Representation (Appendix 2) were reported to and approved by full Council on 24th November 2021 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 3.

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

2020/21

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 2020/21 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 three 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 Low Carbon Equities and Passive Gilts);
- 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 continues to develop a range of asset classes to meet the needs of the LGPS funds in Wales, to allow them to execute their differing asset allocation strategies. The LGPS funds retain full control over strategic asset allocation decisions.

Positive progress has been made by the WPP in the establishment of four sub-funds for the collective investing of assets. The prospectus for Global High Alpha Equities, comprising of two mandates 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 relating to Fixed Interest, was approved by the FCA in February 2020, with the launch of this fund being July 2020. The fourth sub-fund relates to Emerging Market Equities and was approved by the FCA in March 2021.

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: 24 November 2021

Cllr. S. Powderhill

Presiding Officer

Rhondda Cynon Taf County Borough Council
The Pavilions, Cambrian Park
Clydach Vale
Tonypany
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 2020/21

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 2021 and its income and expenditure for the year.



24 November 2021

Signature: _____ Date: _____

Barrie Davies

Director of Finance and Digital Services

Rhondda Cynon Taf County Borough Council

The Pavilions, Cambrian Park

Clydach Vale

Tonypandy

CF40 2XX

Fund Account

2019/20			2020/21	
£'000 Reclassified		Note:	£'000	£'000
	Contributions			
(106,927)	Employer contributions	13.0	(97,624)	
(28,210)	Member contributions	13.0	(29,766)	
(135,137)				(127,390)
	Transfers in from other Pension Funds			
(4,243)	Group Transfers in from other schemes or funds		(3,643)	
(3,835)	Individual Transfers from other schemes or funds		(4,605)	
				(8,248)
(4,135)	Other income		(2,443)	
				(2,443)
	Benefits			
109,078	Pensions	13.0	110,855	
20,072	Commutation of pensions and lump sum retirement benefits	13.0	16,252	
2,431	Lump sum death benefits	13.0	3,875	
131,581				130,982
	Payments to and on account of leavers			
245	Refunds to members leaving scheme or fund		177	
4	Payments for members joining state scheme or fund		(2)	
11,804	Individual transfers to other schemes of funds		4,702	
12,053				4,877
143,634				135,859
(3,716)	Net (addition)/withdrawals from dealings with members			(2,222)
13,121	Management Expenses	14.0	13,084	
				13,084
9,405	Net (additions)/withdrawals including fund management expenses			10,862
	Investment income			
(16,063)	Dividends from equities		(14,278)	
(23,806)	Income from bonds		(15,785)	
0	Dividends from WPP Global Equities		(39,607)	
0	Income from WPP UK Credit Fund		(3,992)	
(11,733)	Income from Pooled Property		(7,018)	
(45)	Interest on cash deposits		1	
(51,647)				(80,679)

140,724	(Profits) and losses on disposal of investments and changes in the value of investments	12.0	(1,068,829)	
				(1,068,829)
131	Taxes on income		87	
				87
89,208	Net Returns on Investments			(1,149,421)
98,613	Net (increase)/decrease in net assets available for benefits during the year			(1,138,559)
(3,458,635)	Opening Net Assets			(3,360,022)
(3,360,022)	Closing Net Assets			(4,498,581)

The Fund Account has been reclassified for comparability in line with the latest CIPFA guidance. Similar reclassification has been made in notes 7, 11 and 14.

Net Assets Statement

31/03/2020 Reclassified		Note:	31/03/2021	
			£'000	£'000
	Investment Assets	7.0		
722,158	Equities		1,192,224	
896,429	Bonds		0	
	Pooled Funds			
1,270,900	WPP Global Equities		1,867,855	
0	WPP UK Credit Fund		550,961	
	Other Pooled Investments			
0	Passive UK Gilts		372,929	
144,462	Passive Equities		200,829	
287,697	Pooled Property		282,289	
3,321,646				4,467,087
25,885	Cash deposits			24,964
	Other investment balances			
7,392	Accrued interest		0	
5,357	Investment debtors		5,232	
2,018	Tax recoverable		1,147	
14,767				6,379
3,362,298				4,498,430
	Investment Liabilities			
(11,612)	Investment creditors			(5,023)
(462)	Derivative contracts			0
3,350,224	Net Investment Assets			4,493,407
	Current assets			
6,366	Contributions due from employers and employees		6,113	
6,808	Other current assets		1,314	
13,174				7,427
	Current Liabilities			
(3,376)	Current liabilities			(2,253)
3,360,022	Net assets of the scheme available to fund benefits at period end			4,498,581

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 2021 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 2021.

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.

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 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 2020/21 amounted to £1.48m (£1.90m in 2019/20).

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.

1.4 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.

1.5 Derivatives

The Fund used derivative financial instruments to manage exposure to specific risks arising from its investment activities in its fixed interest mandate prior to pooling. The Fund does not hold derivatives as at 31st March 2021.

1.6 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.

1.7 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 introduced by the 2021/22 Code and relevant for additional disclosures that will be required in the 2020/21 financial statements in accordance with the requirements of paragraph 3.3.4.3 of the Code are:

- Definition of a Business: Amendments to IFRS 3 Business Combinations.
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7.
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

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, changes in mortality rates and expected returns on pension fund assets. The actuary provides the Fund with advice regarding the assumptions to be used.	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 pension liability. An increase in assumed earnings inflation or assumed life expectancy would increase the value of the liabilities.

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 draft, unaudited Statement of Accounts was authorised for issue by the Director of Financial and Digital Services, as Chief Finance Officer, on 30th June 2021. 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 2021, 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 2021 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

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 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.

Equalisation and Indexation of Guaranteed Minimum Pensions (GMPs)

The actuarial present value of the defined benefit obligation includes an estimated liability in relation to the equalisation and indexation of GMPs beyond the arrangements already formally in place, which apply to members whose State Pension Age (SPA) is between 6th April 2016 and 5th April 2021 inclusive. Those arrangements require the LGPS to pay pension increases on GMPs at the full rate of CPI for those members, whereas GMP legislation only requires limited price increases to be applied. The additional liability included within the table assumes

those arrangements for fully indexing GMPs will be extended to members whose SPA is after 5th April 2021. This has increased the defined benefit obligation in the region of 0.1% to 0.2%

Cost Management Process

The actuarial present value of the defined benefit obligation does not allow for any potential additional liability which may arise from cost management valuations. 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. HM Treasury and the Scheme Advisory Board had paused their reviews following the McCloud judgement in the Court of Appeal. These have now been unpaused and HMT Directions are expected during 2021 allowing reviews to proceed. It is unlikely the outcome of those reviews will be known in 2021 and no changes in benefits or contributions are expected until 2024.

7.0 Analysis of Investments at Fair Value

Reclassified	2019/20		2020/21	
	£'000	£'000	£'000	£'000
Equities				
Global	722,158		1,192,224	
		722,158		1,192,224
Bonds				
Bonds	896,429		0	
		896,429		0
Pooled funds				
WPP Global Equities	1,270,900		1,867,855	
WPP UK Credit Fund	0		550,961	
Overseas - other	0		0	
		1,270,900		2,418,816
Other Investments				
Pooled UK Gilts	0		372,929	
Pooled Passive Equities	144,462		200,829	
Pooled Property	287,697		282,289	
		432,159		856,047
Total long-term investments		3,321,646		4,467,087

The Fund has participated in stock lending arrangements through its investments in the WPP. The total income received by the WPP from stock lending in 2020/21 is £631k.

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.

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 and pooled investments within the WPP 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	
	31/03/2020 £'000	31/03/2021 £'000	31/03/2020 %	31/03/2021 %
Baillie Gifford (Equities)	728,101	1,197,175	21.7	26.6
BlackRock (Passive Low Carbon Equities)	144,528	200,880	4.3	4.5
BlackRock (Passive Gilts)	0	372,929	0.0	8.3
BMOgam (Bonds)	903,811	0	27.0	0.0
CBRE (Property)	290,497	287,956	8.7	6.4
Link (Global Growth)	1,011,978	1,501,146	30.2	33.4
Link (Global Opportunities)	258,922	366,709	7.7	8.2
Link (UK Credit Fund)	0	550,961	0.0	12.3
Internal	12,387	15,651	0.4	0.3
Total	3,350,224	4,493,407	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 2021:

Area	£'000	%
UK Equities	463,406	10.30%
European Equities	242,544	5.40%
US and Canadian Equities	233,229	5.20%
Japanese Equities	78,416	1.70%
Pacific Equities	44,580	1.00%
Other International Equities	130,049	2.90%
Passive Low Carbon Pooled Equities	200,829	4.40%
Global Pooled Equities	1,867,855	41.60%
UK Credit	550,961	12.30%
UK Gilts	372,929	8.30%
Property	282,289	6.30%
Cash & Equivalents	26,320	0.60%
Total	4,493,407	100%

10.0 Contingent Liabilities

There is a contingent liability of £987k (£968k in 2019/20) 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:

Reclassified	Market Value 01/04/20	Purchases	Sales at Historic Book Cost	Change in Market Value	Market Value 31/03/21
	£'000	£'000	£'000	£'000	£'000
Bonds	896,429	199,350	(1,038,606)	(57,173)	0
Equities	722,158	261,116	(117,591)	326,541	1,192,224
Pooled Global Equities	1,270,900	39,607	0	557,348	1,867,855
Pooled UK Credit	0	562,763	0	(11,802)	550,961
Other Pooled UK Gilts	0	405,920	0	(32,991)	372,929
Other Pooled Equities	144,462	192,159	(124,239)	(11,553)	200,829
Other Pooled Property	287,697	20,686	(13,450)	(12,644)	282,289
	3,321,646	1,681,601	(1,293,886)	757,726	4,467,087
Cash Deposits	25,423			311,103	24,964
Investment Debtors	14,767				6,379
Investment Creditors	(11,612)				(5,023)
Total	3,350,224			1,068,829	4,493,407

Comparative note for 2019/2020:

	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	795,421	129,965	(81,374)	(121,854)	722,158
Pooled Global Equities	1,363,745	0	0	(92,845)	1,270,900
Other Pooled Equities	153,737	0	0	(9,275)	144,462
Other 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

12.0 Profits and Losses on Investments

	2019/20	2020/21
	£'000	£'000
Profit on sales	102,515	169,241
Loss on sales	(41,542)	(19,443)
Net profit / (loss) on sales	60,973	149,798
Change in market value	(201,697)	919,031
Net increase/ (decrease) in value	(140,724)	1,068,829

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	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000	£'000
Administering	9,025	9,671	38,100	33,596	34,967	36,513
Admitted	3,620	3,778	17,109	16,852	16,255	16,501
Scheduled	15,565	16,317	51,718	47,176	80,359	77,968
Total	28,210	29,766	106,927	97,624	131,581	130,982

Included in employer contributions are £3,663k of deficit funding contributions (£11,428k in 2019/20). There are no augmented contributions.

14.0 Management Expenses

The management expenses borne by the Fund in 2020/21 are set out below:

	2019/20	2020/21
	£'000	£'000
Administrative Costs	1,845	1,870
Investment Management Expenses	11,001	10,836
Oversight and Governance Costs	275	378
Total	13,121	13,084

Investment management expenses represent 0.24% (0.33% in 2019/20) of the value of the Pension Fund as at 31st March 2021.

2020/21 Audit Fees of £39k are included in Oversight and Governance Costs (£39k in 2019/20).

The investment management expenses borne by the Fund in 2020/21 are set out below:

	£'000	£'000	£'000
	Total	Management Fees	Transaction Costs
Bonds	433	433	0
Equities	2,889	2,183	706
Pooled Funds			
WPP Global Equities	6,011	4,729	1,282
WPP UK Credit Fund	291	291	0
Other Pooled Investments			
UK Gilts	13	13	0
Passive Equities	11	11	0
Pooled Property	455	441	14
	10,103	8,101	2,002
Custody Fees	733		
Total	10,836		

Comparative note for 2019/20:

Reclassified	£'000	£'000	£'000
	Total	Management Fees	Transaction Costs
Bonds	1,271	1,271	0
Equities	2,872	2,039	833
Pooled Funds			
WPP Global Equities	5,858	4,761	1,097
WPP UK Credit Fund	0	0	0
Other Pooled Investments			
UK Gilts	0	0	0
Passive Equities	19	19	0
Pooled Property	508	500	8
	10,528	8,590	1,938
Custody Fees	473		
Total	11,001		

The Fund incurs no performance related fees.

During 2019/20, assets were moved from the segregated bond manager, into the WPP. Transaction costs amounted to £214k, which are reflected in the NAV.

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:

	2019/20	2020/21
	£'000	£'000
WPP Oversight and Governance Costs		
Running Costs	58	99
WPP Investment Management Expenses		
Fund Managers Fees	4,317	5,520
Transaction Costs	1,538	763
Custody Fees	215	578
Total	6,128	6,960

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 £1.4m (£1.5m in 2019/20). 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 £6.1m (£6.4m in 2019/20), of which £4.6m 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:

	2020	2021
Active Employers	53	51
Contributors	23,696	23,931
Pensioners	17,512	17,728
Dependants	2,726	2,786
Deferred Beneficiaries	28,108	28,868

17.0 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.

17.1 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 2021 amounted to £9.5m with the institution shown in the table below:

Institution	Balance at 31/03/21 £'000	Maturity Date
Debt Management Office	9,500	01/04/2021
Total	9,500	

17.2 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.

17.3 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	31/03/21 Value	Change %	Value on increase	Value on decrease
	£'000		£'000	£'000
Equities	1,197,175	15.9	1,387,406	1,006,944
Cash	15,651	0.4	15,706	15,596
Pooled Funds - Global Equity	1,867,855	15.9	2,164,844	1,570,866
Pooled Funds UK Credit	550,961	5.7	582,366	519,556
Other Pooled - Gilts	372,929	5.7	394,186	351,672
Other Pooled - Passive Equities	200,880	15.9	232,820	168,940
Other Pooled Property	287,956	2.4	294,896	281,016

PIRC also advised that the potential market movement for the Fund as a whole, could be 10.6%. The possible impact is shown below:

	31/03/21 Value	Change %	Value on increase	Value on decrease
	£'000		£'000	£'000
Fund Asset Total	4,493,407	10.6	4,969,709	4,017,106

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 2021/22 financial year would have the following effect:

Asset type	31/03/21 Value	Value on increase	Value on decrease
	£'000	£'000	£'000
Pooled Funds UK Credit	550,961	556,471	545,451
Other Pooled - Gilts	372,929	376,658	369,200
Cash deposits & balances	26,320	26,583	26,057
Total	950,210	959,712	940,708

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 8.4% would have the following effect:

Asset type	31/03/21 Value	Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas Equities	728,818	790,039	667,597
Overseas Pooled Funds - Global Equities	172,941	187,468	158,414
Overseas Pooled Property	127	138	116
Total	901,886	977,645	826,127

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 2021 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 international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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 2021, and of the amount and disposition at that date of its assets and liabilities,
- have been properly prepared in accordance with legislative requirements and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. 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.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Statement of Accounts other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information. 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. My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

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, or returns adequate for my audit have not been received from branches not visited by my team;
- 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.

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Rhondda Cynon Taf Pension Fund's controls, and the nature, timing and extent of the audit procedures performed.

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.

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.



Adrian Crompton
Auditor General for Wales
29 November 2021

24 Cathedral Road
Cardiff
CF11 9LJ

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.

Net Asset Value (NAV)

The net asset value (NAV) represents the net value of an entity and is calculated as the total value of the entity's asset minus the total value of its liabilities.

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.

Wales Pension Partnership (WPP)

The WPP was established in 2017. The WPP is a collaboration of the eight LGPS funds (Constituent Authorities) covering the whole of Wales and is one of eight national Local Government Pension pools.

Audit of Accounts Report – Rhondda Cynon Taf Pension Fund

Audit year: 2020-21

Date issued: November 2021

Document reference: 2704A2021-22

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 the Wales Audit Office 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 some 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 2020-21 annual report and accounts in this report.
- 2 We have already discussed these issues with the 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 £44 million for this year's audit. There are some areas of the accounts that may be of more importance to the reader and we have set a lower materiality level for these, such as related party transactions.
- 5 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

- 6 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.
- 7 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, 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 2 July 2021. • In line with the other pension fund audits in Wales, we undertook the audit in Autumn 2021.
Electronic signatures	Electronic signatures are permissible.

Audit evidence

We have been unable to conduct our audit at your premises due to the Covid-19 pandemic. The audit has been conducted remotely via use of Microsoft TEAMS, emails and we have direct access to the Council's ledger.

- 8 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

- 9 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**.
- 10 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 11 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards along with confirmation of other specific information you have provided to us during our audit.
- 12 Our proposed audit report is set out in **Appendix 2**.

Significant issues arising from the audit

Uncorrected misstatements

- 13 There are no misstatements identified in the accounts, which remain uncorrected.

Corrected misstatements

- 14 There were initially misstatements in the accounts that have now been corrected by management. These were presentational or typographical in nature.

Other significant issues arising from the audit

- 15 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 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 2020-21 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 31st March 2021 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 Code of Practice on Local Authority Accounting; 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 Rhondda Cynon Taf 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

We confirm that:

- All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.
- The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.
- 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 those charged with governance being Rhondda Cynon Taf County Borough Council as administering authority for the Rhondda Cynon Taf Pension Fund

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 Council on 24 November 2021.

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 (director only for companies)]

Date:

Appendix 2

Proposed Audit Report

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

Opinion on financial statements

I have audited the financial statements of Rhondda Cynon Taf Pension Fund for the year ended 31st March 2021 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 international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31st March 2021, and of the amount and disposition at that date of its assets and liabilities,
- have been properly prepared in accordance with legislative requirements and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. 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.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

Other information

Page 9 of 12 - Audit of Accounts Report – Rhondda Cynon Taf Pension Fund

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information. 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. My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

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 and the annual report has been prepared in accordance with the Local Government Pension Scheme Regulations 2013.

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, or returns adequate for my audit have not been received from branches not visited by my team;
- 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.

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Rhondda Cynon Taf Pension Fund's controls, and the nature, timing and extent of the audit procedures performed.

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.

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.

Adrian Crompton
Auditor General for Wales
29 November 2021

24 Cathedral Road
Cardiff
CF11 9LJ



Audit Wales
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

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

Appendix 2

Date/Dyddiad:
24th November 2021

Please ask for/Gofynnwch am:
Barrie Davies
(01443) 424026

Auditor General for Wales
24 Cathedral Road
Cardiff
CF11 9LJ

Dear Adrian,

Representations regarding the 2020/21 Rhondda Cynon Taf Pension Fund Financial Statements

This letter is provided in connection with your audit of the financial statements of the Rhondda Cynon Taf Pension Fund (the Pension Fund) for the year ended 31st March 2021 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.

In addition we have completed the questionnaires (Appendix A) provided to us regarding;

- ISA240 The auditor's responsibilities relating to fraud in an audit of financial statements
- ISA250 Consideration of laws and regulations in an audit of financial statements
- ISA550 Related parties

Management Representations

Responsibilities:

We have fulfilled our responsibilities for the preparation of the financial statements in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21; in particular the financial statements give a true and fair view in accordance therewith.

We have fulfilled our responsibilities for 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; and
- 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.

The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosure that is reasonable in the context of the applicable financial reporting framework.

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 those charged with governance being Rhondda Cynon Taf County Borough Council as administrating authority for the Rhondda Cynon Taf Pension Fund:

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 Members of Rhondda Cynon Taf County Borough Council on 24th November 2021.

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



Director of Finance & Digital Services
(S.151 Officer)

Date 24 November 2021



Leading Member

Date 24 November 2021

Appendix 1

Matters in relation to fraud

International Standard for Auditing (UK and Ireland) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both management and 'those charged with governance', which for the Council is the Full Council. Management, with the oversight of those charged with governance, should ensure there is a strong emphasis on fraud prevention and deterrence and create a culture of honest and ethical behaviour, reinforced by active oversight by those charged with governance.

As external auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

What are we required to do?

As part of our risk assessment procedures we are required to consider the risks of material misstatement due to fraud. This includes understanding the arrangements management has put in place in respect of fraud risks. The ISA views fraud as either:

- the intentional misappropriation of assets (cash, property, etc); or
- the intentional manipulation or misstatement of the financial statements.

We also need to understand how those charged with governance exercises oversight of management's processes. We are also required to make enquiries of both management and those charged with governance as to their knowledge of any actual, suspected or alleged fraud, for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

Enquiries of management - in relation to fraud	
Question	2020-21 Response
<p>1. What is management's assessment of the risk that the financial statements may be materially misstated due to fraud and what are the principal reasons?</p>	<p>As "Scheme Manager" for the Rhondda Cynon Taf Pension Fund, the controls applied in Rhondda Cynon Taf CBC also apply to the administration of the Pension Fund.</p> <p>Good governance flows from a shared ethos and culture, as well as from systems and structures. The Council expects all representatives (i.e. Members and Officers) to conduct their duties with the highest levels of honesty and integrity.</p> <p>Policies underpin the culture in place and the Regional Internal Audit Shared Service test compliance with relevant Policies linked to the core financial systems (in line with the approved Annual Audit Plan).</p> <p>To ensure a consistent approach to working practices and processes, all officers are subject to the Council's terms and conditions of employment. A comprehensive suite of information such as policies and procedures are available for officers on "The Source" such as:</p> <ul style="list-style-type: none"> • Financial Procedure Rules • Contract Procedure Rules • Human Resources policies • Anti-Fraud, Bribery & Corruption Strategy • Whistleblowing Policy • Gifts and Hospitality Policy. <p>New employees attend a virtual corporate induction and an induction checklist encompasses key policies and procedures.</p> <p>All Members receive Code of Conduct training and newly elected Member and refresher training is available annually. Code of conduct training is also provided to co-opted Members. The following codes and protocols are included as part of the member induction programme and provided on a one to one basis if requested by a Member via the Council Business Unit.</p> <p>Codes and Protocols</p> <ul style="list-style-type: none"> • Members' Code of Conduct • Protocol Standard of Conduct to be followed by Members • Officers' Code of Conduct

Enquiries of management - in relation to fraud	
Question	2020-21 Response
	<ul style="list-style-type: none"> • Protocol for Member/Officer Relations <p>Where Members and/or Officers do not undertake their duties in accordance with the expected standards then governance arrangements are in place within the Council to manage this process in an equitable, fair and transparent manner.</p> <p>Taking all of the above into account, our assessment of the risk of fraud arising and having a material impact on the financial statements is considered to be low.</p>
2. What processes are employed to identify and respond to the risks of fraud more generally and specific risks of misstatement in the financial statements?	<p>The Council has a number of governance arrangements in place that help in the prevention and detection of fraudulent and/or improper activities. These include:</p> <ul style="list-style-type: none"> • Financial & Contract Procedure Rules • Systems of Internal Control • Recruitment Policies • Whistleblowing Policy • Local procedures within departments, for example, authorisation arrangements and quality assurance processes (a number of which were undertaken remotely during 2020/21 due to revised working arrangements as a result of the pandemic) • An independent Internal Audit Service (the 'scopes' for audit assignments included in the 2020/21 Audit Plan took account of revised working arrangements / potential risks as a result of the pandemic). • An independent Corporate Fraud Team • Combining with Others to Prevent and Fight Fraud, for example, Participation in the National Fraud Initiative <p>The Anti-Fraud, Bribery & Corruption Strategy provides a clear path for raising concerns and facilitating 'tip-offs', and the fraud response arrangements outlined enables such information or allegations to be properly dealt with and reported.</p> <p>The Council's Whistleblowing Policy also gives advice on how to raise a concern, as well as providing information on the safeguards and support that are available to those who raise concerns.</p> <p>Given the governance arrangements in place, management can give assurance that the risk of material misstatement is low.</p>

Enquiries of management - in relation to fraud	
Question	2020-21 Response
3. What arrangements are in place to report fraud issues and risks to the Audit Committee?	<p>Rhondda Cynon Taf County Borough Council is resolute in its determination to maintain its reputation as a Council that will not tolerate fraud, bribery, corruption or abuse of position for personal gain, wherever it may be found in any area of Council activity.</p> <p><u>Arrangements in place to report fraud issues</u></p> <p><u>Whistleblowing</u></p> <p>An updated Whistleblowing Policy and Procedure for Rhondda Cynon Taf County Borough Council was reported to and approved by the Council's Audit Committee at its meeting held on 26th April 2021 together with the Whistleblowing Annual Report 2020/21. With regard to the Whistleblowing Policy and Procedure, it was noted at the meeting that the approved Policy and Procedure would be published on the Council's website and awareness raising undertaken across the Council.</p> <p>The purpose of the Policy is to provide a means by which complaints of malpractice or wrongdoing can be raised by those who feel that other avenues for raising such issues are inappropriate. The Policy confirms that so far as possible, those raising concerns under the Policy will be treated confidentially.</p> <p>Workers are encouraged to report any concerns they have via the Council's <u>Whistleblowing webpage "Get Involved"</u>.</p> <p><u>Anti-Fraud, Bribery & Corruption Strategy</u></p> <p>The purpose of the Strategy is to communicate the Council's main principles for countering fraud, bribery and corruption. It sets out the:</p> <ul style="list-style-type: none"> • Council's zero tolerance approach against fraud, bribery & corruption; • Reporting avenues for suspected irregularities; • Resources that are in place to support a counter fraud, bribery & corruption culture; and • Governance arrangements in respect of reporting to Audit Committee. <p>In the Council's <u>Report It</u> section of the website, instructions for those who wish to raise anti-fraud, bribery or corruption concerns are provided along with the means to complete an on-line form.</p> <p><u>Arrangements in place to report to Audit Committee:</u></p>

Enquiries of management - in relation to fraud	
Question	2020-21 Response
	<p>At the <u>2nd November 2020 Audit Committee meeting</u>, an Anti-fraud, Bribery and Corruption Progress Report 2020/21 was presented and at the 12th July 2021 Governance and Audit Committee¹, the Anti-Fraud Annual Report 2020/21 was reported that set out progress during 2020/21 and a workplan for 2021/22 (both of which were noted and agreed). This update helps to ensure the Council continues to operate within an effective anti-fraud culture across the organisation, with resilient preventative measures capable of identifying and addressing new threats.</p> <p>The <u>1st February 2021 Audit Committee meeting</u> (that reported an update on the '2019/20 Annual Governance Statement Recommendations – Progress update') noted that the review of the Whistleblowing Policy will be reported to the April 2021 Audit Committee (at the same time as the Whistleblowing Annual Report for 2020/21).</p> <p>At the 26th April 2021 Audit Committee meeting, whistleblowing activity during 2020/21 was reported (as part of the Whistleblowing Annual Report) and concluded that arrangements were appropriate (note: the updated Whistleblowing Policy and Procedure was also reported to this meeting).</p> <p>Related information is also included under question 5 'Enquiries of management - in relation to fraud'.</p> <p>The Pension Fund has its own governance structure which includes the Council's Audit Committee and also details that the Pensions Board may report directly to the Pensions Regulator in the event of non compliance with the Code of Practice or in the event of breaches. A diagram showing the links between each forum/body within the governance structure can be found at this link. Governance Structure</p>

¹ Governance and Audit Committee – previously named Audit Committee up to the Council's Annual General Meeting in May 2021 where at this meeting it was agreed for the Committee to be re-named to the Governance and Audit Committee in line with the requirements of the Local Government and Election (Wales) Act 2021

Enquiries of management - in relation to fraud	
Question	2020-21 Response
4. How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?	<p><u>Elected Councillors</u> Following the Local Government elections held on 4th May 2017, all elected Councillors were provided with an induction and an on-going programme of support that included an overview of the Council's Code of Conduct.</p> <p>Every elected Councillor has signed up to his/her individual Role Description, a copy of which is retained by the Council's Democratic Services division.</p> <p>The Council's Scrutiny Committee meeting minutes and the Pension Fund Committee meeting minutes were examined to determine whether proceedings were conducted in line with the Council's Code of Conduct. Declarations of interest were sought and declarations were made by elected Councillors, as a standard agenda item, where appropriate.</p> <p>On 17th November 2020 Cabinet received the report on the Public Services Ombudsman for Wales – Annual Report and Letter 2019/20. In addition, a Standards Committee was in place during 2020/21 and received a <u>summary of complaints against Members</u> submitted to the Ombudsman. Also, on 27th November 2020, the Standards Committee received information on proposed arrangements for Code of Conduct refresher training for County Borough Councillors.</p> <p><u>Pensions Board</u> The Pensions Board has its own Terms of Reference which details the expectation that Board members comply with the Seven Principles of Public Life and also provides information on the legal duty of members to disclose conflicts of interest. <u>Pensions Board Terms of Reference</u></p> <p><u>Council Employees</u> The Council has a number of recruitment and selection Policies in place that help to ensure that new recruits have the integrity and ethical values of the organisation and also the competencies to undertake the duties required of them.</p> <p>Employees have contracts of employment and competency based job descriptions which set out grade, roles and responsibilities. The Human Resources Service oversees terms and conditions of employment, and the Council have a suite of policies and procedures that are available for officers to access.</p>

Enquiries of management - in relation to fraud	
Question	2020-21 Response
	<p>Each new recruit is provided with a 'Basic Rules – A Guide for Employees' booklet, via The Source, that gives each employee information in relation to (amongst other things) expected behaviour, use of social media, appearance and attendance. The expectations of each employee are set out from the outset.</p> <p>The Council describes what excellent behaviour looks like for each type of job, for example, 'always treat people with respect', and this information is used to test candidates suitability for jobs at interview and is used to inform discussions managers have with their staff as part of their development.</p>
5. Are you aware of any instances of actual, suspected or alleged fraud within the council since 1 April 2020?	<p>To support transparency and openness, the Council's arrangements during 2020/21 included:</p> <p><u>Whistle-blowing arrangements</u> A new Regulation came into force during April 2017 which placed a requirement upon the Council to report annually on whistle-blowing disclosures. The Regulation required the Council to publish the annual report on its website or by other means appropriate for bringing the report to the attention of the public. For Rhondda Cynon Taf, this requirement was met for the 2020/21 financial year via an Annual Report to Audit Committee on 26th April 2021.</p> <p><u>Anti-fraud, Bribery & Corruption arrangements</u></p> <p>As set out for question 3 above, the Anti-Fraud Annual Report for 2020/21 was reported to the Governance and Audit Committee on 12th July 2021 and an in-year Anti-Fraud, Bribery and Corruption progress report was presented to the 2nd November 2020 Audit Committee meeting. Both updates included references / information on the specific work around financial probity in relation to the award of flooding support to businesses and residents (i.e. Storm Dennis related) and Covid-19 business support payments, and also the inclusion of data matching for Covid-19 business support payments paid by local authorities as part of the 2020/21 National Fraud Initiative programme of work.</p> <p>The Council included a payslip insert to all employees in August 2020 providing information on how Council employees could report any suspicions regarding Anti-fraud, Bribery and Corruption.</p>

Enquiries of management - in relation to fraud	
Question	2020-21 Response
6. Are you aware of any fraud within the council since 1 April 2020?	Please refer to the response to question 5, above.
7. Are you aware of any instances of actual, suspected or alleged fraud within the council since 1 April 2020?	Please refer to the response to question 5, above.

Enquiries of those charged with governance – in relation to fraud	
Question	2020-21 Response
<p>1. How does the Full Council, exercise oversight of management's processes for identifying and responding to the risks of fraud within the audited body and the internal control that management has established to mitigate those risks?</p>	<p>Full Council has ensured that the Audit Committee's Terms of Reference are comprehensive and compliant with the Local Government Measure 2011.</p> <p>Audit Committee has a detailed <u>work plan</u> for each Municipal Year that helps them ensure they meet their Terms of Reference.</p> <p>The Rhondda Cynon Taf Pension Fund Accounts are reported to full Council, alongside the external auditor's report, for consideration and if appropriate, approval.</p> <p>Audit Wales reports its Annual Audit Summary Report to full Council setting out, amongst other things, the results of its work undertaken within the Authority in the previous financial year. The most recent being reported <u>10th March 2021</u>. Further to review by Council, this report is scrutinised by the Council's overview and scrutiny arrangements to monitor progress and is also reported to Audit Committee.</p>
<p>2. Are you aware of any instances of actual, suspected or alleged fraud with the audited body since 1 April 2020?</p>	<p>Please refer to response within "Enquiries of Management" section, Question 5.</p>

Appendix 2

Matters in relation to laws and regulations

International Standard for Auditing (UK and Ireland) 250 covers auditors responsibilities to consider the impact of laws and regulations in an audit of financial statements.

Management, with the oversight of those charged with governance (Full Council), is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations, including compliance with those that determine the reported amounts and disclosures in the financial statements.

As external auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. The ISA distinguishes two different categories of laws and regulations:

- laws and regulations that have a direct effect on determining material amounts and disclosures in the financial statements;
- other laws and regulations where compliance may be fundamental to the continuance of operations, or to avoid material penalties.

What are we required to do?

As part of our risk assessment procedures we are required to make inquiries of management and the Full Council as to whether the Council is in compliance with relevant laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Enquiries of management – in relation to laws and regulations	
Question	2020-21 Response
1. How have you gained assurance that all relevant laws and regulations have been complied with?	The accounts are prepared in accordance with the Accounts & Audit Regulations and Pensions Statement of Recommended Practice. In addition, the Pension Fund has undertaken an assessment of its compliance with the Pensions Regulator Code of Practice.
2. Have there been any instances of non-compliance or suspected non-compliance with relevant laws and regulations since 1 April 2020, or earlier with an ongoing impact on the 2020-21 financial statements?	There are no instances of non-compliance with relevant laws and regulations. Full Council receives assurance on this from the appointed External Auditor.
3. Are there any potential litigations or claims that would affect the financial statements?	Any potential litigations and/or claims are accounted for in accordance with the Code of Practice and where appropriate, disclosed in the letter of representation.
4. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.
5. Are you aware of any non-compliance with laws and regulations within the council since 1 April 2020?	No.

Enquiries of those charged with governance – in relation to laws and regulations

Question	2020-21 Response
<p>1. How does the Full Council, in its role as those charged with governance, obtain assurance that all relevant laws and regulations have been complied with?</p>	<p>Full Council appoints Audit Committee and sets its Terms of Reference.</p> <p>Full Council ratifies the appointment of the Section 151 Officer and the Council's Monitoring Officer, whose roles are defined by statute and referenced within the Constitution.</p> <p>Full Council receives assurance from the appointed External Auditor.</p> <p>Also refer to the reporting arrangements on the governance structure as detailed below: <u>Governance Structure</u></p>
<p>2. Are you aware of any instances of non-compliance with relevant laws and regulations?</p>	<p>There are no instances of non-compliance with relevant laws and regulations. Full Council receives assurance on this from the appointed External Auditor.</p>

Appendix 3

Matters in relation to related parties

International Standard for Auditing (UK and Ireland) 550 covers auditors responsibilities relating to related party relationships and transactions.

The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties.

Because related parties are not independent of each other, many financial reporting frameworks establish specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and actual or potential effects on the financial statements. An understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by ISA (UK and Ireland) 240, because fraud may be more easily committed through related parties.

What are we required to do?

As part of our risk assessment procedures, we are required to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

Enquiries of management – in relation to related parties	
Question	2020-21 Response
<p>1. Confirm that you have disclosed to the auditor:</p> <ul style="list-style-type: none"> the identity of any related parties, including changes from the prior period; the nature of the relationships with these related parties; details of any transactions with these related parties entered into during the period, including the type and purpose of the transactions. 	<p>Related party transactions are disclosed within the notes to the statement of accounts in accordance with the Code of Practice on Local Authority Accounting.</p>
<p>2. What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?</p>	<p>Governance arrangements are in place to ensure that a Register of Members Interests is in place and also that Declarations of Interest at each committee are asked for as a standard agenda item.</p> <p>Within the Annual Statement of Accounts of the Pension Fund, there is a requirement for the disclosure of “Related Party Transactions”. This relates to payments made to, or income received from, any organisation in which a Member or Chief Officer (who sits on the Senior Leadership Team) of the Council has an interest, financial or otherwise.</p> <p>Independent checks are also undertaken by finance officers against publicly available national databases to minimise the risk of non-disclosure.</p> <p>Additional controls are in place to ensure records of related parties are captured prior to a Member or officer of the Senior Leadership team leaving the local authority.</p> <p>Further additional Controls in place include:</p> <ul style="list-style-type: none"> Gifts & Hospitality Policy Contract Procedure Rules The Anti-Fraud, Bribery & Corruption Strategy

Enquiries of the those charged with governance – in relation to related parties	
Question	2020-21 Response
<p>1. How does the Council, in its role as those charged with governance, exercise oversight of management's processes to identify, authorise, approve, account for and disclose related party transactions and relationships?</p>	<p>Governance arrangements are in place to ensure that a Register of Members Interests is in place and also that Declarations of Interest at each committee are asked for as a standard agenda item.</p> <p>Within the Annual Statement of Accounts of the Pension Fund, there is a requirement for the disclosure of "Related Party Transactions". This relates to payments made to, or income received from, any organisation in which a Member or Chief Officer (who sits on the Senior Leadership Team) of the Council has an interest, financial or otherwise.</p> <p>Additional Controls in place include:</p> <ul style="list-style-type: none"> • Gifts & Hospitality Policy • Contract Procedure Rules • The Anti-Fraud, Bribery & Corruption Strategy.