



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

**GWŶS I GYFARFOD O'R CYNGOR**

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

Dolen gyswllt: Sarah Daniel (07385 086 169)

**DYMA WŶS I CHI** i gyfarfod o **PWYLLGOR CRONFA BENSIYNAU** yn cael ei gynnal yn **rhithwir** on **DYDD MAWRTH, 13EG RHAGFYR, 2022** am **2.00 PM.**

**AGENDA**

**Tudalennau**

**1. DATGAN BUDDIANT**

Derbyn datganiadau o fuddiannau personol gan Aelodau, yn unol â'r Cod Ymddygiad.

Nodwch:

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

**2. COFNODION**

Derbyn cofnodion o gyfarfod blaenorol Pwyllgor y Gronfa Bensiwn a gynhaliwyd ar 28-10-2022

**3 - 8**

**3. TRAFOD CADARNHAU'R CYNNIG ISOD YN BENDERFYNIAD**

"Bod y cyfarfod yma'n cadw aelodau o'r wasg ac aelodau o'r cyhoedd allan o ystafell y cyfarfod, dan Adran 100A(4) o Ddeddf Llywodraeth Leol (fel y'i diwygiwyd), yn ystod trafod eitem 5, ar y sail y byddai'n debygol o olygu datgelu gwybodaeth eithriedig yn ôl diffiniad paragraff

14 o Ran 4 o Atodlen 12A i'r Ddeddf.”

- |    |   |           |
|----|---|-----------|
| 4. | DYSGU A DATBLYGU - BUDDSODDI CYFRIFOL AC YMGYSYLLTU Â CHWMNIAU                                | 9 - 28    |
| 5. | ADRODDIAD AR SWYDDOGAETHAU DIRPRWYEDIG  | 29 - 46   |
| 6. | ADOLYGU COFRESTR RISG Y GRONFA BENSIWN  | 47 - 58   |
| 7. | DATGANIAD O GYFRIFON Y GRONFA BENSIWN 2021/22 AC ADRODDIAD ARCHWILIO CYMRU                    | 59 - 126  |
| 8. | PARTNERIAETH PENSIYNAU CYMRU - Y DIWEDDARAF   | 127 - 128 |
| 9. | <b>MATERION BRYG</b><br>Trafod unrhyw faterion bryg y mae'r Cadeirydd yn eu gweld yn briodol. |           |

**Cyfarwyddwr Gwasanaeth y Gwasanaethau Democraidd a Chyfathrebu**

**Cylchreliad:-**

Cadeirydd ac Is-gadeirydd:  
(Y Cynghorydd M Norris a Y Cynghorydd M Ashford)

Y Cynghorwyr Bwrdeistref Sirol: Y Cynghorydd D Wood, Y Cynghorydd G Jones and Y Cynghorydd N H Morgan



## **RHONDDA CYNON TAF COUNCIL PENSION FUND COMMITTEE**

Minutes of the virtual meeting of the Pension Fund Committee held on Friday, 28 October 2022 at 10.00 am.

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

Councillor M Norris (Chair)

Councillor M Ashford   Councillor D Wood  
Councillor G Jones

### **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 & Improvement Services  
Ms Y Keitch, Senior Accountant - Pensions and Treasury Management

## **9        DECLARATION OF INTEREST**

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

## **10       MINUTES**

It was **RESOLVED** to approve the minutes of the 12<sup>th</sup> July 2022 as an accurate reflection of the meeting.

## **11       LEARNING AND DEVELOPMENT**

Members received a presentation from the Senior Accountant - Pensions and Treasury Management in respect of an 'Introduction to Pension Fund Investments'.

Within the presentation, Members were provided with an overview of:

- Rhondda Cynon Taf Pension Fund.
- Different types of Investments.
- Fund Managers / Fund Managers Valuations 31<sup>st</sup> March 2022 / Fund Manager Performance.
- Pension Fund Performance.
- Custodian.
- Wales Pension Partnership.
- Socially Responsible Investments.

**RESOLVED:** To note the content of the presentation.

## 12 DELEGATED FUNCTIONS – UPDATE REPORT

The Director of Finance and Digital Services presented the report to Members which set out the key issues being addressed as delegated functions, as specified in the Pension Fund Governance Policy Statement. The Director referred Members to the performance of the fund detailed at the table in 4.3 of the report, explaining that during the quarter ending 30<sup>th</sup> June 2022, the overall value of the Fund decreased from £4,510 million to £4,108 million.

The Director provided an overview of Fund performance informing Members that the rolling 3-year performance of the Fund is 4.3% positive as compared to benchmark of 4.4%. For the last quarter (i.e. quarter 2), Global Growth high alpha equity portfolio and Global Opportunities high alpha equity outperformed their benchmarks; Baillie Gifford traditional equity portfolio, UK Credit, CBRE Property and BlackRock passive equity underperformed their benchmarks; and BlackRock passive UK gilts performed in line with their benchmark.

The Director noted the review of Fund Managers' performance reported to the June 2022 Panel meeting, whereby presentations were received from Baillie Gifford, the traditional equity manager, and Pzena, one of the Global Growth managers. The Director also noted that an update was provided from Mercer Performance Services who are employed by the Fund to measure the performance of the Fund as a whole and the performance of the fund managers against agreed benchmarks.

The Service Director Pensions, Procurement and Transactional Services continued through the report starting at paragraph 5.1 and indicated that Annual Benefit Statements were published on the 22<sup>nd</sup> August, prior to the statutory deadline date of 31<sup>st</sup> August (for active and deferred scheme members), and work is underway to compile the Annual Pension Fund Report 2021/22.

At paragraph 5.2 the Service Director informed Members that, further to the publication of the Government 2020 consultation response, it is anticipated that the Scheme Advisory Board will resume their McCloud implementation groups (including representatives of different LGPS stakeholders). Alongside the response, an updated version of the draft regulations implementing the McCloud remedy will be published reflecting the new powers of the statutory underpin, as well as technical feedback and any changes in policy. The Service Director added that to ensure the updated draft regulations are accurate in light of the changes made, they will be subject to a further period of consultation early in 2023, and regulations will be made later in 2023 and will come into force on 1<sup>st</sup> October 2023.

The Service Director advised Members that the 2022 valuation exercise is progressing in accordance with the agreed timetable and employer results will be provided to Fund Employers at the earliest opportunity to support their budgetary arrangements.

The Service Director went on to advise Members that the Scheme Advisory Board no longer require scheme 'death statistics'; however the Fund will continue to collate this information up to the Valuation date.

The Service Director continued by informing the Committee of the communication with Fund members, whereby letters have been issued to members signposting that Annual Benefit Statements have been published on the Member Self-Serve (MSS) website and promoting digital take-up. In parallel, a new targeted survey of membership experience is underway asking recent retirees about their service experience; based on feedback received for August 2022, the average score for service was 4.3 out of 5. This information will inform on-going work in this area taking into account comments and suggestions fed back by Fund members.

At paragraph 5.8 the Service Director informed the Committee that the Member Self-Serve (MSS) continues to be promoted and referred to the table in the report setting out details of the number of registrations of Active, Deferred, Pensioner and Dependant Members.

Members were also informed that with regard to the Fund's Additional Voluntary Contributions partner, improvement in turnaround times are continuing as the provider's resolution action plan is implemented, this being in line with the position reported to the July Pension Fund Committee, and performance will continue to be monitored by the Scheme Advisory Board and locally by the Fund.

The Service Director moved on to the Service's eight 'Key Performance Service Standards', noting that these are regularly monitored by the Panel and Pension Board. The Service Director fed back that, in general, performance and service volumes remain positive and close on-going monitoring and support is in place as part of performance management and team development arrangements.

The Service Director reported that the Pension Board last met virtually on 11<sup>th</sup> July 2022, there being no items noted for referral back to Committee, and confirmed that the next Pension Board meeting will be held on a hybrid basis and is scheduled to take place on the 17<sup>th</sup> October 2022.

In response to a query raised in respect of the Additional Voluntary Contribution Scheme, the Service Director fed back that the contributions are made by the employee rather than the employer. The Service Director added that the Council is also exploring a shared cost Additional Voluntary Contribution Scheme, noting that this is a decision for Rhondda Cynon Taf Council to determine whether to implement rather than the

Pension Fund Committee.

Following discussion, it was **RESOLVED** to:

1. Note the issues addressed within the report; and

### **13 PENSION FUND RISK REGISTER - RISK REGISTER OVERVIEW**

The Service Director - Finance and Improvement Services presented the report and referred members to the Risk Register attached at Appendix 1 for consideration.

The Service Director fed back that 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 and this is then presented to the quarterly meetings of the Investment and Administration Advisory Panel for further review, challenge and agreement.

Members were informed that the Risk Register is also reviewed by the Pension Board, as part of their role in supporting the Fund's overall governance arrangements, and at their last meeting the Pension Board proposed no additional updates.

The Service Director went on to inform Members that the updated Risk Register, included as Appendix 1, contained 38 risks: 1 High Risk, 16 Medium Risks and 21 Low Risks. Members were also informed that five updates were incorporated into the Risk Register and the Service Director provided a brief overview of each.

**RESOLVED:** Members noted the contents of the report.

### **14 WALES PENSION PARTNERSHIP - UPDATE**

The Senior Accountant - Pensions and Treasury Management presented the report to Members which detailed the work and progress of the Wales Pension Partnership (WPP) and Joint Governance Committee (JGC).

The Senior Accountant informed the Committee that the latest meeting of the JGC, scheduled to take place on the 21<sup>st</sup> September 2022, was cancelled due to the passing of Her Majesty the Queen and the period of mourning, and that the next JGC meeting is scheduled for 5<sup>th</sup> December 2022.

The Senior Accountant went on to provide Members with an update of the work that continues to develop across and number of areas, including:

- New policies and policy reviews, including a Complaints Policy, review of the Rebalancing and Alteration Policy

- Private Markets Allocator procurement process
- Officer Working Group sub-groups:
  - Private Markets sub-group.
  - Responsible Investment sub-group.
  - Risk Register sub-group.

Next Steps / Priorities:

- Development of the Private Markets Sub-Funds.
  - March 2022 to December 2022 – Private debt and Infrastructure sub funds to be developed, approved and launched.
- Operator contract procurement process.
  - The existing contract comes to an end in December 2024.
  - Continuing discussions with Burges Salmon re-the legal requirements.
- Launch of the Active Sustainable Equity Fund.
- Annual Stewardship Report to maintain the WPP's signatory status to the UK Stewardship Code.
- Voting Priorities and engagement.

Other Key areas:

- Virtual training sessions continue.
- The website continues to be updated with approved policies, press releases and details of sub-fund launches.

**RESOLVED:** Members noted the content of the report.

**This meeting closed at 11.15 am**

**CLLR M. NORRIS  
CHAIR.**

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o Deddf Llywodraeth Leol 1972.

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## RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

### MUNICIPAL YEAR 2022-23

**PENSION FUND COMMITTEE  
13<sup>TH</sup> DECEMBER 2022**

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

<b>AGENDA ITEM NO. 5</b>
<b>DELEGATED FUNCTIONS – UPDATE REPORT</b>

**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 25<sup>th</sup> November 2022.

#### **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 2022.

4.2 During the quarter ended 30<sup>th</sup> September 2022, the overall value of the Fund decreased from £4,108 million to £3,995 million.

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

### Total Portfolio

	2019	2020				2021				2022			3yr
Quarter	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
Fund	2.6	-11.4	16.6	3.5	9.5	1.6	5.4	0.3	1.6	-6.5	-8.9	-2.7	<b>2.8</b>
B'mark	0.7	-10.6	12.5	1.6	6.5	1.1	5.1	0.7	4.2	-3.2	-6.8	-2.8	<b>2.4</b>
Relative	1.9	-0.8	4.1	1.9	3.0	0.5	0.3	-0.4	-2.6	-3.3	-2.1	0.1	<b>0.4</b>

- 4.4 As shown, the rolling 3-year performance of the Fund is 2.8% positive as compared to benchmark of 2.4%. For the last quarter (i.e. quarter 3), Global Opportunities high alpha equity portfolio, BlackRock Passive UK Equity (low carbon), Baillie Gifford traditional equity portfolio and UK Credit outperformed their benchmarks (noting that Baillie Gifford and UK Credit quarter 3 benchmarks were negative); Global Growth high alpha equity portfolio and CBRE Property underperformed their benchmarks; and BlackRock Passive UK Gilts performed in line with their benchmark.
- 4.5 The September 2022 Panel included a review of fund managers' performance. Presentations were received from Veritas, one of the Global Growth managers, and BlackRock GIS 4 solutions.
- 4.6 The asset allocation of the Fund-by-Fund manager and mandate as at 30<sup>th</sup> September 2022 (which includes cash) is shown in the table below.

Baillie Gifford Traditional	Global Equities	18%
Link – Global Opportunities Fund	Global High Alpha Equities	10%
Link – Global Growth Fund	Global High Alpha Equities	35%
Link – UK Credit Fund	UK Credit	12%
BlackRock	Passive Global Equities	5%
Blackrock	Passive UK Gilts	11%
CBRE	UK Property	9%
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 towards 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	68%	64%	59%	54%
Infrastructure	0	0	5%	10%
Property	9%	7%	7%	7%
Government Bonds (UK)	10%	12%	12%	12%
Corporate Bonds (UK)	12%	15%	15%	15%
Cash	1%	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 With regard to infrastructure, the approach is for the Fund to invest over a number of years in order to secure and optimise opportunities across the different time periods (and vintage years).
- 4.9 Baillie Gifford's global core mandate has been reduced by £180 million which has been transitioned to UK government bonds, with a further £45 million reduction transferred to UK corporate bonds.
- 4.10 The Pension Fund is progressing the investment into Blackrock GIS 4 Infrastructure Fund. Capital contributions to date total £21.189 million.
- 4.11 The Pension Fund is committing £70 million to the closed ended infrastructure first vintage being launched by the WPP. This will take place from December 2022
- 4.12 The external audit of the Pension Fund Statement of Accounts for 2021/22 has been completed and reported to full Council on 23<sup>rd</sup> November 2022, and is reported as a separate agenda item to the 13<sup>th</sup> December 2022 Pension Fund Committee.

## **5.0 ADMINISTRATION UPDATE**

- 5.1 The RCT Pension Fund Annual Report was finalised and published prior to the statutory deadline and provided to the Scheme Advisory Board. A copy of the published report can be found at:  
<https://www.rctpensions.org.uk/EN/RelatedDocuments/AnnualReport/PensionFundAnnualReport2022.pdf>
- 5.2 The Fund's Governance documents, including the Funding Strategy are currently being updated in line with the 2022 Valuation, in consultation with respective stakeholders. The updated documents will be presented to the March 2023 Pension Fund Committee for consideration and approval.

- 5.3 HM Treasury laid The Public Service Pensions (Employer Cost Cap and Specified Restricted Scheme) Regulations 2022 to take effect from 3<sup>rd</sup> August 2022. This introduced an amendment to the specified margins for the cost cap introduced by the Public Service Pensions Act 2013. The specified margins are the margins in which scheme costs must remain before corrective action is taken. The margins were amended from two percentage points above and below the employer cost cap rate to three percentage points.
- 5.4 The LGPS Regulations in respect of the McCloud judgement and subsequent remedies, will be subject to a further period of consultation early in 2023, and regulations will be made later in 2023 to come into force on 1<sup>st</sup> October 2023. In the interim, the Service continues to work with our Fund Employers in collating the necessary data to support the remedy exercise.
- 5.5 The Scheme Advisory Board no longer require scheme ‘death statistics’; however the Fund will continue to collate up to the Valuation date and noting that the Fund’s mortality assumptions for the 2022 Valuation exercise have been amended as a result of the pandemic. The Fund’s statistics are shown in the table below:

Comparison of Number of Fund Deaths

Month	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
January	94	83	61	-
February	37	98	52	-
March	82	64	60	-
April	50	50	129	39
May	55	41	66	51
June	49	35	66	46
July	52	41	65	43
August	57	39	38	46
September	43	56	54	55
October	50	48	59	84
November		62	66	61
December		56	55	43

- 5.6 The Fund’s Annual General Meeting (AGM) was held as a hybrid event on the 14<sup>th</sup> November 2022 with representation from the Fund Employers and members of the Rhondda Cynon Taf Pension Fund Committee and Pension Board.
- 5.7 The 2022 Triennial Valuation exercise is nearing completion, with the Fund Actuary providing an update to Employers at the AGM. The Employer results are currently being finalised and will be issued as timely as possible. In line with the growing maturity of the Fund, the Actuary will provide some cashflow modelling based on the 2022 Valuation contribution results and potential pension increase of 10.1%.

- 5.8 The implementation timeline for the National Pension Dashboard Programme has been revised for LGPS Pension Funds and it is now anticipated that this Fund will onboard during 2025.
- 5.9 A new Life Certification exercise is underway using biometrics technology to provide assurance on the details / status of Members that live abroad and contact has been made with our 189 overseas pensioners.
- 5.10 In support of national action to address pension fraud, the RCT Pension Fund has signed up to The Pension Regulator’s (TPR) ‘Pledge to Combat Pension Scams’ together with implementation of the associated awareness activity and reporting <https://www.rctpensions.org.uk/en/home.aspx>.



- 5.11 Member Self-Serve (MSS) continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members are shown below (as at November 2022).

	<b><u>Member Numbers</u></b>	<b><u>MSS Registrations</u></b>	<b><u>Current Percentage Take-up</u></b>	<b><u>Percentage Reported Previously</u></b>
Actives	24,208	11,432	47.23%	45.37%
Deferred	29,518	10,776	36.51%	34.41%
Pensioners	18,701	5,507	29.45%	28.47%
Dependants	3,007	181	6.02%	5.69%

- 5.12 The Pension Regulator Return was submitted prior to the deadline of 18<sup>th</sup> November, with the RCT Fund’s data quality score remaining consistent with last year:
- Common Data Score 97% (2021 – 97%).
  - Scheme Specific Data Score 99% (2021 - 99%).
- 5.13 The Service’s eight ‘Key Performance Service Standards’ are regularly monitored by the Investment and Administration Advisory Panel and Pension Board. In general, performance and service volumes remain positive, and a focus on team development and recruitment continues.



- 5.14 Cornelly Community Council resolved on 26<sup>th</sup> October 2022 to participate in the Local Government Pension Scheme and has applied to join the Rhondda Cynon Taf Pension Fund.
- 5.15 The number of 'Internal Dispute Resolution Procedure' Appeals in progress continues to be extremely low, with no obvious trends or concerns to report

## **6.0 PENSION BOARD**

- 6.1 The Pension Board last met on a hybrid basis on 17<sup>th</sup> October 2022. There were no items noted for referral back to Committee.
- 6.2 The next Pension Board meeting will be held on a hybrid basis and is scheduled to take place on the 9<sup>th</sup> January 2023.
- 6.3 Pension Board Members have continued to support their skills and knowledge requirement, through their attendance at relevant 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 2022

## **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.

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# Quarterly Engagement Report

July-September  
2022



# Brazil, Water Stewardship, Ford, National Grid, Uyghurs

## BRAZIL



The collapsed tailings dam at Brumadino and the excavations taking place to find the four remaining bodies

# LAPFF Chair Visits Tailings Dam-Affected Communities in Brazil

LAPFF Chair, Cllr Doug McMurdo spent three weeks in Brazil this quarter investigating the situation of communities affected by tailings dams in Conceição do Mato Dentro, Mariana, and Brumadinho. This trip was part of LAPFF's broader work on mining and human rights. The context for the trip is available in the [mining and human rights report](#) LAPFF published in April 2022. The motivation for the trip reflects LAPFF's view that social and environmental impacts by investee companies are financially material for investors.

During his trip, Cllr McMurdo met with communities affected by the 2015 Mariana and 2019 Brumadinho dam collapses. BHP and Vale own the Mariana Fundão dam through their joint venture operator, Samarco. Vale owns the Córrego do Feijão dam that collapsed in Brumadinho. He also visited communities in Conceição do Mato Dentro who live in areas affected by Anglo American's Minas Rio tailings

# BRAZIL



dam. Water quality and availability and house design in resettlements are two major concerns cited by affected community members with whom LAPFF spoke. Air quality due to dust from mines was another concern expressed by communities in all three areas.

After meeting with affected community members, Cllr McMurdo spent two days with the Chair of Vale, José Penido, and senior executives from the company. Mr Penido accompanied Cllr McMurdo to the Paracatu and Bento Rodrigues resettlements in Mariana, sites hit hard by the Samarco tailings dam collapse in 2015. Andre de Freitas, CEO of the Renova Foundation which was established to provide reparations following the Mariana tailings dam collapse in November 2015, led the visits to the resettlements. Mr Penido also accompanied Cllr McMurdo to the site of the 2019 Brumadinho tailings dam collapse. Mr Penido and his colleagues explained in Vale’s geomonitoring centre what steps the company has been taking to prevent further dam collapses. LAPFF extended an invitation to meet a BHP representa-



**“It is clear that Vale has taken steps to improve its corporate culture and its dam safety practices. LAPFF’s objective is to be a critical friend to the company in fostering better and faster delivery of required reparations and dam safety measures.”**

**Cllr Doug McMurdo,  
LAPFF Chair**

tive during Cllr McMurdo’s trip, but the invitation was declined by the company.

At the end of the trip, Cllr McMurdo met with a number of Brazilian investors led by ESG-focused asset manager, JGP Asset Management, with whom LAPFF has been partnering on this project for a couple of years. Collectively, the investor group worked with senior executives of Vale to set in motion a process to increase the pace and quality of reparations following the tailings dam collapses.

The largest impediment to completing reparations in Mariana quickly enough and to an adequate standard appears to be the Renova Foundation. Vale, BHP, and Samarco – but no affected community members – sit on the board of this organisation which was established to provide reparations following the Mariana tailings dam collapse in November 2015. The Foundation has an overly complex governance structure, similar in some ways to that of a joint venture, and does not have adequate independence in its governance. Both shortcomings have led to poor and drawn-out execution of reparations.

## COMPANY ENGAGEMENT

### National Grid

In July, LAPFF issued a voting alert recommending a vote against National Grid's transition plan. It flagged concerns that despite draft climate action plans from Massachusetts and New York state agencies proposing nearly 10 million households change their heating systems to electric heat pumps by 2050, National Grid still envisaged 50 percent of households in these states having some form of gas burning system by 2050.

**Objective:** A meeting was held with Duncan Burt, the Head of Sustainability, and Justine Campbell, the Company secretary, prior to the AGM to discuss these concerns. This was followed by attendance at the company AGM to ask about Scope 3 targets being aligned with the remaining global carbon budget, on processes to ensure lobbying was aligned with the goals of the Paris agreement, and on disclosing progress against the CA100+ benchmark.

**Achieved:** At the meeting, National Grid representatives provided more detail on 1.5°C alignment and the challenge for the gas business in the US. At the AGM, LAPFF representing the lead investors for the CA100+ group, noted the importance of government, regulators and companies working constructively together to deliver the energy transition, and commended National Grid for the adoption of real zero as a goal. The chair, Paula Reynolds, and the Chief Executive, John Pettigrew, both responded positively, with further information being provided on Science-Based Target initiative (SBTi) certification in the UK and committing to an assessment against the benchmark. The full AGM transcript is provided on the company website.

**In Progress:** As part of engagement coordinated through Climate Action 100+ correspondence has been sent to the company to identify and unlock potential policy barriers to the delivery of decarbonisation of the power & utilities sector. An initial response suggests a focus on legislative challenges, measures to accelerate net zero infrastructure, actions around affordability, and a fair and just transition.



### SSE Plc

LAPFF issued a voting alert ahead of the SSE AGM. LAPFF previously advised members to abstain on whether to improve the company's net zero transition report in 2021 due to concerns about important omissions related to Scope 3 emissions, capital allocation and alignment with Paris Agreement targets. This year a recommendation was issued to vote in favour at the company's 2022 AGM. SSE has made notable progress in its ambition to reach net zero emissions across its business between AGMs, adding more Science Based Targets with alignment to 1.5°C.

### Mizuho

**Objective:** Following a collaborative meeting in July that confirmed medium-term targets had been established for carbon intensity of the electric power sector, more information was sought on the transitional pathway and strategy Mizuho has developed to achieve these targets.

**Achieved:** Further detail was provided on targets, based on the lower end of the International Energy Agency (IEA) Net Zero Emissions by 2050 Scenario, and the upper end of the IEA's Sustainable Development Scenario. Mizuho has an engagement policy to support clients'

capabilities for dealing with transition risks, whereby a review is triggered if the client shows no willingness or strategy to address transition risks after one year of engagement.

**In Progress:** LAPFF continues to engage collaboratively with a range of Asia-based utilities and financial companies, including ongoing dialogue with Mizuho.

### Electric Vehicle Manufacturers

**Objective:** After beginning to engage with electric vehicle manufacturers earlier in the year to discuss approaches to responsible mineral sourcing and a 'Fair and Just Transition', LAPFF has continued to reach out to companies to discuss this issue.

**Achieved:** LAPFF met with Ford to discuss its approach to human rights and responsible mineral sourcing. The meeting was a short one, although the company's participation in the Initiative for Responsible Mining Assurance was discussed.

**In Progress:** The meeting with Ford was followed up with a range of questions, which the company has promised to answer. The Forum is also coordinating calls with Renault and Volvo.

# COLLABORATIVE ENGAGEMENT

## COLLABORATIVE INVESTOR MEETINGS

### Uyghur Engagement

**Objective:** LAPFF has continued to investigate issues of Uyghur forced labour in Xinjiang and other regions of China. After two engagements with companies earlier in the year, LAPFF has been looking at potential ways forward through collaborative engagement on the issue.

**Achieved:** LAPFF joined the Investor Alliance for Human Rights Uyghur Region Engagement Group earlier in the year and has attended a quarterly meeting, gaining insight into what other investors have learned in their engagements. The Forum also reached out to the Australian Strategic Policy Institute (ASPI), which produced the report 'Uyghurs for Sale' in March 2020, linking 82 global brands to factories in the Xinjiang region with suggestions of forced Uyghur Labour.

LAPFF met with ASPI representatives to discuss the work it had done for this report and for a wider discussion on its work around the issue. The conversation implied that companies operating in the Xinjiang region could not undertake the thorough levels of due diligence they were claiming to be able to do. LAPFF followed up with questions to both Cisco and Dell after meetings earlier in the year, but neither company responded to these questions.

**In Progress:** LAPFF is currently looking at ways to progress dialogue with companies already engaged on this issue and how to get non-responders to engage in a meaningful manner.

### ShareAction Good Work Coalition

**Objective:** Following meetings with Sainsbury in Q1 and Q2 2020, LAPFF has maintained an interest in ShareAction's Good Work Coalition which looks at the living wage and insecure work, amongst other issues.

**Achieved:** LAPFF joined a collaborative call, organised by ShareAction, with Marks & Spencer representatives to discuss the company's approach to pay. M&S representatives noted that it was

considered workers were paid wages at a fair standard as they are already above the Real Living Wage (RLW) as defined by the Living Wage Foundation (LWF). However, this wage level is not currently matched for the company's third-party contractors. M&S appears keen to maintain a dialogue with the LWF to see where it can improve but did not appear to want to work towards LWF accreditation. This was due to concerns about a loss of independence of a large portion of its cash flow.

**In Progress:** LAPFF continues to monitor work on the RLW and work undertaken by ShareAction's Good Work Coalition.

### Rathbones Votes Against Slavery

**Objective:** Rathbones' Votes Against Slavery engagement targets companies in the FTSE350 that fail to comply with Section 54 of the UK's Modern Slavery Act. At the beginning of this year's engagement, 46 of these companies failed to meet the minimum reporting standards of the act, and with the engagement having had a strong success rate since its inception in 2019, LAPFF continued to support the initiative.

**Achieved:** ITV was included in the engagement based on an out-of-date statement, although this inclusion appeared to be due to an administrative error on the website rather than the statement actually being out of date. LAPFF joined

Rathbones on a call with ITV representatives to discuss the company's approach to modern slavery in July after this topic had been broached between Rathbones and ITV. ITV provided an overview of some of the work it has been doing around due diligence and its updated grievance mechanisms. The company provides a more comprehensive Modern Slavery Statement than a number of others companies in the FTSE350, and also provides case studies of enhanced due diligence.

**In Progress:** LAPFF continues to support Rathbones' Votes Against Slavery and other engagements on modern slavery. It has also volunteered to lead on upcoming company engagements with CCLA's 'Find It, Fix it, Prevent It' engagement, which seeks out companies to identify issues on modern slavery in their supply chains more proactively.

### Access to Nutrition Index (Kellogg)

**Objective:** Continuing engagement on the role food producers play on public health, the Forum maintains a dialogue with companies through the Access to Nutrition Index (ATNI). LAPFF acts as co-lead for engagement with Kellogg's and met with company representatives for the first time in February 2022, agreeing to maintain a continuing dialogue. LAPFF met with Kellogg's for the second time under this engagement in August.



# ENGAGEMENT

**Achieved:** Since the first meeting, the company announced its decision to split into three stand-alone publicly listed companies. In the meeting, the company's approach to governance, lobbying, labelling and responsible marketing was discussed. It was unclear how these issues were going to be approached when looking at the split into three companies although the company appears to be making progress across all of the topics covered.

**In Progress:** A newer iteration of ATNI's annual report is set to be released later in 2022 and dialogue with Kellogg's is set to continue alongside this.

## 30% Club Investor Group

**Objective:** Looking further afield from FTSE listed companies, the 30% Club Investor Group has started a global engagement looking at laggards on gender board diversity in the USA.

**Achieved:** LAPFF joined a number of investors in writing to three companies, Charter Communications, Liberty Media and Transdigm Group. No meetings have yet been arranged from this correspondence; Liberty Media provided a one sentence response.

**In Progress:** Pressure will continue to be placed on these companies for a meeting, and other global companies will be sought out for engagement on board diversity.

## CONSULTATION RESPONSES

### Transition Plan Taskforce

**Objective:** The Transition Plan Taskforce (TPT) was set up by the UK government to develop a 'gold standard' for climate transition plans. Launched by HM Treasury, the TPT aims to help financial institutions and companies prepare rigorous transition plans. A Call for Evidence on a Sector-Neutral Framework for private sector transition plans closed in mid-July.

**Achieved:** LAPFF's [response](#) draws upon the Forum's experience of engaging with private sector companies on climate plans and a just transition and sets out expectations that there should be a principle-based transition plan template. Different sectors can then apply existing and developing guidance in identifying risks and opportunities, and setting strategy, targets and timeframes aligned with remaining objectives within the scientifically identified global carbon budget. Principles that LAPFF wishes to see embedded include coverage of Scopes 1-3 emissions, inclusion of short, medium and long-term targets; a focus on actual emission reductions (real zero) rather than offsetting and carbon capture (net zero); and the inclusion of the social dimension, aiming for a fair and just transition.

**In Progress:** The TPT will initially report by the end of 2022.

## MEDIA COVERAGE

### Mining

Combating Environmental Racism: ['British court decides it will try BHP Billiton's crime against the Rio Doce'](#)

S&P Global: ['Fund chief to make ESG-linked visit to Brazil communities hit by iron ore dam slides'](#)

Pensions Age: ['LAPFF Chair announces Brazil dam collapse visit'](#)

BN Americas: ['Visit by UK pension fund rep cranks up ESG pressure on Brazilian miners'](#)

### Israel & Palestine

Pensions Expert: ['LGPS responds to Israeli settlements database complaint'](#)

### 30% Club

Citywire Selector: ['Exclusive: 30% Club extends its race equity management to FSTE 250'](#)

### Water Stewardship

ESG Investor: ['Investors Seek to Pull Plug on Water Risks'](#)

Responsible Investor: ['Leading investors put companies on notice over global water crisis'](#)

Pensions & Investments: ['Investors join forces to address financial, environmental risks of water'](#)

Pensions & Investments: ['Investors tuning into financial risks of water quality and scarcity'](#)

Business Green: ['Fiduciaries must act': Ceres calls on world's largest firms to respond to global water crisis'](#)

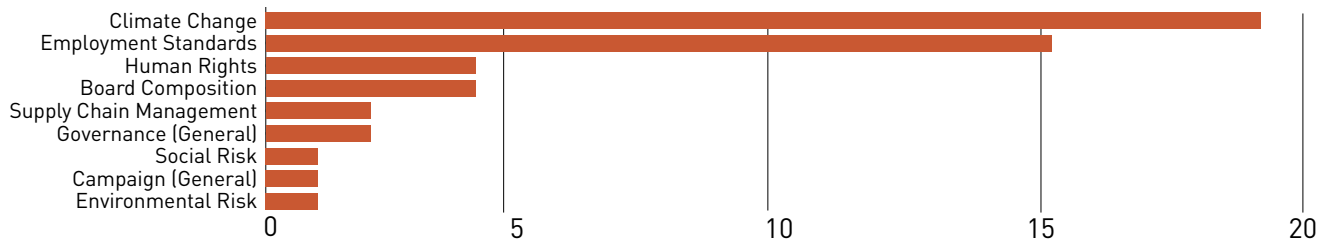
Reuters: ['Global investors group to pressure corporations on water risks'](#)

Syndicated in [Nasdaq](#) and [Zone Bourse](#)

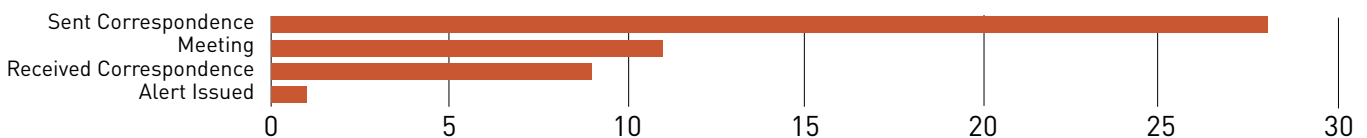


# ENGAGEMENT DATA

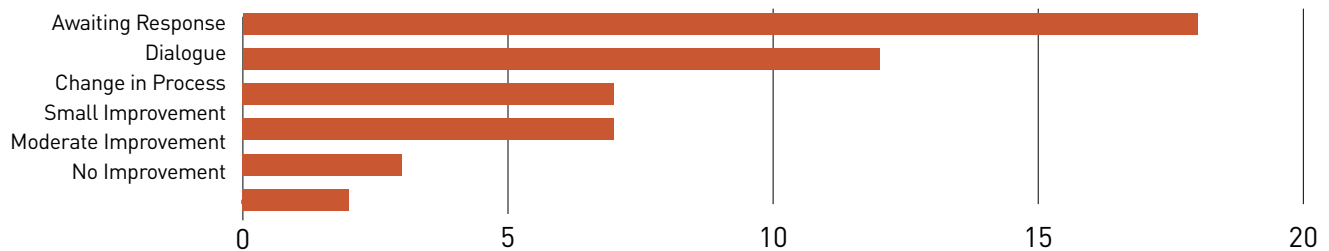
## ENGAGEMENT TOPICS



## ACTIVITY



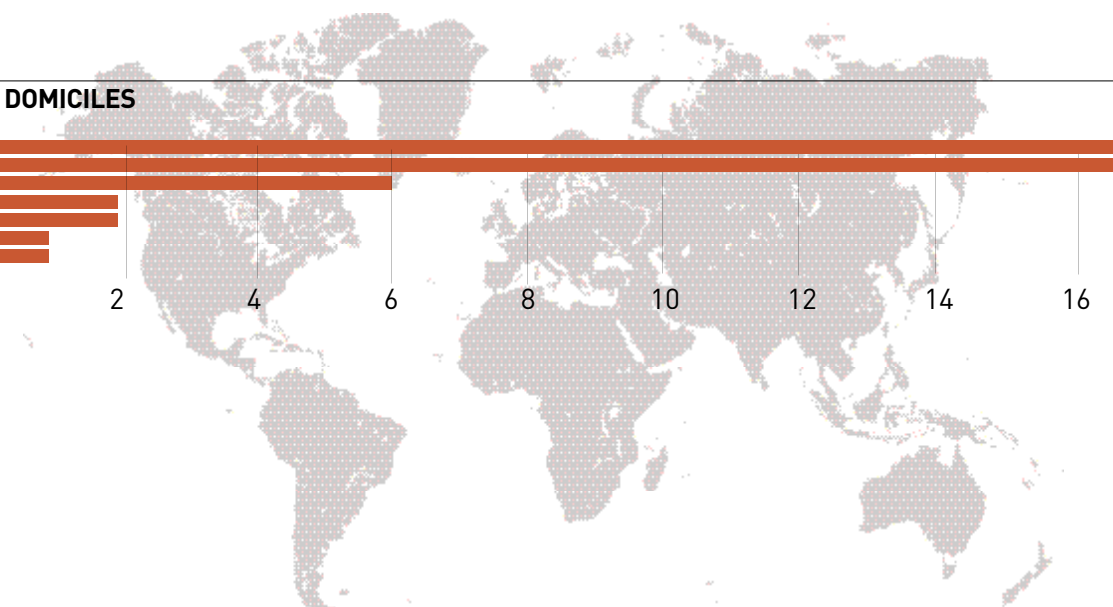
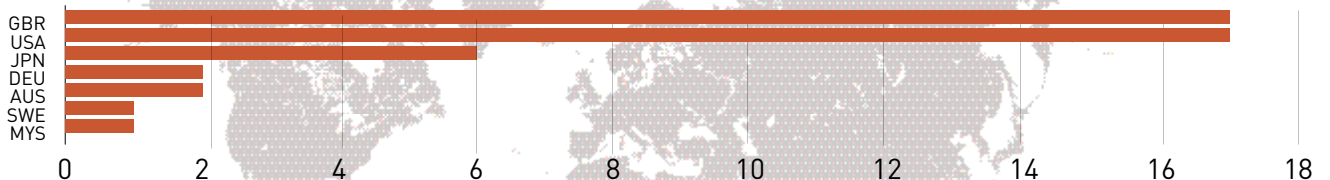
## MEETING ENGAGEMENT OUTCOMES



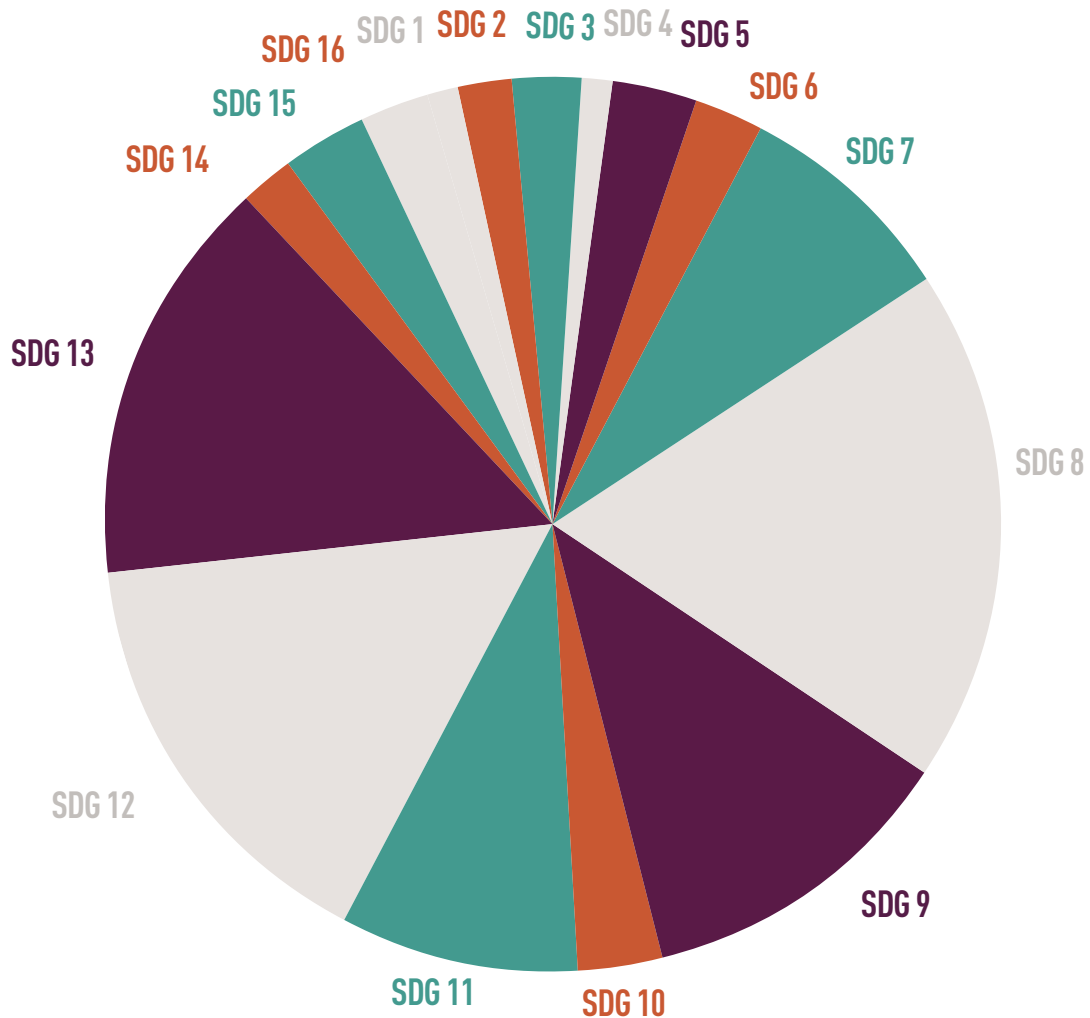
## POSITION ENGAGED



## COMPANY DOMICILES



# ENGAGEMENT DATA



## LAPFF SDG ENGAGEMENTS

SDG 1: No Poverty	2
SDG 2: Zero Hunger	3
SDG 3: Good Health and Well-Being	4
SDG 4: Quality Education	2
SDG 5: Gender Equality	5
SDG 6: Clean Water and Sanitation	4
SDG 7: Affordable and Clean Energy	13
SDG 8: Decent Work and Economic Growth	30
SDG 9: Industry, Innovation, and Infrastructure	19
SDG 10: Reduced Inequalities	5
SDG 11: Sustainable Cities and Communities	14
SDG 12: Responsible Production and Consumption	25
SDG 13: Climate Action	24
SDG 14: Life Below Water	3
SDG 15: Life on Land	5
SDG 16: Peace, Justice, and Strong Institutions	4
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

# COMPANY PROGRESS REPORT

35 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
ALPHABET INC	Sent Correspondence	Employment Standards	Awaiting Response
AMAZON.COM INC.	Received Correspondence	Employment Standards	Dialogue
APPLE INC	Sent Correspondence	Employment Standards	Awaiting Response
BHP GROUP LIMITED (AUS)	Sent Correspondence	Governance (General)	Dialogue
CHARTER COMMUNICATIONS INC	Sent Correspondence	Board Composition	Awaiting Response
CIMB GROUP HOLDINGS BERHAD	Sent Correspondence	Climate Change	Change in Process
ELECTRIC POWER DEVELOPMENT CO	Sent Correspondence	Climate Change	Change in Process
FORD MOTOR COMPANY	Meeting	Supply Chain Management	Dialogue
ITV PLC	Meeting	Human Rights	Moderate Improvement
JD SPORTS FASHION PLC	Sent Correspondence	Employment Standards	Awaiting Response
KASIKORNBANK PCL	Sent Correspondence	Climate Change	Dialogue
KELLOGG COMPANY	Meeting	Social Risk	Small Improvement
LIBERTY MEDIA CORPORATION	Sent Correspondence	Board Composition	Awaiting Response
LONDON STOCK EXCHANGE GROUP PLC	Sent Correspondence	Climate Change	Dialogue
MARKS & SPENCER GROUP PLC	Meeting	Employment Standards	Small Improvement
MERCEDES-BENZ GROUP AG	Sent Correspondence	Human Rights	Awaiting Response
META PLATFORMS INC	Sent Correspondence	Employment Standards	Awaiting Response
MIZUHO FINANCIAL GROUP INC	Meeting	Climate Change	Small Improvement
NATIONAL GRID GAS PLC	Received Correspondence	Climate Change	Moderate Improvement
NEXT PLC	Sent Correspondence	Employment Standards	Awaiting Response
PACCAR INC.	Sent Correspondence	Climate Change	Awaiting Response
RIO TINTO PLC	Meeting	Climate Change	Small Improvement
ROLLS-ROYCE HOLDINGS PLC	Received Correspondence	Climate Change	Dialogue
ROYAL MAIL PLC	Sent Correspondence	Employment Standards	Awaiting Response
SIEMENS AG	Sent Correspondence	Employment Standards	Awaiting Response
SSE PLC	Alert Issued	Campaign (General)	Moderate Improvement
STARBUCKS CORPORATION	Received Correspondence	Employment Standards	No Improvement
SUMITOMO MITSUI FINANCIAL GROUP	Meeting	Board Composition	Small Improvement
TESCO PLC	Sent Correspondence	Supply Chain Management	Dialogue
TESLA INC	Sent Correspondence	Employment Standards	Awaiting Response
THERMO FISHER SCIENTIFIC INC.	Sent Correspondence	Employment Standards	Awaiting Response
TRANSDIGM GROUP INCORPORATED	Sent Correspondence	Board Composition	Awaiting Response
VALE SA	Meeting	Human Rights	Dialogue
VALE SA	Meeting	Human Rights	Dialogue
VOLVO AB	Sent Correspondence	Climate Change	Awaiting Response
WALMART INC.	Sent Correspondence	Employment Standards	Awaiting Response

## LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

Avon Pension Fund  
Barking and Dagenham Pension Fund  
Barnet Pension Fund  
Bedfordshire Pension Fund  
Berkshire Pension Fund  
Bexley (London Borough of)  
Cambridgeshire Pension Fund  
Camden Pension Fund  
Cardiff & Glamorgan Pension Fund  
Cheshire Pension Fund  
City of London Corporation Pension Fund  
Clwyd Pension Fund (Flintshire CC)  
Cornwall Pension Fund  
Croydon Pension Fund  
Cumbria Pension Fund  
Derbyshire Pension Fund  
Devon Pension Fund  
Dorset Pension Fund  
Durham Pension Fund  
Dyfed Pension Fund  
Ealing Pension Fund  
East Riding Pension Fund  
East Sussex Pension Fund  
Enfield Pension Fund

Environment Agency Pension Fund  
Essex Pension Fund  
Falkirk Pension Fund  
Gloucestershire Pension Fund  
Greater Gwent Pension Fund  
Greater Manchester Pension Fund  
Greenwich Pension Fund  
Gwynedd Pension Fund  
Hackney Pension Fund  
Hammersmith and Fulham Pension Fund  
Haringey Pension Fund  
Harrow Pension Fund  
Havering Pension Fund  
Hertfordshire Pension Fund  
Hounslow Pension Fund  
Isle of Wight Pension Fund  
Islington Pension Fund  
Kent Pension Fund  
Kingston upon Thames Pension Fund  
Lambeth Pension Fund  
Lancashire County Pension Fund  
Leicestershire Pension Fund  
Lewisham Pension Fund  
Lincolnshire Pension Fund

London Pension Fund Authority  
Lothian Pension Fund  
Merseyside Pension Fund  
Merton Pension Fund  
Newham Pension Fund  
Norfolk Pension Fund  
North East Scotland Pension Fund  
North Yorkshire Pension Fund  
Northamptonshire Pension Fund  
Nottinghamshire Pension Fund  
Oxfordshire Pension Fund  
Powys Pension Fund  
Redbridge Pension Fund  
Rhondda Cynon Taf Pension Fund  
Scottish Borders Council Pension Fund  
Shropshire Pension Fund  
Somerset Pension Fund  
South Yorkshire Pension Authority  
Southwark Pension Fund  
Staffordshire Pension Fund  
Strathclyde Pension Fund  
Suffolk Pension Fund  
Surrey Pension Fund  
Sutton Pension Fund

Swansea Pension Fund  
Teesside Pension Fund  
Tower Hamlets Pension Fund  
Tyne and Wear Pension Fund  
Waltham Forest Pension Fund  
Wandsworth Borough Council Pension Fund  
Warwickshire Pension Fund  
West Midlands Pension Fund  
West Yorkshire Pension Fund  
Westminster Pension Fund  
Wiltshire Pension Fund  
Worcestershire Pension Fund

**Pool Company Members**  
Border to Coast Pensions Partnership  
LGPS Central  
Local Pensions Partnership  
London CIV  
Northern LGPS  
Wales Pension Partnership

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## RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

### MUNICIPAL YEAR 2022-23

#### **PENSION FUND COMMITTEE**

**13<sup>TH</sup> DECEMBER 2022**

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

<b>AGENDA ITEM NO. 6</b>
<b>PENSION FUND RISK REGISTER – RISK REGISTER OVERVIEW</b>

**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. At their last meeting, the Pensions Board proposed no additional updates.
- 4.5 The Risk Register, dated December 2022, is attached as Appendix 1 for review and consideration by the Committee.

#### **5.0 CONCLUSION**

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

\*\*\*\*\*

**Summary of Pension Fund Risks**

**Introduction**

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

**Key to scoring**

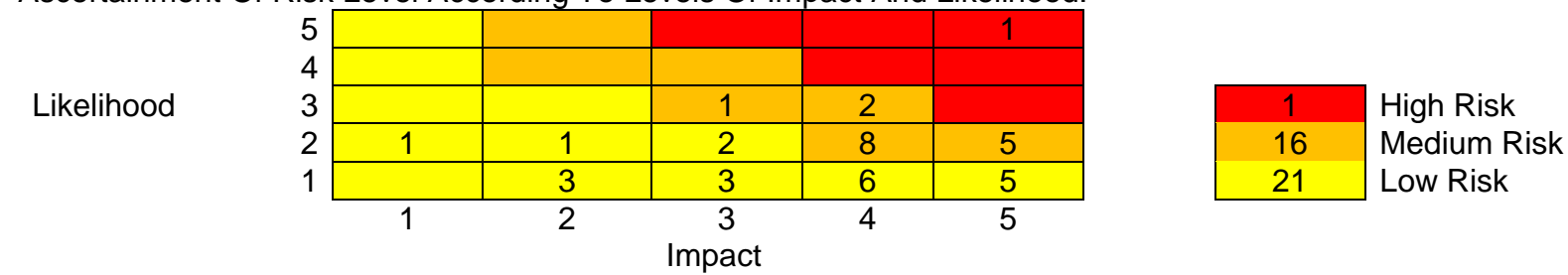
Likelihood Assessment Matrix:

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

Impact Assessment Matrix:

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

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



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

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating December 2022 qtr
Funding	Long term investment strategy unable to meet the objective of funding liabilities.	5	2	10	MR	<ul style="list-style-type: none"> <li>Monitoring of deficit, reporting on the funding levels produced by the actuaries.</li> <li>Monitoring of the adopted asset / liability model.</li> <li>Monitoring the remedies of the McCloud case and ensuring appropriate provision is made against the Fund's liabilities.</li> </ul>	
	Sub-optimal asset allocation throughout the portfolio.	4	2	8	MR	<ul style="list-style-type: none"> <li>The investment strategy is reviewed and adopted by the Pension Fund Committee.</li> <li>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.</li> <li>Post 2019 valuation review completed and implementation in progress.</li> </ul>	
	Actuarial assumptions are not met. e.g. discount rate, life expectancy assumptions.	4	3	12	MR	<ul style="list-style-type: none"> <li>Agree and set prudent assumptions in conjunction with the appointed Fund Actuary, based on past trends, forecasts, longevity modelling.</li> <li>Adhere to triennial valuations.</li> <li>Monitor performance against assumptions, consider Interim Valuations where necessary.</li> <li>Monthly monitoring of Pension Fund investment valuation given the uncertainty in markets due to Covid-19.</li> <li>Receive regular Actuarial Funding updates.</li> </ul>	
	Increases in Employer contributions.	4	2	8	MR	<ul style="list-style-type: none"> <li>Participate in LGPS Scheme design consultation.</li> <li>Engage with Employers during and between Valuation cycles, particularly during times of organisational change e.g. downsizing, outsourcing.</li> <li>Ensure adequate securities / guarantees are in place where possible and that consequential risk is fully communicated to relevant parties.</li> </ul>	
	Potential for 'Cashflow Negativity'	4	2	8	MR	<ul style="list-style-type: none"> <li>Regularly monitor cashflow impact position as contributions reduce.</li> <li>Ensure sufficient income generation/liquid assets are available.</li> <li>Regularly review Asset Strategy and adjust as necessary.</li> </ul>	Given inflationary increases and fund valuations, update cashflow positions



	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"> <li>Monitor carefully through the valuation cycle. Ensure the investment strategy reflects current and forecast Fund maturity.</li> <li>Actively participate in pension consultation, giving due consideration to any proposals that may have a disproportional impact on scheme 'opt out' rates.</li> </ul>	
Investments	Financial Market suppressed by economic climate, national / global austerity measures and Geo-political instability.	5	5	25	HR	<ul style="list-style-type: none"> <li>Long-term funding plan with a diverse range of asset classes and Fund Manager styles.</li> <li>Panel clearly understand the impact of market conditions on asset classes and fund manager performance.</li> <li>Panel monitor and scrutinise performance, market conditions and forecasts.</li> <li>Continue to monitor the potential implications of Brexit.</li> <li>Material economic and financial risk of infectious disease.</li> </ul>	
	Custody arrangements may not be sufficient to safeguard pension fund assets.	4	2	8	MR	<ul style="list-style-type: none"> <li>An agreement is in place between the custodian and Pension Fund.</li> <li>Monthly reconciliations are carried out to check external custodian records.</li> <li>Funds held in the name of the Pension Fund or the WPP, not the Fund Manager nor the Custodian.</li> </ul>	
	Investment returns fail to meet agreed targets.	4	2	8	MR	<ul style="list-style-type: none"> <li>Regular monitoring of investment returns.</li> <li>Advisory Panel review and challenge of fund manager performance against their benchmarks and targets.</li> <li>Use advisors to support the monitoring and challenge of fund managers.</li> <li>Where performance issues arise, put more targeted review and challenge arrangements in place.</li> <li>Monitor individual fund managers performance and address where necessary by closer monitoring and scrutiny</li> </ul>	
	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"> <li>Effective governance arrangements of the Joint Governance Committee and Officer Working Group.</li> <li>Key role undertaken by the Joint Governance Committee at transition process.</li> <li>Ensure operator establishes a tax efficient UK collective investment vehicle.</li> <li>Ensure the appropriate 'wrappers' for the investments in illiquid assets.</li> </ul>	

	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"> <li>Investment assets and transactions are monitored in-house via the Euraplan Shareholder II system.</li> <li>Investment management fees are monitored on a quarterly basis.</li> <li>Investment malpractices are reported to the FCA.</li> </ul>	
	Pension fund investments may not be accurately valued.	4	1	4	LR	<ul style="list-style-type: none"> <li>Investments are valued using correct prices obtained by fund managers from independent third party agencies.</li> </ul>	
	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"> <li>Agreements are in place between fund managers and the Pension Fund.</li> <li>Portfolios are managed in accordance with the investment objectives.</li> <li>Monthly reconciliations are carried out to check portfolios against administering authority records.</li> <li>Third parties provide the Pension Fund with an annual internal control report, which provides assurance.</li> <li>FCA regulated.</li> <li>Fund managers have robust arrangements in place to manage mandates at difficult and volatile times.</li> </ul>	
	Fund manager mandate restrictions and benchmarks constrain returns.	3	1	3	LR	<ul style="list-style-type: none"> <li>Obtain advice from advisors.</li> <li>Obtain advice from performance measurement company.</li> </ul>	
Governance	Introduction of pooling arrangements by central government	5	2	10	MR	<ul style="list-style-type: none"> <li>Joint Governance Committee and Officer Working Group has been formally constituted.</li> <li>Establishment of sub groups of the WPP for specialisation.</li> <li>Wales Pension Partnership's CIV proposal approved by FCA on 24<sup>th</sup> July 2018, further submissions approved to allow for the development of additional sub funds.</li> <li>External 'Operator' appointed by WPP</li> <li>Participation on consultation papers.</li> <li>Engagement with local pension boards.</li> <li>Creation of sub funds continues to be effectively progressed.</li> <li>Pension Board Engagement days held to update Pension Board Chairs and provide feedback.</li> <li>Development of appropriate business plans, policies and procedures.</li> <li>Scheme Member Representative co-opted as a non voting member of the JGC meetings, feeding back to Pension Board Chairs</li> </ul>	Uncertainty on the change of ownership of the WPP 'Operator'

Failure to comply with LGPS Governance Regulation / Pension Regulator Code of Practice.	5	1	5	LR	<ul style="list-style-type: none"> <li>• Fund Governance Compliance Statement is reviewed and published annually.</li> <li>• The Fund's 'Pension Board' became effective from 1st April 2015.</li> <li>• The Fund has a breaches policy.</li> <li>• Review the Investment Strategy Statement annually in accordance with MHCLG (now Department for Levelling Up, Housing and Communities) guidance.</li> <li>• Benchmark against regulator on code of practice.</li> <li>• Submit Annual Pension Scheme Regulator Return on time.</li> <li>• Good governance review currently being considered by MHCLG (now Department for Levelling Up, Housing and Communities).</li> <li>• Participation on consultation papers.</li> </ul>
Members, officers and advisors do not have the right knowledge or skills.	4	1	4	LR	<ul style="list-style-type: none"> <li>• The Pension Fund has adopted the CIPFA knowledge and skills framework.</li> <li>• The Pension Fund Skills and Knowledge framework is reviewed at each Investment and Administration Panel, Pension Committee and Pension Board.</li> <li>• The Pension Fund subscribes to relevant professional bodies, e.g. LAPFF.</li> </ul>
Loss of reputation.	2	2	4	LR	<ul style="list-style-type: none"> <li>• The Fund holds Annual General Meetings, Communication Forums, seminars and training.</li> <li>• The Fund has a dynamic website responding to stakeholder requirements.</li> <li>• Knowledgeable and professional staff.</li> <li>• Meetings are held regularly with the Fund's employer authorities.</li> <li>• Benefit statements are sent out annually to members by 31<sup>st</sup> August.</li> <li>• Monitoring the policy on voting decisions and the impact should UK shareholder lose voting rights in EU companies.</li> <li>• Annual reports are produced by 1<sup>st</sup> December.</li> <li>• The Fund's Responsible Investment Policy is contained within the Investment Strategy Statement and available on the Pension Fund website <a href="http://www.rctpensions.org.uk/En/GovernanceandInvestments/Investments">http://www.rctpensions.org.uk/En/GovernanceandInvestments/Investments</a></li> <li>• The Pension Fund's passive equities are invested in a low carbon product.</li> <li>• External Audit and Governance and Audit Committee.</li> </ul>
Conflicts of Interest arise.	3	1	3	LR	<ul style="list-style-type: none"> <li>• Declarations to be made by Advisory Panel Members, Pension Board Members and Pension Committee Members.</li> <li>• Director of Legal Services maintains a Register of Interests.</li> <li>• Fund Governance Policy.</li> <li>• Employer / Member Engagement – Communication Policy.</li> <li>• Transparency – published audited accounts, Valuation, Annual Report, etc.</li> </ul>

	Failure to comply with the Myner's Statement of Investment Principles.	2	1	2	LR	<ul style="list-style-type: none"> <li>The Statement is reviewed annually by the Advisory Panel and approved by the Pension Committee.</li> </ul>	
Operational	Loss of key staff / expertise.	4	3	12	MR	<ul style="list-style-type: none"> <li>Job descriptions and person specifications.</li> <li>Dynamic training program.</li> <li>Workforce planning arrangements in place.</li> <li>All staff are currently working on a hybrid basis in line with the needs of the service</li> <li>Training and retaining of specialists in a challenging recruitment market</li> </ul>	
	Compliance with data quality regulation and best practice.	5	2	10	MR	<ul style="list-style-type: none"> <li>Data Improvement Plan in place.</li> <li>Good relationships / communication with Employers.</li> <li>Ensure timely notification by Fund Employers of new starters, changes and leavers.</li> <li>Issue annual benefit statements to scheme members for review.</li> <li>Breaches policy in place.</li> <li>Mandatory rollout of I-connect, monthly data submissions.</li> <li>Monthly Data Screening.</li> <li>Common and Scheme Specific Data reviews / scoring.</li> <li>Scheme Member Self Serve validation available.</li> <li>Fund participation in the National 'Tell us Once Service'.</li> <li>TPR Annual Scheme Return and data score.</li> <li>Membership data is hosted in the UK.</li> </ul>	
	Inability to implement the 'McCloud' remedies within expected timelines	5	2	10	MR	<ul style="list-style-type: none"> <li>Project Team established.</li> <li>Investment in team resources.</li> <li>Data retrospection solutions discussed and agreed through the Fund's Employer Comms Forum.</li> <li>Monitor and contribute to remedy draft regulations when available.</li> <li>Early engagement with Pensions Software Supplier.</li> <li>Sharing best practice through the various LGPS forums.</li> </ul>	

	Cyber security breach of the Fund's pension system and personal data contained.	5	2	10	MR	<ul style="list-style-type: none"> <li>• Third Party supplier – cyber reliance controls.</li> <li>• 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.</li> <li>• Annual control review or more frequent depending on environment / service changes.</li> <li>• Designated Information Management Officer, with Security Incident reporting protocol.</li> <li>• Cyber Essential Accreditation.</li> <li>• Public Service Network (PSN) Accreditation.</li> <li>• Information &amp; Security Board.</li> <li>• All Wales Security Forum (WARP).</li> <li>• Cyber Security Principles for Pension Schemes' (Self Assessment).</li> <li>• Cyber Security Risk Assessment undertaken during Covid-19.</li> </ul>	
	Confidential / commercially sensitive data is leaked, stolen or misplaced	5	1	5	LR	<ul style="list-style-type: none"> <li>• The Pension Fund will clearly mark any confidential / commercially sensitive data that it shares.</li> </ul>	
	Failure to meet Service Standards.	3	3	9	MR	<ul style="list-style-type: none"> <li>• Pension Fund Administration Strategy.</li> <li>• Workforce planning, realign to meet one off demands, skills and training review.</li> <li>• Appropriate systems and technology.</li> <li>• Regular monitoring by Fund governance groups.</li> </ul>	
	Failure to implement scheme changes.	4	2	8	MR	<ul style="list-style-type: none"> <li>• Regular updates are received, reviewed and acted upon in a timely manner.</li> <li>• Ensure software is adapted appropriately.</li> <li>• Membership of relevant pensions professional bodies.</li> <li>• Implementation of McCloud remedies</li> </ul>	
	Employer ceases to participate in Fund / Admitted bodies go into administration.	3	2	6	LR	<ul style="list-style-type: none"> <li>• Employer covenants or bonds.</li> <li>• Regular review of covenants.</li> </ul>	
	Failure to hold and share personal data in accordance with the General Data Protection Regulation (effective 28 <sup>th</sup> May 2018).	5	1	5	LR	<ul style="list-style-type: none"> <li>• Administering Authority Information Management Security policies.</li> <li>• All Scheme Member correspondence securely imaged.</li> <li>• Appropriate Data Protection Registration.</li> <li>• Third Party Data Sharing agreements in place</li> <li>• Fund Privacy Notice published.</li> <li>• Employer Memorandum of Understanding implemented.</li> <li>• Mandatory training undertaken by all staff.</li> <li>• Awareness sessions held with the Fund's Governance groups.</li> </ul>	

	Failure to pay pensioners on time.	5	1	5	LR	<ul style="list-style-type: none"> <li>• Payroll Timetables maintained.</li> <li>• Business Continuity Plan.</li> </ul>	
	Delivery of the 2022 Triennial Valuation	5	1	5	LR	<ul style="list-style-type: none"> <li>• 2021 Data Cleaning exercise.</li> <li>• Actuarial 'Employer Covenant' reviews.</li> <li>• Employer Engagement : Year End Data Schedules Issued / Timetable / Support</li> <li>• Project Terms of Reference / Timetable agreed with Actuary</li> <li>• Initial assumption agreed with Actuary</li> <li>• Data submitted as per agreed timeline</li> </ul>	
	Qualification of accounts.	4	1	4	LR	<ul style="list-style-type: none"> <li>• Financial Information reconciled on a timely basis.</li> <li>• Accounts are prepared in accordance with the relevant regulations, guidance and Codes of Practice.</li> <li>• Regular dialogue with external auditors.</li> </ul>	
	Operational disaster (fire / flood, etc)	4	1	4	LR	<ul style="list-style-type: none"> <li>• Business continuity procedures are in place and tested.</li> </ul>	
	Compliance with Fund 'Dispute' Regulation.	3	1	3	LR	<ul style="list-style-type: none"> <li>• Internal Dispute Procedure in place.</li> </ul>	
	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"> <li>• Monitoring of monthly receipts to remittances, with reference to the 2019 'Rates and Adjustment Certificate'.</li> <li>• Report any material breaches to Regulator in accordance with the Fund's 'Breach Policy'.</li> </ul>	
	Fraud.	2	1	2	LR	<ul style="list-style-type: none"> <li>• Strict internal control mechanisms, segregation of duties, etc.</li> <li>• Internal and External Audit Review.</li> <li>• National Fraud Inspectorate participation.</li> <li>• Whistleblowing policy in place.</li> </ul>	

Regulatory	Failure to comply with LGPS regulations and any other new regulations.	4	1	4	LR	<ul style="list-style-type: none"> <li>• There are sufficient fully trained staff.</li> <li>• Regular updates are received and acted upon.</li> <li>• Membership of relevant pensions professional bodies.</li> <li>• Welsh Pension Officer Group participation.</li> <li>• Welsh Pension Fund Treasurers Group participation.</li> <li>• Compliance with MiFID II.</li> <li>• Submit Annual Pension Scheme Regulator Return on time.</li> <li>• MHCLC/LGA guidance issued to Fund Employers around the 'Exit' Regulations (now revoked).</li> </ul>	
	Non compliance of procurement rules	1	2	2	LR	<ul style="list-style-type: none"> <li>• Regular budget monitoring.</li> <li>• Periodic review of suppliers.</li> <li>• Contract Procedure Rules.</li> </ul>	

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## RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

### MUNICIPAL YEAR 2022-23

#### **PENSION FUND COMMITTEE**

**13<sup>th</sup> DECEMBER 2022**

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

<b>AGENDA ITEM 7</b>
<b>PENSION FUND STATEMENT OF ACCOUNTS (2021/22) AND AUDIT WALES REPORT</b>

**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 2021/22.

#### **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 23rd November 2022 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.

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# **Rhondda Cynon Taf Pension Fund Statement of Account**

**2021/22**

## 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 1<sup>st</sup> 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 50 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 2021/22 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 administering 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, Passive Gilts and Infrastructure);
- 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 15<sup>th</sup> 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, with the launch of the fund being October 2021.
- A procurement exercise took place for private markets and infrastructure during September 2021 and February 2022. The approval of the allocator appointments was made by the Joint Governance Committee on 23<sup>rd</sup> March 2022.

## **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: 23 November 2022

**Cllr. Gareth Hughes**

#### **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 2021/22**

I certify that the accounts present a true and fair view of the financial position of Rhondda Cynon Taf Pension Fund as at 31<sup>st</sup> March 2022 and its income and expenditure for the year.



23 November 2022

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

**Barrie Davies**

**Director of Finance and Digital Services**  
Rhondda Cynon Taf County Borough Council  
The Pavilions, Cambrian Park  
Clydach Vale  
Tonypany  
CF40 2XX



**Fund Account**

2020/21			2021/22	
£'000		Note:	£'000	£'000
	<b>Contributions</b>			
(97,624)	Employer contributions	13.0	(102,178)	
(29,766)	Member contributions	13.0	(31,121)	
<b>(127,390)</b>				<b>(133,299)</b>
	<b>Transfers in from other Pension Funds</b>			
(3,643)	Group Transfers in from other schemes or funds		(6,583)	
(4,605)	Individual Transfers from other schemes or funds		(1,673)	
				<b>(8,256)</b>
(2,443)	<b>Other income</b>		(2,865)	
				<b>(2,865)</b>
	<b>Benefits</b>			
110,855	Pensions		112,224	
16,252	Commutation of pensions and lump sum retirement benefits		18,105	
3,875	Lump sum death benefits		3,196	
<b>130,982</b>		13.0		<b>133,525</b>
	<b>Payments to and on account of leavers</b>			
177	Refunds to members leaving scheme or fund		217	
(2)	Payments for members joining state scheme or fund		(1)	
4,702	Individual transfers to other schemes of funds		11,749	
<b>4,877</b>				<b>11,965</b>
<b>135,859</b>				<b>145,490</b>
(2,222)	Net (addition)/withdrawals from dealings with members			<b>1,070</b>
13,084	Management Expenses	14.0	14,329	
				<b>14,329</b>
<b>10,862</b>	<b>Net (additions)/withdrawals Including fund management expenses</b>			<b>15,399</b>
	<b>Investment income</b>			
(14,278)	Dividends from equities		(17,536)	
(15,785)	Income from bonds		0	
(39,607)	Dividends from WPP Global Equities		(21,727)	
(3,992)	Income from WPP UK Credit Fund		(2,201)	
(7,018)	Income from Pooled Property		(10,682)	
1	Interest on cash deposits		(6)	
<b>(80,679)</b>				<b>(52,152)</b>

(1,068,829)	<b>(Profits) and losses on disposal of investments and changes in the value of investments</b>	12.0	20,480	
				<b>20,480</b>
87	<b>Taxes on income</b>		258	
				<b>258</b>
<b>(1,149,421)</b>	<b>Net Returns on Investments</b>			<b>(31,414)</b>
<b>(1,138,559)</b>	<b>Net (increase)/decrease in net assets available for benefits during the year</b>			<b>(16,015)</b>
<b>(3,360,022)</b>	<b>Opening Net Assets</b>			<b>(4,498,581)</b>
<b>(4,498,581)</b>	<b>Closing Net Assets</b>			<b>(4,514,596)</b>

**Net Assets Statement**

2020/21 £'000		Note:	31/03/2022	
			£'000	£'000
	<b>Investment Assets</b>	7.0		
1,192,224	Equities		862,087	
	Pooled Funds			
1,867,855	WPP Global Equities		1,946,815	
550,961	WPP UK Credit Fund		574,241	
	Other Pooled Investments			
372,929	Passive UK Gilts		523,355	
200,829	Passive Equities		233,295	
282,289	Pooled Property		331,485	
0	Pooled Infrastructure		12,549	
<b>4,467,087</b>				<b>4,483,827</b>
<b>24,964</b>	<b>Cash deposits</b>			<b>26,164</b>
	<b>Other investment balances</b>			
5,232	Investment debtors		3,882	
1,147	Tax recoverable		712	
<b>6,379</b>				<b>4,594</b>
<b>4,498,430</b>				<b>4,514,585</b>
	<b>Investment Liabilities</b>			
<b>(5,023)</b>	Investment creditors			<b>(4,400)</b>
<b>4,493,407</b>	<b>Net Investment Assets</b>			<b>4,510,185</b>
	<b>Current assets</b>			
6,113	Contributions due from employers and employees		6,854	
1,314	Other current assets		600	
<b>7,427</b>				<b>7,454</b>
	<b>Current Liabilities</b>			
<b>(2,253)</b>	Current liabilities			<b>(3,043)</b>
<b>4,498,581</b>	<b>Net assets of the scheme available to fund benefits at period end</b>			<b>4,514,596</b>

## **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 31<sup>st</sup> March 2022 obtained from recognised Stock Exchanges.

Sterling valuations of securities denominated in foreign currencies are based on closing exchange rates as at 31<sup>st</sup> March 2022.

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 2021/22 amounted to £1.13m (£1.48m in 2020/21).

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 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 required to meet liabilities, or transfer surplus cash to the Investment Managers for investment.

### **1.6 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 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. In the interim potentially relevant standards include:

- IFRS 16 Leases (but only for those that have decided to adopt IFRS 16 in the 2022/23 year).
- Annual Improvements to IFRS Standards 2018–2020. The annual IFRS improvement programme notes four changed standards:
- IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
- IAS 37 (Onerous contracts) – clarifies the intention of the standard
- IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
- IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to pension funds in limited circumstances.

It is not anticipated that the above amendments will have a material impact on the Pension Fund Statement of Accounts.

### 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 audited Statement of Accounts was authorised for issue by the Director of Financial and Digital Services, as Chief Finance Officer, on 23<sup>rd</sup> November 2022. 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 31<sup>st</sup> March 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

As a result of the Government's "mini budget" announcement on 22<sup>nd</sup> September 2022, gilt yields rose significantly causing the value of gilts to fall. This was due in large part to greater debt issuance by the Government to fund various spending

measures. The Bank of England stepped into the market to buy gilts on a temporary basis with the aim of preventing further price fall.

Rhondda Cynon Taf Pension Fund invests in UK gilts within its passive mandate and has therefore experienced a material fall in the value of these assets.

There are no further events that took place after 31<sup>st</sup> March 2022 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 31<sup>st</sup> 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 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.

### **McCloud / Sargeant Judgement**

The actuarial present value of the defined benefit obligation at 31<sup>st</sup> March 2018 includes an estimated liability in relation to the McCloud / Sargeant judgement of £28.7M. The Court of Appeal found that the transitional protection arrangements put in place when firefighters' and judges' pension schemes were reformed were age discriminatory. This has implications for other public sector schemes that were reformed around the same time (including the LGPS) and could potentially lead to members deemed to be discriminated against being compensated. The Supreme Court denied the Government's application for permission to appeal this judgement on 27th June 2019. The matter was referred to Employment Tribunals for remedy hearings and the Ministry for Housing, Communities and Local Government (MHCLG) ((now department for Levelling Up, Housing and Communities) (DLUHC)) undertook a consultation on the remedy and confirmed they would be proceeding with the key principles as laid out in the consultation.

### **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 6<sup>th</sup> April 2016 and 5<sup>th</sup> 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 5<sup>th</sup> 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 were made over 2021, allowing SAB and HMT reviews to proceed. The outcome of the SAB review has been published and recommended no changes to the provisions of the scheme. It is expected that the outcome of the HMT review will also recommend no changes. The legality of the Government's decision to include McCloud costs as a member cost within the 2016 HMT process is being challenged by a Judicial Review brought by trade unions. If the Judicial Review is successful, this may cause the 2016 HMT

process to be re-run and could result in changes to benefits or member contributions backdated to 1st April 2019.

## 7.0 Analysis of Investments at Fair Value

	2020/21		2021/22	
	£'000	£'000	£'000	£'000
<b>Equities</b>				
Global	1,192,224		862,087	
		<b>1,192,224</b>		<b>862,087</b>
<b>Pooled funds</b>				
<b>WPP Global Equities</b>	1,867,855		1,946,815	
<b>WPP UK Credit Fund</b>	550,961		574,241	
<b>Overseas - other</b>	0		0	
		<b>2,418,816</b>		<b>2,521,056</b>
<b>Other Pooled Investments</b>				
Pooled UK Gilts	372,929		523,355	
Pooled Passive Equities	200,829		233,295	
Pooled Property	282,289		331,485	
Pooled Infrastructure	0		12,549	
		<b>856,047</b>		<b>1,100,684</b>
<b>Total long-term investments</b>		<b>4,467,087</b>		<b>4,483,827</b>

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 2021/22 is £208k.

All investments held are quoted investments with the exception of property and infrastructure, which are 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. Pooled property and pooled investments within the WPP are classified as fair value hierarchy level 2. Infrastructure is classed as fair value hierarchy level 3, being valued quarterly at NAV, prepared by an external expert. Valuations could be affected by material events occurring between the date of the financial statement provided and the Pension Fund's own reporting date. Refer to note 17.3 for fair value sensitivity analysis.

## 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	
	31/03/2021 £'000	31/03/2022 £'000	31/03/2021 %	31/03/2022 %
Baillie Gifford (Equities)	1,197,175	866,979	26.6	19.2
BlackRock (Passive Low Carbon Equities)	200,880	233,295	4.5	5.2
BlackRock (Passive Gilts)	372,929	523,355	8.3	11.6
BlackRock (Infrastructure)	0	12,549	0.0	0.3
CBRE (Property)	287,956	342,350	6.4	7.6
Link (Global Growth)	1,501,146	1,540,312	33.4	34.2
Link (Global Opportunities)	366,709	406,503	8.2	9.0
Link (UK Credit Fund)	550,961	574,241	12.3	12.7
Internal	15,651	10,601	0.3	0.2
<b>Total</b>	<b>4,493,407</b>	<b>4,510,185</b>	<b>100</b>	<b>100</b>

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. Due to the nature of the pooled investments, we are unable to provide the geographical spread for assets held under this basis. The table below shows the value of stocks and shares held by the Fund Managers as at 31<sup>st</sup> March 2022:

Area	£'000	%
UK Equities	327,822	7.30%
Europe	167,330	3.70%
US and Canada	170,353	3.80%
Japan	60,693	1.30%
Pacific	45,901	1.00%
Other International	89,988	2.00%
Passive Low Carbon Pooled Equities	233,295	5.20%
Global Equities (WPP)	1,946,815	43.20%
UK Credit (WPP)	574,241	12.70%
UK Gilts	523,355	11.60%
Property	331,485	7.30%
Infrastructure	12,549	0.30%
Cash & Equivalents	26,358	0.60%
<b>Total</b>	<b>4,510,185</b>	<b>100%</b>

## 10.0 Contingent Liabilities

There is a contingent liability of £981k (£987k in 2020/21) in respect of refundable contributions for leavers who have not yet claimed refunds.

## 11.0 Reconciliation of Investment Asset Valuation

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

	Market Value 01/04/21	Purchases	Sales at Historic Book Cost	Change in Market Value	Market Value 31/03/22
	£'000	£'000	£'000	£'000	£'000
Equities	1,192,224	159,159	(204,566)	(284,729)	862,088
Pooled Global Equities	1,867,855	21,727	0	57,234	1,946,816
Pooled UK Credit	550,961	47,200	0	(23,921)	574,240
Other Pooled UK Gilts	372,929	180,000	0	(29,574)	523,355
Other Pooled Equities	200,829	191	0	32,276	233,296
Other Pooled Property	282,289	44,055	(30,477)	35,616	331,483
Other Pooled Infrastructure	0	12,549			12,549
	<b>4,467,087</b>	<b>464,881</b>	<b>(235,043)</b>	<b>(213,098)</b>	<b>4,483,827</b>
Cash Deposits	24,964			233,578	26,164
Investment Debtors	6,379				4,594
Investment Creditors	(5,023)				(4,400)
<b>Total</b>	<b>4,493,407</b>			<b>20,480</b>	<b>4,510,185</b>

Comparative note for 2020/2021:

	<b>Market Value 01/04/20</b>	<b>Purchases</b>	<b>Sales at Historic Book Cost</b>	<b>Change in Market Value</b>	<b>Market Value 31/03/21</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
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
	<b>3,321,646</b>	<b>1,681,601</b>	<b>(1,293,886)</b>	<b>757,726</b>	<b>4,467,087</b>
Cash Deposits	25,423			311,103	24,964
Investment Debtors	14,767				6,379
Investment Creditors	(11,612)				(5,023)
<b>Total</b>	<b>3,350,224</b>			<b>1,068,829</b>	<b>4,493,407</b>

## 12.0 Profits and Losses on Investments

	<b>2020/21</b>	<b>2021/22</b>
	<b>£'000</b>	<b>£'000</b>
Profit on sales	169,241	193,160
Loss on sales	(19,443)	(9,429)
<b>Net profit / (loss) on sales</b>	<b>149,798</b>	<b>183,731</b>
Change in market value	919,031	(204,211)
<b>Net increase/ (decrease) in value</b>	<b>1,068,829</b>	<b>(20,480)</b>

## 13.0 Contributions Receivable and Benefits Payable

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

<b>Type of Body</b>	<b>Member Contributions</b>		<b>Employer Contributions</b>		<b>Pensions, Lump Sums and Death Benefits</b>	
	<b>2020/21</b>	<b>2021/22</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Administering	9,671	10,165	33,596	35,146	36,513	38,175
Admitted	3,778	3,867	16,852	17,863	16,501	16,367
Scheduled	16,317	17,089	47,176	49,169	77,968	78,983
<b>Total</b>	<b>29,766</b>	<b>31,121</b>	<b>97,624</b>	<b>102,178</b>	<b>130,982</b>	<b>133,525</b>

Included in employer contributions are £4,154k of deficit funding contributions (£3,663k in 2020/21).

#### 14.0 Management Expenses

The management expenses borne by the Fund in 2021/22 are set out below:

	2020/21	2021/22
	£'000	£'000
Administrative Costs	1,870	2,217
Investment Management Expenses	10,836	11,724
Oversight and Governance Costs	378	388
<b>Total</b>	<b>13,084</b>	<b>14,329</b>

Investment management expenses represent 0.26% (0.24% in 2020/21) of the value of the Pension Fund as at 31<sup>st</sup> March 2022.

2021/22 Audit Fees of £40k are included in Oversight and Governance Costs (£39k in 2020/21).

The investment management expenses borne by the Fund in 2021/22 are set out below:

2021/22	£'000	£'000	£'000
	Total	Management Fees	Transaction Costs
Equities	2,456	2,109	347
Pooled Funds			
WPP Global Equities	7,472	6,289	1,183
WPP UK Credit Fund	636	516	120
Other Pooled Investments			
UK Gilts	31	31	0
Passive Equities	22	22	0
Pooled Property	512	507	5
	<b>11,129</b>	<b>9,474</b>	<b>1,655</b>
Custody Fees	595		
<b>Total</b>	<b>11,724</b>		

## Comparative Note for 2020/21:

2020/21	£'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
	<b>10,103</b>	<b>8,101</b>	<b>2,002</b>
Custody Fees	733		
<b>Total</b>	<b>10,836</b>		

The Fund incurs no performance related fees.

During 2021/22, the equity portfolio was reduced by £180m, to increase the Fund's investments in Passive Gilts and UK Credit. The Pension Fund committed to invest €59.5m into Infrastructure, with the first drawdown of €15.0m taking place in January 2022.

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:

	2020/21	2021/22
	£'000	£'000
<b>WPP Oversight and Governance Costs</b>		
Running Costs	99	135
<b>WPP Investment Management Expenses</b>		
Fund Managers Fees	5,520	7,328
Transaction Costs	763	780
Custody Fees	578	428
<b>Total</b>	<b>6,960</b>	<b>8,671</b>

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 £1.6m (£1.4m in 2020/21). 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 £6.9m (£6.1m in 2020/21), of which £5.2m related to employer contributions and £1.7m 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 31<sup>st</sup> March is as follows:

	2021	2022
Active Employers	51	52
Contributors	23,931	24,121
Pensioners	17,728	18,220
Dependants	2,786	2,899
Deferred Beneficiaries	28,868	29,548

## 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 31<sup>st</sup> March 2022 amounted to £7.33m with the institution shown in the table below:

<b>Institution</b>	<b>Balance at 31/03/22 £'000</b>	<b>Maturity Date</b>
Debt Management Office	7,330	01/04/2022
<b>Total</b>	<b>7,330</b>	

### 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 2021/22 financial year. The possible impact of movements in each asset type is shown in the following table:

Asset type	31/03/22 Value	Change %	Value on increase	Value on decrease
	£'000		£'000	£'000
Equities	862,087	15.19	993,038	731,136
Pooled Funds - Global Equity	1,946,815	15.19	2,242,536	1,651,094
Pooled Funds UK Credit	574,241	6.43	611,165	537,317
Other Pooled - Gilts	523,355	6.43	557,007	489,703
Other Pooled - Passive Equities	233,295	15.19	268,733	197,857
Other Pooled Property	331,485	3.43	342,855	320,115
Infrastructure	12,549	3.60	13,001	12,097
Cash	26,359	0.78	26,565	26,153

PIRC also advised that the potential market movement for the Fund as a whole, could be 10.02%. The possible impact is shown below:

	31/03/2022 Value	Change %	Value on increase	Value on decrease
	£'000		£'000	£'000
Fund Asset Total	4,510,186	10.02	4,962,107	4,058,265

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	31/03/22 Value	Value on increase	Value on decrease
	£'000	£'000	£'000
Pooled Funds UK Credit	574,241	579,983	568,499
Other Pooled - Gilts	523,355	528,589	518,121
Cash deposits & balances	26,359	26,623	26,095
<b>Total</b>	<b>1,123,955</b>	<b>1,135,195</b>	<b>1,112,715</b>

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

A movement in currency exchange rates of 7.3% would have the following effect:

Asset type	31/03/22 Value	Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas Equities	534,264	573,265	495,263
Overseas Pooled Property	14	15	13
<b>Total</b>	<b>534,278</b>	<b>573,280</b>	<b>495,276</b>

## **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 2022 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 2022.

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 2022, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2022.

#### **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 annual report other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the annual report. 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 annual report 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.

My procedures included the following:

- Enquiring of management, and those charged with governance, including obtaining and reviewing supporting documentation relating to Rhondda Cynon Taf Pension Fund's policies and procedures concerned with:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- Considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud.
- Obtaining an understanding of Rhondda Cynon Taf Pension Fund's framework of authority as well as other legal and regulatory frameworks that Rhondda Cynon Taf Pension Fund operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Rhondda Cynon Taf Pension Fund;

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- reading minutes of meetings of those charged with governance and the administering authority;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether

the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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](http://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  
28 November 2022

24 Cathedral Road  
Cardiff  
CF11 9LJ

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

## Glossary of Terms

### Accrual

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

### Active

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'.

### 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



These are amounts potentially due to 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 1<sup>st</sup> April and finishes on 31<sup>st</sup> 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.

**Passive Management**

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.

**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.

## Appendix 2

Date/Dyddiad:  
23rd November 2022

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

Auditor General for Wales  
24 Cathedral Road  
Cardiff  
CF11 9LJ

Dear Adrian,

### **Representations regarding the 2021/22 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 2022 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; 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 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 the Members of Rhondda Cynon Taf County Borough Council on 23<sup>rd</sup> November 2022.

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)

Leading Member

Date

Date

## Appendix A

### 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 Rhondda Cynon Taf Pension Fund is 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	2021-22 Response
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>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"> <li>• Financial Procedure Rules</li> <li>• Contract Procedure Rules</li> <li>• Human Resources policies</li> <li>• Anti-Fraud, Bribery &amp; Corruption Strategy</li> <li>• Whistleblowing Policy</li> <li>• Gifts and Hospitality Policy.</li> </ul> <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><b>Codes and Protocols</b></p> <ul style="list-style-type: none"> <li>• Members' Code of Conduct</li> <li>• Protocol Standard of Conduct to be followed by Members</li> <li>• Officers' Code of Conduct</li> <li>• Protocol for Member/Officer Relations</li> </ul>

Enquiries of management - in relation to fraud	
Question	2021-22 Response
	<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>
<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>	<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"> <li>• Financial &amp; Contract Procedure Rules</li> <li>• Systems of Internal Control</li> <li>• Recruitment Policies</li> <li>• Whistleblowing Policy</li> <li>• Local procedures within departments, for example, authorisation arrangements and quality assurance processes (a number of which were undertaken remotely during 2021/22 due to revised working arrangements as a result of the pandemic)</li> <li>• An independent Internal Audit Service (the 'scopes' for specific audit assignments included in the 2021/22 Audit Plan took account of revised working arrangements / potential risks as a result of the pandemic).</li> <li>• An independent Corporate Fraud Team</li> <li>• Combining with Others to Prevent and Fight Fraud, for example, Participation in the National Fraud Initiative</li> </ul> <p>The Anti-Fraud, Bribery &amp; 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. 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	2021-22 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><b><u>Arrangements in place to report fraud issues</u></b></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 and staff awareness was undertaken via a Council wide email to employees on 9<sup>th</sup> March 2022 and whistle-blowing was part of staff induction arrangements. 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 &amp; 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"> <li>• Council's zero tolerance approach against fraud, bribery &amp; corruption;</li> <li>• Reporting avenues for suspected irregularities;</li> <li>• Resources that are in place to support a counter fraud, bribery &amp; corruption culture; and</li> <li>• Governance arrangements in respect of reporting to the Governance and Audit Committee.</li> </ul> <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><b><u>Arrangements in place to report to the Governance and Audit Committee:</u></b></p> <p>Anti-fraud, Bribery and Corruption Strategy updates were reported to the Governance and Audit Committee during the year (a mid-year update on <a href="#">6th December 2021</a> and a year-end update including a proposed work programme for 2022/23 on <a href="#">23rd March 2022</a>).</p>

Enquiries of management - in relation to fraud	
Question	2021-22 Response
	<p>The overall conclusion set out in the March 2022 report, based on the work undertaken during the year, was that the Council has taken necessary preventative steps to raise awareness around vigilance and appropriate sharing of intelligence across the anti-fraud network. This report was endorsed by the Governance and Audit Committee.</p> <p>The <a href="#">23rd March 2022</a> Governance and Audit Committee meeting also considered the Whistleblowing Annual Report 2021/22 and concluded that the Whistleblowing Policy and Procedure continues to be fit for purpose and that the Council's whistleblowing arrangements are appropriate.</p> <p>The arrangements in place demonstrate the Council's commitment to promoting the highest standards of service and ensuring that workers know how they can bring matters of alleged wrongdoing to the attention of the Council.</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 Governance and 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. The Annual Review of the Fund's Governance and Strategy documents which fall within the remit of the Pension Fund Committee, as detailed in the terms of reference, were agreed by the Pension Fund Committee on <a href="#">22nd March 2021</a>.</p>
<p>4. How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?</p>	<p><b><u>Elected Councillors</u></b></p> <p>All elected Councillors are provided with an induction (when they start their role as a Councillor) and an on-going programme of support is in place that includes 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 <a href="#">15th November 2021</a> Cabinet received the report on the Public Services Ombudsman for Wales – Annual Report and Letter 2020/21. In addition, a Standards Committee was in place during 2021/22 and received a <a href="#">summary of complaints against Members</a> submitted to the Ombudsman on 19<sup>th</sup> November 2021.</p>

Enquiries of management - in relation to fraud	
Question	2021-22 Response
	<p><b><u>Pensions Board</u></b></p> <p>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.</p> <p><u>Pensions Board Terms of Reference</u></p> <p><b><u>Council Employees</u></b></p> <p>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> <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 2021?	<p>To support transparency and openness, the Council's arrangements during 2021/22 included:</p> <p><u>Whistle-blowing arrangements</u></p> <p>Since April 2017 the Council is required 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 2021/22 financial year via an Annual Report to the Governance and Audit Committee on 23<sup>rd</sup> March 2022.</p> <p><u>Anti-fraud, Bribery &amp; Corruption arrangements</u></p>

Enquiries of management - in relation to fraud	
Question	2021-22 Response
	<p>As set out for question 3 above, the Anti-Fraud Annual Report for 2021/22 was reported to the Governance and Audit Committee on <a href="#">23<sup>rd</sup> March 2022</a> (and an Anti-Fraud, Bribery and Corruption mid-year update was reported to the Governance and Audit Committee on <a href="#">6th December 2021</a>). The year-end update included information on (amongst other things): communication arrangements to help drive proactive preventative and awareness raising measures; a targeted fraud awareness training plan; coordination and recording of fraud referrals; engagement with services within the Council (for example, the Cyber Security Team) and other external bodies to counter fraudulent activities and undertake data matching activities; and financial probity work around the award of Covid-19 business payments..</p> <p>A targeted 'Fraud Awareness – Manager Briefing' was designed and circulated to all service area managers during the year highlighting proactive measures and support, together with the appropriate reporting lines.</p>
6. Are you aware of any fraud within the council since 1 April 2021?	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 2021?	Please refer to the response to question 5, above.

Enquiries of those charged with governance – in relation to fraud	
Question	2021-22 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 Governance &amp; Audit Committee's Terms of Reference are comprehensive and compliant with the Local Government Measure 2011 and Local Government and Elections (Wales) Act 2021 (as reported to Audit Committee (<a href="#">26/4/21</a>) and full Council (<a href="#">26/5/21</a>)).</p> <p>The Governance and Audit Committee has a detailed <u>work plan</u> for each Municipal Year that helps ensure the delivery of its Terms of Reference. The <a href="#">23/3/22</a> Governance and Audit Committee also considered an Annual Report setting out the work undertaken by the Committee during the year (including consideration of Fraud related reports) in line with its Terms of Reference and a self-assessment against the Chartered Institute of Public Finance and Accountancy (CIPFA) publication 'Audit Committees - Practical Guidance for Local Authorities &amp; Police 2018 Edition.</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 19 January 2022. Further to review by Council, this report was reviewed by the Governance and Audit Committee (<a href="#">23/3/22</a>) – as part of this report, a detailed update was provided on the progress being made by the Council to implement agreed proposals for improvement reported by Audit Wales.</p>
<p>2. Are you aware of any instances of actual, suspected or alleged fraud with the audited body since 1 April 2021</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	2021-22 Response
1. How have you gained assurance that all relevant laws and regulations have been complied with?	<p>The accounts are prepared in accordance with the Accounts &amp; Audit Regulations and Pensions Statement of Recommended Practice.</p> <p>In addition, the Pension Fund has undertaken an assessment of its compliance with the Pensions Regulator Code of Practice.</p>
2. Have there been any instances of non-compliance or suspected non-compliance with relevant laws and regulations since 1 April 2021, or earlier with an ongoing impact on the 2021-22 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	No.

within the council since 1 April 2021?	
--	--

Enquiries of those charged with governance – in relation to laws and regulations	
Question	2021-22 Response
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>Full Council appoints Governance and 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>The Annual Review of the Fund's Governance and Strategy documents which fall within the remit of the Pension Fund Committee, as detailed in the terms of reference, were agreed by the Pension Fund Committee on <a href="#">22nd March 2021</a>.</p>
2. Are you aware of any instances of non-compliance with relevant laws and regulations?	There are no instances of non-compliance with relevant laws and regulations. Full Council receives assurance on this from the appointed External Auditor.

## 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	2021-22 Response
<p>1. Confirm that you have disclosed to the auditor:</p> <ul style="list-style-type: none"> <li>• the identity of any related parties, including changes from the prior period;</li> <li>• the nature of the relationships with these related parties;</li> <li>• details of any transactions with these related parties entered into during the period, including the type and purpose of the transactions.</li> </ul>	<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"> <li>• Gifts &amp; Hospitality Policy</li> <li>• Contract Procedure Rules</li> <li>• The Anti-Fraud, Bribery &amp; Corruption Strategy</li> </ul>

### Enquiries of the those charged with governance – in relation to related parties

Question	2021-22 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"> <li>• Gifts &amp; Hospitality Policy</li> <li>• Contract Procedure Rules</li> </ul> <p>The Anti-Fraud, Bribery &amp; Corruption Strategy.</p>

## Audit of Accounts Report – Rhondda Cynon Taf Pension Fund

Audit year: 2021-22

Date issued: November 2022

Document reference: 3248A2022

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](mailto: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.

## Audit of accounts report

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# Audit of accounts report

## Introduction

- 1 We summarise the main findings from our audit of your 2021-22 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 £45 million for this year's audit.
- 5 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:
  - Related parties £10,000 for individuals in positions of influence.
- 6 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

- 7 The COVID-19 pandemic has had a continuing impact on how our audit has been conducted. 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

<b>Timetable</b>	<ul style="list-style-type: none"><li>• We received the draft accounts on 16 August 2022.</li><li>• In line with the other pension fund audits in Wales, we undertook the audit in Autumn 2022.</li></ul>
<b>Audit evidence</b>	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.

## Proposed audit opinion

- 8 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**.
- 9 We issue a ‘qualified’ audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 10 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.  
Our proposed audit report is set out in **Appendix 2**.

## Significant issues arising from the audit

### Uncorrected misstatements

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

### Corrected misstatements

- 12 There were initially a few minor 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

- 13 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 2021-22 financial statements

This letter is provided in connection with your audit of the financial statements of Rhondda Cynon Taf Pension Fund for the year ended 31 March 2022 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 23 November 2022.

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 31 March 2022 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 2022.

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 2022, 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 2022.

#### **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**

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.

My procedures included the following:

- Enquiring of management, and those charged with governance, including obtaining and reviewing supporting documentation relating to Rhondda Cynon Taf Pension Fund's policies and procedures concerned with:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- Considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud.
- Obtaining an understanding of Rhondda Cynon Taf Pension Fund's framework of authority as well as other legal and regulatory frameworks that Rhondda Cynon Taf Pension Fund operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Rhondda Cynon Taf Pension Fund;

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- reading minutes of meetings of those charged with governance and the administering authority;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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](http://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  
[Date]

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](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

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

## RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

### MUNICIPAL YEAR 2022-23

#### **PENSION FUND COMMITTEE**

**13<sup>TH</sup> DECEMBER 2022**

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

<b>AGENDA ITEM NO. 8</b>
<b>WALES PENSION PARTNERSHIP - UPDATE</b>

**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 latest meeting of the JGC took place on the 5<sup>th</sup> December 2022. The agenda can be accessed [here](#), which was shared with all Committee (and board) members before the meeting.
- 3.4 At the December 2022 meeting the Host update included:

Work continuing to develop in a number of key areas, including:

- 2021/22 Annual update
- 2021/22 Annual report
- DLUHC Update
- 2021/22 Stewardship Code Report
- New policies and policy reviews, including the annual Responsible Investment Policy Review
- Private Markets Allocator procurement process
- Officer Working Group sub-groups:
  - Private Markets sub-group.
  - Responsible Investment sub-group.
  - Risk Register sub-group.

Next Steps / Priorities:

- Development of the Private Markets Sub-Funds.
  - Launch of Private Debt and Infrastructure sub funds
  - Launch of the Private equity sub fund
  - Formulate the WPP's Property requirements.
- Operator contract procurement process.
  - The existing contract comes to an end in December 2024.
  - Continuing discussions with Burges Salmon re the legal requirements
  - Finalising a timeline
  - Reviewing specification requirements.
- TCFD reporting.
- Scheduling of future meetings

Other Key areas:

- Virtual training sessions continue.
- The website continues to be updated with approved policies, press releases and details of sub-fund launches.

## **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.

\*\*\*\*\*