



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

**COMMITTEE SUMMONS**

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

Meeting Contact: Emma Wilkins – 07385406118

**YOU ARE SUMMONED** to a virtual meeting of the **PENSION FUND COMMITTEE** to be held on **TUESDAY, 12TH DECEMBER, 2023** at **11.00 AM**.

**AGENDA**

	<b>Page No's</b>
<b>1. DECLARATION OF INTEREST</b>	
To receive disclosures of personal interest from Members in accordance with the Code of Conduct	
Note:	
1. Members are requested to identify the item number and subject matter that their interest relates to and signify the nature of the personal interest: and	
2. Where Members withdraw from a meeting as a consequence of the disclosure of a prejudicial interest they must notify the Chairman when they leave.	
<b>2. MINUTES</b>	
To receive the minutes of the previous meeting of the Pension Fund Committee held on the 9 <sup>th</sup> October 2023.	
	<b>3 - 6</b>
<b>3. LEARNING AND DEVELOPMENT</b>	
To receive a presentation from LAPFF on responsible investing and engaging.	
	<b>7 - 22</b>
<b>4. DELEGATED FUNCTIONS REPORT</b>	

	23 - 44
5. PENSION FUND RISK REGISTER - RISK REGISTER OVERVIEW	
	45 - 56
6. PENSION FUND STATEMENT OF ACCOUNTS 2022/23 AND AUDIT WALES REPORT	
	57 - 138
7. WALES PENSION PARTNERSHIP - UPDATE	
	139 - 140
8. URGENT BUSINESS	
To consider any urgent items as the Chairman feels appropriate	

**Service Director of Democratic Services & Communication**

**Circulation:**

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

County Borough Councillors: Councillor K Johnson, Councillor G Jones and Councillor N H Morgan

Mae'r ddogfen hon ar gael yn Gymraeg / This document is also available in Welsh



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

Minutes of the virtual meeting of the Pension Fund Committee held on Monday, 9 October 2023 at 2.00 pm at the Virtual.

### **County Borough Councillors in attendance:-**

Councillor M Norris (Chair)  
Councillor M Ashford                      Councillor G Jones  
Councillor N Morgan                      Councillor D Wood

### **Officers in attendance:-**

Mr P Griffiths, Service Director – Finance & Improvement Services  
Mr I Traylor, Service Director – Pensions, Procurement & Transactional Services

### **External Officers in attendance ( Blackrock):**

Mr S. Wright                      Mr. K. Mangan  
Mr F. Spoorenberg              Mr. V.Grewal

#### **42            DECLARATION OF INTEREST**

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

#### **43            WELCOME**

The Chairman welcomed Officers from Blackrock to the meeting.

#### **44            MINUTES**

It was **RESOLVED** to approve the minutes of the 18<sup>th</sup> July 2023 as an accurate reflection of the meeting.

#### **45            EXEMPTION OF THE PRESS AND PUBLIC**

It was **RESOLVED** that the press and public be excluded from the meeting under Section 100A(4) of the Local Government Act 1972 (as amended) for the following 2 items of business (minute 46 and 47 refer) on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 14 of Part 4 of Schedule 12A of the Act.

#### **46            LEARNING AND DEVELOPMENT**

Officers from Blackrock provided Members with a PowerPoint presentation containing exempt information in respect of arrangements available to support Responsible Investing and Infrastructure by the Pension Fund.

Following discussions on the presentation, Members **RESOLVED** to note the contents of the presentation.

#### **47 WALES PENSION PARTNERSHIP**

The Service Director, Finance and Improvement Services provided Members with an overview of the exempt report which set out for the Committee the recommended evaluation criteria for the Wales Pension Partnership (WPP) operator procurement.

Following Members consideration, it was **RESOLVED**:

- i. To note the update contained within the report;
- ii. To endorse the recommended evaluation criteria for the WPP operator procurement, as attached in Appendix 1 to the report.

#### **48 DELEGATED FUNCTIONS REPORT**

The Service Director Pensions, Procurement & Transactional Services provided Members with details of the Delegated Functions report, which set out the key issues being addressed as delegated functions, as specified in the Pension Fund Governance Policy Statement, by the Deputy Chief Executive and Group Director – Finance, Digital and Frontline Services.

Members were provided with details of the Investment Performance and were advised that during the quarter ending the 30<sup>th</sup> June 2023, the overall value of the Fund increased from £4,256 million to £4,263 million. The Service Director referenced the rolling 3-year performance of the Fund, which was 2.9% positive as compared to a benchmark of 4.5%. He explained that although this was not in line with the benchmark performance it was still a positive return during a period where markets had been impacted by very challenging economic conditions and emphasised that the Fund's Investment Strategy is delivering strong performance returns over the long term, underpinned by a diversified portfolio.

The Service Director referred Members to the progress being made by the Fund, in line with its approved Asset Allocation Strategy, to infrastructure and renewable products, and also the local impact opportunity in the form of a wind farm investment that will support the availability of cleaner sources of energy.

The Service Director continued his presentation of the report with an administration update. Members were advised that the Fund's key administrative activity during the period included the successful publication of Annual Benefit Statements to all 'Active' and 'Deferred' Pension Scheme Members prior to the statutory deadline, and also a further statutory requirement in respect of the production of the 2023 'Annual Allowance' pension saving statements, which is currently underway.

The Service Director informed Members that 'The Pensions Regulator' (TPR) is expected to publish its new General Code of Practice by the end of the year, setting out proposed new governance standards for pension schemes. The Service Director added that as soon as the Code becomes available, Officers and the Pension Board would review the requirements against existing practices within the Rhondda Cynon Taf Pension Fund.

Further updates were provided in relation to the Department for Levelling Up, Housing and Communities (DLUHC) regulatory update on the 'McCloud

Remedy', this taking effect from 1<sup>st</sup> October 2023, and the positive progress being made by the Fund's McCloud Working Group to date that is delivering the necessary work on Employer data collection and sign-off. The Service Director added that a successful recruitment exercise was finalised earlier in the year and the Fund continues to monitor its resources as a result of this significant project. Before concluding his update, the Service Director updated the Committee on the work of the Pension Board, advising that there were no formal items raised by the Pension Board requiring feedback to Committee.

The Chair thanked the Service Director for the report and commented on the recent Scheme Advisory Board (SAB) meeting and the attendance of the Fund's Pension Board Members, illustrating the positive working relationship with the Pension Board.

Following discussions, it was **RESOLVED**:

- i. To note the issues addressed within the report.

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

The Service Director, Pensions, Procurement & Transactional Services provided Committee with details of the arrangements in place to manage risk within the Pension Fund.

The Service Director advised Members that the Fund maintains a Risk Register which is reviewed and updated on a quarterly basis and referred Members to the Risk Register attached at Appendix 1 for their consideration. Members were informed that the latest review process had not identified any updates required to the Risk Register to that reported to the July 2023 Pension Fund Committee. The Service Director confirmed that the Fund's Pension Board continue to monitor and support the Fund's compliance around current and emerging risks.

It was **RESOLVED**:

- i. To note the arrangements in place for the management of risk within the Fund

#### **50 WALES PENSION PARTNERSHIP - UPDATE**

The Service Director, Finance and Improvement Services referred Members to the report which provided an update on the work and progress with regard to the Wales Pension Partnership (WPP) and Joint Governance Committee (JGC).

Members were advised that the latest meeting of the JGC took place on the 20<sup>th</sup> September 2023 and details of the agenda and discussions were provided.

The next steps and priorities for the JGC were also provided, which detailed development of the Private Markets Sub-Funds, Operator contract procurement process, Task Force on Climate-Related Financial Disclosures (TCFD) reporting and responding to the LGPS Investments Consultation, with the Service Director concluding his update with reference to the submission of the 2022/23 Stewardship Code Report by 31<sup>st</sup> October 2023.

The Chairman commented on the meeting of the JGC and the discussions in respect of data gathering to improve the knowledge base for future investments.

It was **RESOLVED**:

- i. To note the update.

**This meeting closed at 3.31 pm**

**CLLR M. NORRIS  
CHAIR.**



# Responsible Investing Protecting Shareholder Value The Role of the LAPFF

Keith Bray Forum Officer  
12 December 2023

# The Context

- The LGPS in England, Wales, Scotland and N.I. has assets under management of £400bn
- It has 7m members
- It has 15K employers
- It is the largest funded defined benefit pension scheme in the UK and one of the largest in the world (est. 7<sup>th</sup>)

**In short, the LGPS is a very significant institutional investor both nationally and internationally.**



# Fiduciary Responsibility of LGPS Pension Fund Committees

- When making investment decisions, administering authorities **must** take proper advice and act prudently. In the context of the local government pension scheme (LGPS), a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence. This approach is the standard that those responsible for making investment decisions must operate.

## **However**

- The law is generally clear that schemes **should** consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors

*(Source: Department of Communities and Local Government)*

# The Role and Structure of the LAPFF

- The Forum seeks to **protect and enhance the long term value of our members' shareholdings** by way of **shareholder engagement** with the companies in which they invest, by promoting the highest standards of corporate governance and corporate social responsibility.
- It is a voluntary association of 87 LGPS funds and 7 LGPS Pools with assets under management of £350bn+
- The Forum has a quarterly members' Business Meeting preceded by a quarterly Executive meeting. The Executive is a mix of councillors and officers which is elected by the membership annually. All member funds are invited to make nominations to the Executive and each fund has one vote for each Executive position.
- Much more information and copies of our Annual Reports and detailed Quarterly Engagement Reports can be seen on our website at [www.lapfforum.org](http://www.lapfforum.org)

# The Role of the Executive

## The Executive

- manages the work of the Forum within the approved budget,
- manages the implementation of the work plan, which has been approved by the membership and ensures that due consideration is given to issues raised by member funds.
- oversees the preparation of the annual conference programme and considers and approves the Forum's Annual Report.
- appoints a Research and Engagement Partner and other contractors as required to carry out services on behalf of the Forum.
- appoints a Forum Officer to engage with existing and prospective members
- reports it's activities quarterly to the members' Business Meeting.

# LAPFF – What we are about

In pursuing its aim to protect and enhance shareholder value for its members, the Forum

- facilitates commissioning of research into and by **engagement** with investee companies where ESG Concerns have been identified. Engagements are led by Executive members, supported by the Research and Engagement Partner.
- issues occasional voting alerts for members to discuss with their fund managers.
- provides a forum for consultation on responsible investment..
- sponsors an All Parties Parliamentary Group (APPG) re the LGPS
- holds an Annual Conference in December
- **facilitates collaboration with other institutional investors both nationally and internationally**

# Areas of concern for responsible owners

## Environmental, Social & Governance (ESG) issues

- Environmental issues (e.g. Climate change – promoting a just transition to a net zero economy, mineral exploration, waste disposal)
- Human rights issues arising from corporate relationships with local communities.
- Supply chain labour standards – reputational risks
- Boardroom structures, diversity.
- Directors' remuneration
- Accounting standards – reliable accounting
- Tax transparency



## The Forum's Watershed Moment

Page 14

Following a period of unsuccessful engagement about Sir Stuart Rose's occupation of the roles of both Chairman and Chief Executive, LAPFF tabled a resolution at the 2009 M&S AGM requiring the company to bring forward the separation of these roles.

- The resolution was supported by 37.7% of M&S shareholders. Marc Bolland was appointed as Chief Executive – M&S share price rose 5.5% on news of appointment.
- The subsequent incoming M&S Chair, Robert Swannell spoke at the LAPFF Annual Conference

# LAPFF's visit to Brazil



- During August /September 2022 the LAPFF Chair, Councillor Doug McMurdo, Chair of the Bedfordshire Fund, visited Brazil on a fact finding tour following the collapse of tailing dams in Mariana and Brumadinho.
- These were humanitarian, environmental, ecological, reputational and financial disasters
- During the visit the Chair met with local communities, business leaders and investors.
- In particular, Mr Jose Penido, the Chair of Vale, one of the major mining companies involved and the second largest company in Brazil, spent two days with the LAPFF Chair visiting the affected sites and Mr Penido then followed up by attending and speaking at the LAPFF conference in December where he promised that VALE would ensure the issues that caused the collapse were being addressed and that he and his Board were determined to make it a better and much more responsible company

- The Forum, as a member of Climate Action 100+, has taken the lead since 2018 in encouraging the company (the largest steel producer in the world) to adopt more ambitious carbon emission reduction targets for 2020 -30, and improve its appreciation of the role of green hydrogen technology.
- In 2019 the company produced its first 'Climate Action Report' with a road map to zero reductions by 2050 and by January 2020 had set more medium term targets to cut carbon emissions 30% by 2030 in Europe, and began reporting separately about the development of green hydrogen technology.
- We 'met' with Aditya Mittal who had taken over from his father Lakshmi Mittal as CEO and at that meeting he committed to include detailed discussions on the carbon zero emission carbon transition at the 2021 AGM and did so.
- By 2025, Sestao (Spain) plant to become the world's first full-scale zero carbon-emissions steel plant





# Financial Reporting Council

- Due to our growing concerns about the reliability of accounts from an investor's perspective (*e.g. Carillion, BHS, Tesco, Patisserie Valerie*) the LAPFF lobbied strenuously for the replacement of the FRC for several years, on grounds of it being “unfit for purpose”
- A 2018 review of the FRC led by Sir John Kingman (former Treasury Official and Chairman of Legal and General) called for the “ramshackle house” to be closed.
- In March 2019 the then Business Secretary, Greg Clark announced that the FRC will be replaced by a new regulator – the Audit, Reporting and Governance Authority – ARGA
- Sir Jon Thompson, formerly CEO of HMRC was appointed as CEO of the FRC and spoke at the LAPFF Conference

# Some recent successes



- Getting Shell to admit that it had been on the wrong climate change trajectory
- National Grid agreeing to produce a climate lobbying report
- Having the Brazil report referred to repeatedly in a UK Parliamentary debate
- The LAPFF video about its visit to Brazil has been accepted for viewing at this year's UN Forum on Business and Human Rights

# Where are we now?

- Really making a difference
- Public support is growing
- Cross party political support
- Constant media interest
- Always more to do

# The future?

- LAPFF to remain a Fund based organisation
- Building relationships with the new LGPS Pools with Pool representatives on the Executive
- Continuing to **engage with companies** and issue occasional voting alerts. (It is for individual funds to discuss these with their fund managers).
- Continue to engage with and comment on other matters of interest to LGPS funds
- More collaboration - more effectiveness

# Benefits of LAPFF membership

## Value for money

- Research costs spread over 87 Forum member funds with assets of more than £350 billion – **strength in numbers**
- Assists members in reacting to pressure groups advocating divestment in particular sectors.
- Facilitates collaboration on engagement nationally and internationally with other institutional investors
- Saves officer time and cost in researching issues
-

# Acting together - achieving more! Protecting shareholder value

Page 22



## RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

### MUNICIPAL YEAR 2023-24

**PENSION FUND COMMITTEE  
12<sup>TH</sup> DECEMBER 2023**

**REPORT OF: THE DEPUTY CHIEF  
EXECUTIVE AND GROUP DIRECTOR –  
FINANCE, DIGITAL AND FRONTLINE  
SERVICES**

<b>AGENDA ITEM NO. 4</b>
<b>DELEGATED FUNCTIONS – UPDATE REPORT</b>

**Author – Barrie Davies, Deputy Chief Executive and Group Director – Finance,  
Digital and Frontline 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 Deputy Chief Executive and Group Director – Finance, Digital and Frontline 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 Deputy Chief Executive and Group Director - Finance, Digital and Frontline 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, His 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 27<sup>th</sup> November 2023.

#### **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 2023.



- 4.2 During the quarter ended 30<sup>th</sup> September 2023, the overall value of the Fund decreased from £4,263 million to £4,235 million.
- 4.3 A summary of performance relative to the Fund specific benchmark is shown below:

### Total Portfolio

	2020	2021				2022				2023			3yr
Quarter	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
Fund	9.5	1.6	5.4	0.3	1.6	-6.5	-8.9	-2.7	2.6	3.4	0.3	-0.3	1.7
B'mark	6.5	1.1	5.1	0.7	4.2	-3.2	-6.8	-2.8	3.5	3.5	0.9	0.8	4.3
Relative	3.0	0.5	0.3	-0.4	-2.6	-3.3	-2.1	0.1	-0.9	-0.1	-0.6	-1.1	-2.6

- 4.4 As shown, the rolling 3-year performance of the Fund is 1.7% positive as compared to a benchmark of 4.3%. For the last quarter (i.e. quarter 3), Global Opportunities high alpha equity portfolio and UK Credit portfolio outperformed their benchmarks; Baillie Gifford Traditional Equity, Global Growth high alpha equity portfolio, Global Active Sustainable Equity portfolio and CBRE Property under-performed their benchmarks; and BlackRock Passive Global Equity (low carbon), BlackRock Passive UK Gilts and BlackRock Global Infrastructure Solutions performed in line with their benchmark.
- 4.5 The 27<sup>th</sup> November 2023 Panel meeting included a review of fund managers' performance. Presentations were received from Fidelity Investments (the manager of the WPP UK Credit Fund) and Russell Investments (the manager of the Sustainable Equity Fund).
- 4.6 The asset allocation of the Fund, by Fund Manager and mandate as at 30<sup>th</sup> September 2023 (which includes cash), is shown in the table below:

Baillie Gifford Traditional	Global Equities	15%
Link – Global Opportunities Fund	Global High Alpha Equities	10%
Link – Global Growth Fund	Global High Alpha Equities	37%
Link – UK Credit Fund	UK Credit	12%
Link – Sustainable Equity Fund	Global High Alpha Equities	2%
BlackRock	Passive Global Equities	6%
Blackrock	Passive UK Gilts	10%
CBRE	UK Property	7%
Blackrock GIS 4 Solutions	Infrastructure	1%
Capital Dynamics	Local Investment	0%
Internal	Cash	0%

- 4.7 The asset allocation strategy for the Fund is set out below along with the steps being taken as we continue to move toward it.

Asset Class	Current Allocation	Step 1	Step 2	Step 3
Total Equities	70%	64%	59%	54%
Infrastructure	1%	0	5%	10%
Property	7%	7%	7%	7%
Government Bonds (UK)	10%	12%	12%	12%
Corporate Bonds (UK)	12%	15%	15%	15%
Cash	0%	2%	2%	2%

- 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 The Pension Fund is progressing the investment into Blackrock GIS4 Infrastructure Fund. Capital contributions to date total €40.438 million.
- 4.10 The Pension Fund is committing £70 million to the closed ended infrastructure first vintage launched by the WPP. Capital contributions to date total £8.612 million.
- 4.11 A £10 million commitment into a local impact opportunity was agreed in the form of a wind farm investment. Capital drawdowns to date totals £2.557 million.
- 4.12 Given the current decline in gilt and bond prices, the Panel agreed to increase the bond allocation in line with the Fund's current strategy. The increase was funded from the Bailie Gifford exposure held outside of the pool for such purposes as we continue to implement the strategy. This re-balancing exercise took place during October 2023. At the end of October the equity exposure had been reduced to 63%.
- 4.13 The necessary due diligence was completed for the Pension Fund to make a commitment of \$75 million into the BlackRock Renewable Power IV product. The first close was 21<sup>st</sup> October 2023.

## **5.0 ADMINISTRATION UPDATE**

- 5.1 The Pension Fund 'Annual General Meeting' was successfully facilitated on 15<sup>th</sup> November, with attendees from Pension Committee, Pension Board and 24 Fund Employers. Production of the Fund's 2022/23 Annual Report was concluded following the approval of the audited accounts at Council on 29<sup>th</sup> November and was published prior to the statutory deadline. The report reflects the significant activity and support provided on behalf of our stakeholders over the year, a copy can be found on the Pension Fund website:

<https://www.rctpensions.org.uk/EN/GovernanceAndInvestment/AnnualReports.aspx>

- 5.2 The Pensions Regulator (TPR) is expected to publish their new General Code of Practice imminently. The new consolidated code will set out new governance standards for occupational pension schemes. As soon as the code becomes available, Officers and the Pension Board will review the requirements against existing practices within the Rhondda Cynon Taf Fund. The TPR 'Annual Scheme Return' notice has recently been received by the Fund, with activity underway to respond prior to the submission deadline of the 25<sup>th</sup> January 2024.
- 5.3 The Pensions Dashboard Programme (PDP) is consulting relevant industry parties on proposed staging dates and it is anticipated that the revised public sector scheme staging will be published in Spring 2024. Legislation will be updated to set an overall connection deadline for all schemes by 31<sup>st</sup> October 2026. In preparation, the Local government Association (LGA) have recently published 'Pensions Dashboards connection guide for LGPS administering authorities'.
- 5.4 In September 2023, the Department for Levelling Up, Housing and Communities (DLUHC) finalised its regulatory update '[The Local Government Pension Scheme \(Amendment\) \(No. 3\) Regulations 2023](#)' effective from 01<sup>st</sup> October 2023. The Fund's McCloud working group continue to make good progress in respect of Employer data collection and sign-off, with updates made to members records as necessary. Since the implementation date, a small number of cases have already been impacted by the remedy underpin. The Local Government Association (LGA) are supporting implementation by publishing technical guides, member communications and a McCloud factsheet. A Member Newsletter is being developed on an 'All Wales' collaborative basis.
- 5.5 On 22 November 2023, the Department for Levelling Up, Housing and Communities (DLUHC) published its response to the recent consultation on investment reforms. The response largely adopts the measures the Government originally consulted on.
- 5.6 HM Treasury's valuation cycle for all public sector schemes is currently underway, and the outcome of the valuations are expected to be confirmed later this year via the publication of each scheme's valuation report. The LGPS Scheme Advisory Board (SAB) are currently in the process of setting its own cost control mechanism and the assumptions on which this process is based are currently being agreed.
- 5.7 On 18th October 2023, the Office for National Statistics announced the Consumer Prices Index (CPI) rate of inflation for September 2023 as 6.7%. Government policy in recent periods has been to base increases for next year on the rate of CPI in September of the previous year. The LGPS Pension Increase is formally confirmed by HM Treasury in January and paid from the first Monday of each new tax year.

- 5.8 Following the Triennial Valuation exercise, and with support from the Fund Actuary, a review has been undertaken to update where necessary:
- i. Fund cashflow projections providing indicative funding maturity levels over the next 10 years;
  - ii. the valuation basis and discretionary procedure in respect of Employer 'exit credits'; and
  - iii. pension strain factors associated with early retirement as a result of either redundancy or business efficiency.
- 5.9 The Annual Allowance 2022/23 pension taxation statement exercise has commenced, with scheme pay arrangements accommodated where appropriate. HM Treasury announced in the Autumn Statement on 22<sup>nd</sup> November 2023 that it will legislate in the Finance Bill 2023 to fully abolish the lifetime allowance (LTA) from 6<sup>th</sup> April 2024.
- 5.10 Member Self-Serve (MSS) continues to be promoted and registrations of Active, Deferred, Pensioner and Dependant members are shown below (as at November 2023).

	Member Numbers	MSS Registrations	Current Percentage Take-up	Percentage Reported Previously
Actives	24,728	12,502	50.56%	46.83%
Deferred	29,969	12,028	40.13%	38.25%
Pensioners	19,380	6,548	33.79%	32.92%
Dependants	3,104	213	6.86%	6.41%

- 5.11 The Service's eight 'Key Performance Service Standards' are regularly monitored by the Investment and Administration Advisory Panel and Pension Board. Overall, service performance is positive, with high levels of activity and a focus on team development continues.
- 5.12 The number of 'Internal Dispute Resolution Procedure' Appeals in progress continues to be extremely low, with no obvious trends or concerns to report.
- 5.13 The cyclical annual life certification exercise for overseas pensioners, which was successfully introduced last year, has commenced.

## **6.0 PENSION BOARD**

- 6.1 The Pension Board last met on a hybrid basis on 26<sup>th</sup> October 2023. The Chair referenced the resignation of the Scheme Member Representative and acknowledged their positive contribution over the term. The recruitment process to appoint a suitable replacement is underway.

- 6.2 There were no formal items raised by the Pension Board requiring feedback to Committee.
- 6.3 Pension Board Members have continued to support their skills and knowledge requirements through 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 the position 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 2023.

## **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 Deputy Chief Executive and Group Director – Finance, Digital and Frontline Services.

\*\*\*\*\*

This page is intentionally left blank



Quarterly  
Engagement  
Report

July-September  
2023



**Climate and  
Finance  
Engagement,  
Minimum Wage,  
Water Companies,  
New Member**

## UPDATES

Smoke from Canadian wildfires blows south over New York, June 2023



# Climate and Finance

**Objective:** LAPFF has been engaging with financial institutions on climate for a number of years now. Most notably, it has issued voting alerts for Barclays, HSBC, and Standard Chartered in recent years. In 2020, LAPFF also sent letters to 11 insurers asking how they approached climate change from a strategic perspective. Discussions with these companies suggested that they tended to approach climate in terms of its effect on the companies rather than in terms of the companies' effects on climate.

While investors are clearly interested in the impact climate change is having on insurers, LAPFF's approach is to ask first what companies' impacts are on climate. This approach aligns with the approach set out in the UN Guiding Principles on Business and Human Rights, which call for companies to assess their impacts on human rights and rights holders before assessing the impact of human rights on their businesses. This framing is supported not least because risks to the business are missed if the human rights and impact analysis is not undertaken. In LAPFF's experience, the same logic applies in relation to climate change. LAPFF therefore began a process of following up with the eleven insurers, but also expanded the engagement to cover additional insurers of global impact in which LAPFF holds a significant number

**Cover image:** ask first what companies' impacts are on climate

of shares. It also wrote to large global banks in which members have large holdings. Finally, in line with a growing interest of the LAPFF membership in biodiversity and environmental impacts of climate change, the engagement will explore these companies' strategies in relation to natural resources and their link to climate.

**Achieved:** LAPFF has now written to 13 global insurers to engage on their approaches to decarbonisation and natural resources. There have been responses from four companies so far. One company with which LAPFF will clearly not be engaging is Berkshire Hathaway. Its pro forma email stated that no one is reading messages sent to the investor relations email address, and no one is likely to respond to a letter sent to the company's physical address. LAPFF would have hoped for more from Mr. Buffett, but LAPFF found this response to be in line with that of many US companies, which tend to be less willing to engage in a meaningful way than companies in many other markets, including the UK and Australia. For a full list of companies approached so far through this engagement, please see the company engagement table at the back of this report.

**In Progress:** LAPFF will continue to send letters and set up meetings with these companies over the course of the year.

## New Member

LAPFF would like to welcome its newest member, the ACCESS pool. LAPFF's membership now comprises 87 LGPS funds and seven pooled companies, the vast majority of the LGPS family. The more LGPS funds who become LAPFF members, the greater leverage LAPFF gains in engaging with investee companies in relation to their environmental, social, and governance practices as they impact on financial returns. With a membership that in aggregate holds over £350 billion in assets under management, LAPFF's financial clout is already equivalent to that of one of the top ten largest global pension funds. However, any additional members can only help.

Given the success of LAPFF's annual conference in Bournemouth, LAPFF decided to hold its first mid-year conference at Church House in London. This event also proved to be a success with speakers from Unseen UK, Rathbones, and DiCello Levitt. The sessions covered a summary of the 2023 AGM season, the link between climate and executive pay, modern day slavery, investor litigation in Europe, and the ESG backlash in the US.



## COMPANY ENGAGEMENTS



Investors are often not provided with a specific vote on company climate plans for shareholder approval

### Say on Climate

**Objective:** It is almost universally recognised that climate change poses significant systemic and company-level risks. Yet, despite the level of investment risks and the need for capital expenditure to deliver the transition, investors are not provided with a specific vote on their climate plans for shareholder approval.

Issuers are increasingly setting out their climate ambitions within a transition plan. It is also something regulators are looking at. For example, the UK's Transition Plan Taskforce, established by HM Treasury, is developing a 'gold standard' for climate transition plans.

Over the past two years, LAPFF has sent letters to the FTSE All-Share companies requesting a vote on climate transition plans. While LAPFF has been encouraged by the substantive responses, such resolutions during 2023 were far from standard practice, including among high-emitting companies.

**Achieved:** To continue to encourage companies to provide shareholders with

such a vote, LAPFF organised a letter to 35 companies in high-emitting sectors considered to face heightened climate risks, whose actions are essential to the accelerated action required to meet the Paris goals and where the risks investors face are substantial.

The letter, like the previous one, was supported by CCLA Investment Management, Sarasin & Partners and the Ethos Foundation. LAPFF gained the support of a wider group of investors and in total had 18 signatories which collectively represented £1.8 trillion in assets under management. The letter stressed the climate-related risks to investors. It also urged companies to provide such votes to enable shareholders to first express their view on climate strategies through a specific AGM vote rather than immediately voting against the chair or another board member. The letter requested a response so that the signatories could make an informed assessment of the company's position.

**In Progress:** LAPFF will be tracking the responses to the letter and will continue to engage with companies about holding a climate transition plan vote. This could

become an important area of shareholder focus if the recommendations of the Transition Plan Taskforce are introduced. LAPFF supports such votes becoming mandatory and will raise the issue where appropriate with policymakers.

### Mining and Human Rights

**Objective:** While LAPFF is continuing to engage with **Anglo American, BHP, Glencore, Rio Tinto, and Vale** on their human rights practices, LAPFF has picked up a new mining company engagement with **Grupo Mexico**. LAPFF has been approached by community members affected by a 2014 leak at one of the company's tailings ponds in Sonora, Mexico.

The main objective of these engagements is to ensure that the companies understand that any failure to respect human rights and environmental impacts could have financial consequences for them and for their shareholders. One of the main milestones LAPFF is looking for is how well the companies acknowledge and engage with the workers and communities they affect. Effective stakeholder engagement is important to LAPFF both as a human rights imperative and because it can expedite less costly solutions to operational, reputational, legal, and financial concerns at companies.

LAPFF is pleased that both the Anglo American and Vale groups in the PRI Advance initiative have recognised the importance of stakeholder engagement. There are plans for both groups to engage with relevant affected stakeholders.

**Achieved:** LAPFF met a Grupo Mexico representative for the first time. LAPFF Chair, Cllr Doug McMurdo, spoke with an investor relations contact, who he found to be open to the engagement. It was interesting to hear that the company has been approached by a number of investors in relation to environmental, social, and governance (ESG) issues of late. This increase in attention on ESG issues might not be a coincidence as the company is one of those chosen for inclusion in PRI's Advance human rights initiative.

As with many mining companies, LAPFF's view is that Grupo Mexico has a number of processes in place, some of which appear to be sound on paper.

## COMPANY ENGAGEMENTS

However, there appears to be significant work to be done in practice. Once again, the company accounts of its human rights practices and the community accounts differ drastically.

In relation to its PRI engagements, LAPFF has reached out to a couple of non-governmental organisations and community representatives on behalf of the Anglo American PRI Advance group to see if they would be willing to meet the group. There have been positive responses.

**In Progress:** Cllr McMurdo is now seeking to speak with the Sonora community group affected by Grupo Mexico's operations. As LAPFF has done in other such engagements, it will use the community and company perspectives to form a view of how to encourage improved human rights practices at the company.

LAPFF will now work to set up the community meetings for both the Anglo American and Vale PRI Advance groups.

### Water Companies and Sewage Pollution

**Objective:** Water companies are currently facing considerable reputational risks and regulatory scrutiny around their environmental performance. The focus of concern centres on the use of storm overflow drains. These drains are used to stop water backing up into people's homes when there is heavy rain but result in sewage being released into the waterways. As water companies are effectively regional monopoly suppliers subject to environmental and economic regulation, there are considerable regulatory risks, not least those driven by current reputational perceptions and public concern. The sector has faced further recent public scrutiny when financial concerns about Thames Water came to light.

The main objective of the engagement activity, which started in 2022, is to ensure that these risks are being appropriately addressed and that environmental performance improves. An important focus was ensuring plans were in place and progress is being made in reducing the amount of sewage being released into waterways. In addition, LAPFF sought to ensure companies had



Water companies are currently facing considerable reputational risks

credible climate transition plans and progress was being made against them.

**Achieved:** During the quarter, LAPFF's chair, Cllr Doug McMurdo, met with the Chair of **Severn Trent**, Christine Hodgson. The meeting was held against the backdrop of the problems facing Thames Water and covered the challenges facing the sector as a whole. This meeting was very constructive, and it was welcome news that the company was ahead of its targets on reducing overflows. The discussion covered the company's longer-term plans and targets and capital investment. The company also set out how it was addressing climate change, including through capturing emissions from the sewage treatment process.

LAPFF met with the chair of **United Utilities**, David Higgins. The meeting was positive despite the significant challenges that remain in the sector. The company outlined how it had reduced the number of overflows in the past couple of years. The meeting also covered plans to reduce overflows further and investment to address overflow issues. As with the discussion with Severn Trent, issues facing the sector were raised. The company also set out its plans regarding climate adaptation and mitigation.

LAPFF's chair also met the Head of Environment and Sustainability at **Northumbrian Water**. The company is owned by three holding companies, two of which (CK Hutchinson and CK

Asset Holdings Limited) a large number of LAPFF members hold. It was a useful meeting which covered the company's plans and targets to reduce storm overflows and capital investment required to do so. The meeting also covered the company's wider environmental performance and its climate change ambitions.

**In Progress:** While there is progress, significant risks remain. Adverse publicity and concerns about sewage overflows show few signs of diminishing while there is continued focus from regulators. LAPFF therefore will be continuing to engage with the companies on their progress and plans.

### COMPANY ENGAGEMENT ACTIVITY

#### Electric Vehicles and Human Rights

**Objective:** Continuing its engagement with electric vehicle manufacturers to better understand how they are addressing the risks associated with minerals for batteries for their vehicles, LAPFF wrote to a number of companies seeking further engagement with those it has already engaged on this issue and to meet others for the first time.

**Achieved:** LAPFF met with **Volkswagen** (VW) and **Volvo Group** (trucks and HGVs) this quarter, both for the first

## COMPANY ENGAGEMENTS

time. LAPFF had a detailed discussion with Volkswagen, which published its third iteration of its raw materials report this year. The discussion covered the company's overall human rights programme and more focussed attention on individual minerals. LAPFF also broached questions about the scrutiny VW faced for one of its joint ventures linked to auto manufacturer supply chains allegedly associated with Uyghur forced labour in Xinjiang. VW has publicly announced that it will be undertaking a social audit of this factory, although it has faced scrutiny from various NGOs and labour groups that social audits in China are ineffective based on political pressures.

Volvo provided a high-level overview of its human rights programme, which in terms of reporting, appears to be lacking compared to some of its peers, particularly on risk management of human rights in critical mineral and material supply chains. Despite this lack of transparency in reporting, Volvo provided a promising conversation on its aspirations to improve various parts of its human rights work.

**In Progress:** More and more legislative instruments pertaining to corporate sustainability are being enacted around the world, such as the EU Battery Regulation which came into effect in August 2023. These new regulations impose sustainability, recycling, and safety requirements on all battery manufacturers, importers and distributors in the EU. Responsibility and due diligence requirements are also extended to supply chains for materials like cobalt, lithium and nickel. The EU's Corporate Sustainability Due Diligence Directive, whilst still in development, will require companies to conduct due diligence on, and take responsibility for, human rights abuses and environmental harm throughout their global value chains. Therefore, LAPFF will continue to monitor and engage on how companies are set to meet these requirements, including for minerals and materials being used in the production of electric vehicles, where human rights abuses continue to be a major source of concern.



A number of companies not adhering to wage floor requirements including listed companies such as M&S. Above: M & S in Truro City centre in Cornwall

### Minimum Wage

**Objective:** LAPFF believes that good employment practices are linked to long-term corporate prosperity and hence the creation of investment value. It is therefore concerning when investee companies are found to be in breach of statutory national minimum wage standards. In June, the Department of Business and Trade announced that an investigation had found a number of companies not adhering to wage floor requirements including listed companies such as **WH Smith, Marks & Spencer, Argos** (which is owned by **Sainsbury's**) and Whitbread. LAPFF therefore sought to ensure that changes were in place to avoid future incidents.

**Achieved:** LAPFF wrote to the four companies requesting details around how the incidents occurred, what actions were taken to address the breach, and how they would be prevented in the future. All four companies responded and provided information about the nature of the breaches. Companies provided details of actions taken and gave assurances about seriousness with which they took the issue.

**In Progress:** LAPFF will continue to monitor breaches in labour law and engage companies where any issues are found to ensure that they are addressed.

### Biodiversity

**Objective:** Alongside writing to financial institutions regarding their role in supporting positive developments on biodiversity and climate change, LAPFF has also sought to understand approaches to biodiversity at companies in other industries. For example, Procter & Gamble was recently reported to have removed policy commitments not to buy wood pulp from degraded forests. This action comes three years after a majority of investors supported a non-binding shareholder resolution at the company's AGM requesting that Procter & Gamble assess how it could improve efforts to eliminate deforestation and forest degradation in its supply chains. LAPFF also aimed to find out more about Nestlé's approach to regenerative agriculture.

**Achieved:** LAPFF has written to **Procter & Gamble** regarding this engagement. LAPFF also wrote to **Nestlé**, who hosted the Forum at its chair's roundtable in March 2023. The request seeks to discuss the company's plans for regenerative agriculture and how it contributes to the company's pathway to halve its greenhouse gas emissions by 2030 and reach net-zero by 2050.

**In Progress:** Deforestation is becoming an increasingly important topic for LAPFF members and wider investors,

# COMPANY ENGAGEMENTS



A city park owned by the Proctor and Gamble company in Cincinnati, Ohio

particularly as the Taskforce on Nature-related Financial Disclosures (TNFD) published its final recommendations in September 2023. TNFD will have implications for a wide range of market participants. LAPFF will be monitoring how relevant companies incorporate the TNFD recommendations and will seek to engage those lagging behind on biodiversity and deforestation.

## Shell

**Objective:** Further to Shell’s rowing back from its already unsatisfactory Energy Transition Plan, the company is now a point of special focus, given both its size and importance as an investment, as well as the scale of its emissions. LAPFF continues to aim to have the company understand its role in the energy transition and take action accordingly.

**Achieved:** LAPFF has met with the chair of Shell with some meeting of minds on some issues. Comments from the new leadership at the Shell Annual General meeting, that Shell does not have enough

visibility on some putative sources of future revenue and growth to attach numbers to, does accord with LAPFF’s critique in LAPFF’s voting alerts since 2020.

**In Progress:** Given Shell’s historically poor investment performance (over 20 years barely better than a bond return), which is indicative of poor investment decision making, alongside no appreciable record or prospect of investment, further effort will be put into understanding the numbers and the business model as well as direct engagement.

## Centrica

**Objective:** Growing energy prices following the end of Covid lockdowns and since the start of the war in Ukraine have become a major business, economic, social and political issue. Rising costs have been a driver of inflation and reduction in the household standard of living. With prescribed economic regulations this backdrop has led to

mounting scrutiny of energy companies’ practices, especially those related to low-income households. LAPFF sought to understand how energy companies were managing the regulatory and reputational risks around the cost-of-living crisis, including changes needed to support those on low incomes or in arrears.

**Achieved:** LAPFF wrote to Centrica one of the major UK energy suppliers and owner of British Gas. The company responded by setting out how it is supporting customers through the cost-of-living crisis. The company also outlined ongoing support and advice that it provides low-income customers.

**In Progress:** With energy prices remaining high, LAPFF will be seeking to meet the major UK energy suppliers on their approaches to supporting households and managing the ongoing risks.

# COMPANY ENGAGEMENTS



One of LAPFF's main concerns is to ensure that the National Grid's transition plan allows for a sufficiently speedy transition for the users of its grid

## National Grid

**Objective:** LAPFF has continued its engagement with National Grid through the CA100+ forum. One of LAPFF's main concerns is to ensure that the company's transition plan allows for a sufficiently speedy transition for the users of its grid.

**Achieved:** LAPFF's view is that the company is missing some opportunities to decarbonise more quickly, so LAPFF issued a voting alert for National Grid ahead of the company AGM in July. LAPFF cited three main concerns in the voting alert: the company's confusing approach to the use of gas, delays in connecting clean energy projects to the grid, and disclosure on the energy transition. Consequently, LAPFF recommended opposition to the company report and accounts and to the resolution on political donations.

**In Progress:** LAPFF will continue to engage National Grid on its transition plan, including on the specific points mentioned above.

## SSE

**Objective:** LAPFF has a longstanding engagement with SSE and has found the company to be open and responsive to engagement. Because it is progressive on a number of issues, including a fair and just transition, LAPFF seeks to maintain this relationship and push the company to entrench its leadership role in areas such as just transition and living wage.

**Achieved:** LAPFF Executive member, John Anzani, attended SSE's AGM again this year and asked a two-pronged question about SSE's approach to a just transition. First, he asked whether the SSE is looking to review its just transition principles in the near future. Second, he asked about capital allocation and whether money being spent on carbon capture and storage (CCS) could be better spent elsewhere.

**In Progress:** LAPFF has requested a follow-up meeting to discuss SSE's responses in greater detail.

## Taylor Wimpey

**Objective:** Housing is a major contributor to greenhouse gas emissions and a focus of environmental regulation. To reduce the climate risks associated with overall emissions and the specific consumer and regulatory risks companies face, LAPFF therefore seeks to engage housebuilders on having credible transition plans. Following concerns from consumers and policymakers around leasehold arrangements and fire safety LAPFF also seeks to ensure the issues were being managed.

**Achieved:** The LAPFF Chair, Cllr Doug McMurdo, met with the Chair of Taylor Wimpey to discuss the company's approach to climate change. Since LAPFF last met the company, Taylor Wimpey has produced a transition plan, which has emission targets covering scopes 1-3 emissions and with a net zero by 2045 commitment. The meeting was informative and covered the company's progress and plans for reducing operational emissions, its approach to residual emissions, emissions from its homes when sold, and supply chain emissions such as from concrete and diesel. The issue of the just transition was raised as was putting the company's transition plan to a vote. The meeting also covered issues and costs associated with the agreement with the CMA on leaseholds and works related to fire safety.

**In Progress:** LAPFF will continue to meet with companies in the sector to ensure they have credible plans in place.

## Unilever

**Objective:** Unilever has received quite a lot of press regarding its decision to remain in Russia after Russia's invasion of Ukraine. LAPFF heard from Total last year about that company's difficulties in deciding whether to leave Myanmar and recognises the significant challenges companies face in taking these decisions. Therefore, LAPFF wanted to understand better Unilever's challenges in deciding whether to remain in or exit Russia.

**Achieved:** LAPFF's Chair, Cllr Doug

# COLLABORATIVE ENGAGEMENTS

McMurdo, met with Unilever Chair, Nils Anderson, to discuss Unilever’s challenges in Russia. Mr. Anderson was not only open about the obstacles the company faces in Russia but also appeared to be open to working with LAPFF and others to determine appropriate solutions.

**In Progress:** LAPFF is continuing to participate in investor webinars on human rights and conflict zones. It will also continue to work with Unilever on this issue and will likely seek to partner with other investors who have been investigating the role of companies in conflict zones over the last couple of years.

## COLLABORATIVE ENGAGEMENTS

### FAIRR

**Objective:** The FAIRR initiative is a collaborative investor network that raises awareness of material ESG risks and opportunities caused by intensive animal

production. The initiative’s engagements have a wide-reaching impact on how business models contribute to material risks for investors. LAPFF aims to increase its understanding of the material ESG risks and opportunities and to engage with relevant companies associated with this issue.

**Achieved:** LAPFF has re-signed onto a FAIRR engagement focusing on working conditions at food producers, mainly in North and South America. LAPFF has also signed onto two new engagement streams, one examining antimicrobial resistance in animal pharmaceutical industry and the other analysing quick-service restaurant antibiotic policies, both with a focus on the concern about increasing global antimicrobial resistance. More than 20 companies have been contacted across these three workstreams.

**In Progress:** LAPFF will join calls as appropriate in due course which are being coordinated by FAIRR.



Farm land in Uruguay. This is the result of intensive livestock business in South America

## Asia Research and Engagement’s Energy Transition Platform

**Objective:** LAPFF joined calls hosted through Asia Research and Engagement’s Energy Transition Platform which seeks to engage both financial companies and coal-exposed power companies. During the second quarter of 2023, LAPFF joined calls with **Mizuho Financial Group**, **China Construction Bank (CCB)**, and **Huaneng Power**.

**Achieved:** Engagement with Mizuho assessed the feasibility of the company discontinuing all financing of oil and gas projects, and how the company was exploring its reduction targets for upstream activities within these industries. During the engagement, LAPFF raised inquiries regarding Mizuho’s transition risk rating matrix, specifically inquiring about the scoring criteria applied to its clients. Additionally, investors sought insights into Mizuho’s approach to navigating national policy restrictions, allocating budgets for the development of new green technologies, and leveraging its internal expertise in sustainable finance.

The conversation with CCB revolved around inquiries into CCB’s environmental, social, and governance (ESG) rating system for clients, its disclosure practices concerning credit exposure linked to high-carbon industries, and the establishment of green sector targets. Similar to the discussion with Mizuho, this dialogue also delved into considerations related to national policy boundaries and restrictions.

The call with Huaneng Power covered questions around the company’s previous disclosures on reaching peak emissions by 2024, as well as continuing aspirations for the company’s targets for renewable energy production by the end of China’s 14th Five-Year Plan, which comes to an end in 2025.

**In Progress:** Whilst there are many difficulties with aligning investor expectations with company progress in various markets due to challenging and conflicting national policies, ARE’s Energy Transition Platform continues to build positive and meaningful

# COLLABORATIVE ENGAGEMENTS

engagement with a variety of financial institutions and coal-exposed power companies.

## Nature Action 100

**Objective:** Nature loss is a financially material risk. As the world's GDP is highly reliant on nature and its services, biodiversity loss creates significant risks for investors. As such, LAPFF's workplan seeks to engage companies to promote positive environmental impacts and reduce the operational, reputational and regulatory risks associated with nature loss.

**Achieved:** Alongside our own engagement work on biodiversity, this quarter saw LAPFF sign onto a major new collaborative initiative Nature Action 100. The global investor-led engagement initiative led by Ceres and IIGCC seeks to reverse biodiversity loss and drive nature action. The initiative sent letters to 100 companies from eight key sectors systemically important in reversing nature loss. The letter supported by over 190 investors sets out the initiative's expectations.

**In Progress:** LAPFF will seek to be involved in engagements as part of its participation in Nature Action 100.

## 30% Club Investor Group

**Objective:** LAPFF continues to support the 30% Club Investor Group. Initially, the group focused on enhancing gender diversity within UK boards, advocating for a minimum representation of 30 percent women on FTSE 350 boards and senior management positions within FTSE 100 companies. Over recent years, its scope has expanded to cover racial equity in UK boardrooms and promote gender diversity in global boardrooms.

**Achieved:** LAPFF is supporting the Group's Global Workstream, which looks to markets outside of the UK, namely in the USA and Asia, where boardroom diversity is lacking compared to the EU and UK. Through this workstream, LAPFF wrote to KKR & Co Inc. and Shinhan Financial Group asking the companies to set targets for diversity at board level and seeking to discuss individual company approaches to diversity more widely.

**In Progress:** LAPFF hopes to secure meetings with both companies in the fourth quarter of 2023 and continues to support other meetings held by the 30% Club Investor Group on an ad hoc basis as appropriate.

## Valuing Water Finance Initiative

**Objective:** LAPFF is co-chair of the Valuing Water Finance Initiative (VWFI), a global investor-led effort, facilitated by the NGO Ceres, to engage companies with a significant water footprint to value and act on water as a financial risk and drive the necessary large-scale change to better protect water systems.

**Achieved:** Along with other members of the VWFI, LAPFF met with Burberry Plc during the quarter to discuss the company's approach to water stewardship. A headline aim of the VWFI is to work with companies so as not to negatively impact water availability or water quality in areas across their value chain. Water scarcity poses a material risk throughout Burberry's cotton and leather supply chains whilst disposal of wastewater at manufacturing sites and dye houses risks polluting local watersheds. The company outlined its process for assessing risk at a commodity, regional and individual facility level. The outcome of the assessment resulted in the facilities with the highest risk being designated a hot spot. The company has subsequently set a target for zero hot spots within its supply chain by 2030. Burberry has made good progress in identifying water risk in recent years.

**In Progress:** The VWFI will release a detailed assessment and benchmark of all focus companies by the end of October 2023, including Burberry. LAPFF will assess the benchmark to identify potential shortcomings in the company's approach to managing water risk and follow up accordingly. The VWFI benchmark will provide a means through which performance on this issue can be tracked over time.

## SIGN-ON LETTERS AND STATEMENTS

### CDP - Science-Based Targets Campaign

LAPFF signed onto the CDP's science-based targets campaign for the third straight year. This campaign offers CDP investor signatories and Supply Chain members the opportunity to accelerate the adoption of science-based climate targets, by collaboratively engaging companies on this matter.

### WDI – ISSB Letter

LAPFF signed onto a letter to the International Sustainability Standards Board (ISSB) requesting that the body 'prioritise researching' human capital and human rights indicators in its work plan.

### Bank Track – Investor Statement on Global Human Rights Benchmark

Bank Track has finalised its investor statement on banks and human rights and is encouraging signatories to use it as a basis of engagement with banks on human rights. LAPFF is a signatory.

## POLICY UPDATES

### Letter to the UK Prime Minister

LAPFF signed onto a letter organised by the PRI, IIGCC and UKSIF regarding a statement by the Prime Minister on climate change.

### Climate Risks

An updated briefing note for members was produced on LAPFF and climate risks. The briefing document includes an overview of LAPFF expectations of companies regarding climate change and how LAPFF supports change through engagement. The document is available to members on the member section of the website.

### Water Risks

During the quarter LAPFF met with the Director of Investor Relations at Ofwat. In a highly regulated sector, Ofwat and

## COLLABORATIVE ENGAGEMENTS

other regulators play an important role in shaping what individual companies can do and charge. At the meeting LAPFF discussed issues around capital expenditure, affordability, delivery of investment plans, the resilience of the sector, and the impact of climate change.

### Reliable Accounts

**Objective:** LAPFF has continued to focus on policy making in the area of reliable accounts, given problems with accounting standards and standards of auditing. The focus also extends to climate change aspects of accounts, including decarbonisation. There are cross-cutting issues with capital markets (see later) given the impact that two Parliamentary Committees have given to the effect of pension fund accounting on pension fund asset allocations away from UK equities.

**Achieved:** The concept of Paris aligned accounts is now a mainstream issue. Two Parliamentary Committees, the DWP Select Committee of the Commons and the Industry and Regulators Committee put the accounting standards at the centre of their criticisms of the regulatory and advisory environment.

Freedom of Information Act requests are revealing more troublesome insights into the way Ministers have been briefed by officials at the Department of Business Energy and Industrial Strategy (BEIS), now the Department for Business and Trade (DBT). Requests first made in the summer of 2021 have elicited new information that had been held back but now released in July 2023 given interjection by the Information Commissioner. Further developments are expected and will be reported in full when the sensitivity of a live case has been settled. There are strong parallels with the circumstances of the Freedom of Information Act requests done in 2015 and 2016 which revealed that the Financial Reporting Council was not portraying the position of His Majesty's Government lawyers properly.

**In Progress:** The focus on the Freedom of Information Act requests continues, and Parliamentarians have been kept updated. See also capital markets working group (later).

### Capital market reform and Capital Markets Working Group

**Objective:** LAPFF has for over a decade been concerned about the dropping of standards required of companies listing on UK capital markets, with specific problems with certain mining and extractive companies. More recently a group of City of London interests bereft of asset owner representation has made efforts to drop standards even further. There are overlapping issues with the poor quality of some companies coming to the UK for listing, as with NMC Health which joined the FTSE 100 and then collapsed, and poor-quality accounting. There are also ongoing issues given the work being done by the DWP Select Committee on pensions.

**Achieved:** LAPFF made strong response to the Financial Conduct Authority's consultation on relaxing the Listing Regime further. That response was met by equally strong condemnation of the FCA proposals by other large asset owners, including RailPEN. In the light of this, the LAPFF Executive has decided to set up a Capital Markets Working Group.

**In Progress:** With Parliament coming out of recess for the autumn session, attention will be given to this area, in association with the newly formed Capital Markets Working Group.

### Party conference fringe events

**Objective:** LAPFF hosts fringe events at the political conferences. The meetings are a valuable way for LAPFF to engage with national politicians and stakeholders. The focus of this year's meetings was greenwashing. LAPFF has raised concerns about greenwashing, including in specific company engagements, and the fringe meetings provided the opportunity to raise such concerns with policymakers.

**Achieved:** Within the quarter, LAPFF held a meeting at the Lib Dem party conference. Alongside the chair of LAPFF, other speakers included Lord Robin Teverson, Lords Spokesperson Energy

and Climate Change, Cllr Keith Melton, Chair of the Green Lib Dems, and Sarah George, Deputy Editor of Edie. LAPFF outlined the work it undertakes, how investors can tackle greenwashing by companies, and the role governments and policymakers could play. The discussion covered how regulations can guard against greenwashing, green taxonomies and labels, the importance of transparency and the role of reporting.

**Progress:** Meetings at the Conservative and Labour party conferences were planned for the following quarter. LAPFF will also continue to engage national policymakers on the issue and around the importance of reporting and corporate governance standards.

## CONSULTATION RESPONSES

### UN Consultation on Investors, ESG, and Human Rights

LAPFF has responded to the UN Working Group on Business and Human Rights consultation on investors, ESG, and human rights. The Working Group is tasked with identifying ways to implement the UN Guiding Principles on Business and Human Rights and has been increasingly interested in the role investors can play in this regard. LAPFF set out a range of measures it employs to supporting both ESG and human rights. You can find LAPFF's response posted here on its website.

## MEDIA COVERAGE

### Climate

Net Zero Investor: [UK stewardship stocktake: engagement at a gridlock?](#)

### Human Rights

Corporate Secretary/IR Magazine: [Trillion-dollar coalition calls for human and worker rights focus at ISSB](#)

Investments & Pensions Europe: [Investors urge ISSB to focus on human and labour rights](#)

Edie: [Investment giants press for new global disclosure standards on human rights](#)



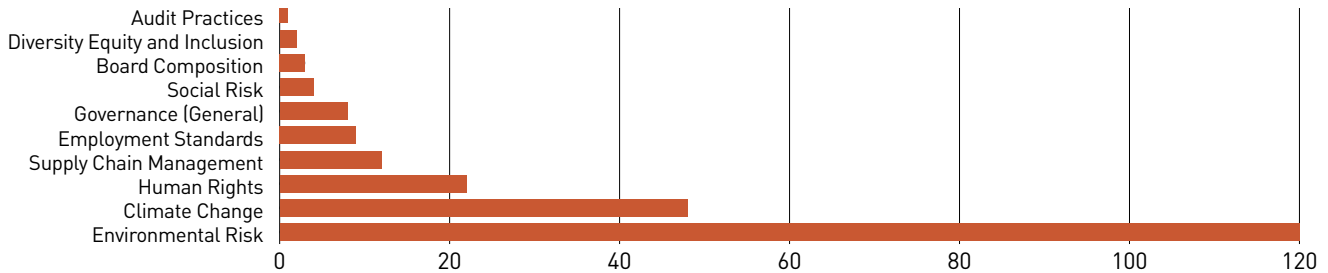
## COMPANY PROGRESS REPORT

182 companies were engaged over the quarter. This number includes collaborative engagement letters sent to companies as part of the LAPFF-led Say on Climate initiative and the Nature Action 100 initiative. Excluding these engagement letters, LAPFF engaged with 54 companies.

Company/Index	Activity	Topic	Outcome
AIA GROUP LTD	Sent Correspondence	Environmental Risk	Awaiting Response
ALLIANZ SE	Sent Correspondence	Environmental Risk	Awaiting Response
ALPHABET INC	Sent Correspondence	Diversity Equity and Inclusion	Awaiting Response
APPLE INC	Sent Correspondence	Diversity Equity and Inclusion	Awaiting Response
ASSOCIATED BRITISH FOODS PLC	Received Correspondence	Human Rights	No Improvement
AVIVA PLC	Sent Correspondence	Environmental Risk	Awaiting Response
AXA	Sent Correspondence	Environmental Risk	Awaiting Response
BARRATT DEVELOPMENTS PLC	Sent Correspondence	Climate Change	Awaiting Response
BAYERISCHE MOTOREN WERKE AG	Sent Correspondence	Supply Chain Management	Awaiting Response
BERKSHIRE HATHAWAY INC.	Sent Correspondence	Environmental Risk	Awaiting Response
BOOKING HOLDINGS INC.	Sent Correspondence	Human Rights	Dialogue
BURBERRY GROUP PLC	Meeting	Environmental Risk	Small Improvement
CENTRICA PLC	Received Correspondence	Social Risk	Dialogue
CHINA CONSTRUCTION BANK CORP	Meeting	Climate Change	Dialogue
CHINA LIFE INSURANCE (CHN)	Sent Correspondence	Environmental Risk	Awaiting Response
DEVON ENERGY CORPORATION	Sent Correspondence	Environmental Risk	Dialogue
FEDEX CORPORATION	Alert Issued	Climate Change	Dialogue
FORD MOTOR COMPANY	Sent Correspondence	Human Rights	Awaiting Response
GENERAL MOTORS COMPANY	Sent Correspondence	Human Rights	Awaiting Response
GRUPO MEXICO SA DE CV	Meeting	Human Rights	Dialogue
HENNES & MAURITZ AB (H&M)	Received Correspondence	Human Rights	Dialogue
J SAINSBURY PLC	Received Correspondence	Employment Standards	Satisfactory Response
KKR & CO INC	Sent Correspondence	Board Composition	Awaiting Response
LEGAL & GENERAL GROUP PLC	Meeting	Environmental Risk	Awaiting Response
LLOYDS BANKING GROUP PLC	Sent Correspondence	Environmental Risk	Awaiting Response
MARKS & SPENCER GROUP PLC	Received Correspondence	Employment Standards	Satisfactory Response
MERCEDES-BENZ GROUP AG	Sent Correspondence	Human Rights	Awaiting Response
META PLATFORMS INC	Sent Correspondence	Human Rights	Awaiting Response
METLIFE INC.	Sent Correspondence	Environmental Risk	Awaiting Response
MIZUHO FINANCIAL GROUP INC	Meeting	Climate Change	Small Improvement
MUENCHENER RUECK AG (MUNICH RE)	Meeting	Environmental Risk	Awaiting Response
NATIONAL GRID GAS PLC	AGM	Climate Change	Dialogue
NESTLE SA	Sent Correspondence	Climate Change	Awaiting Response
NORTHUMBRIAN WATER GROUP	Meeting	Environmental Risk	Moderate Improvement
OCCIDENTAL PETROLEUM CORPORATION	Sent Correspondence	Environmental Risk	Dialogue
PERSIMMON PLC	Sent Correspondence	Climate Change	Awaiting Response
PING AN INSURANCE GROUP	Sent Correspondence	Environmental Risk	Awaiting Response
PRUDENTIAL PLC	Sent Correspondence	Environmental Risk	Awaiting Response
RENAULT SA	Sent Correspondence	Human Rights	Awaiting Response
RIO TINTO GROUP (AUS)	Sent Correspondence	Human Rights	Dialogue
RYANAIR HOLDINGS PLC	Alert Issued	Remuneration	No Improvement
SALESFORCE INC	Sent Correspondence	Board Composition	Awaiting Response
SEVERN TRENT PLC	Meeting	Environmental Risk	Moderate Improvement
SHINHAN FINANCIAL GROUP LTD	Sent Correspondence	Board Composition	Awaiting Response
SSE PLC	AGM	Climate Change	Dialogue
SUZANO SA	Meeting	Climate Change	Small Improvement
TAYLOR WIMPEY PLC	Sent Correspondence	Climate Change	Awaiting Response
TESLA INC	Sent Correspondence	Human Rights	Awaiting Response
THE PROCTER & GAMBLE COMPANY	Sent Correspondence	Environmental Risk	Awaiting Response
TOTAL ENERGY SERVICES INC	Sent Correspondence	Human Rights	Dialogue
UNILEVER PLC	Meeting	Human Rights	Small Improvement
UNITED UTILITIES GROUP PLC	Meeting	Environmental Risk	Moderate Improvement
VALE SA	Sent Correspondence	Human Rights	Dialogue
VOLKSWAGEN AG	Meeting	Human Rights	Small Improvement
VOLVO AB	Meeting	Human Rights	Small Improvement
WH SMITH PLC	Received Correspondence	Audit Practices	Satisfactory Response
WHITBREAD PLC	Received Correspondence	Employment Standards	Satisfactory Response
ZURICH INSURANCE GROUP AG	Sent Correspondence	Environmental Risk	Awaiting Response

# ENGAGEMENT DATA

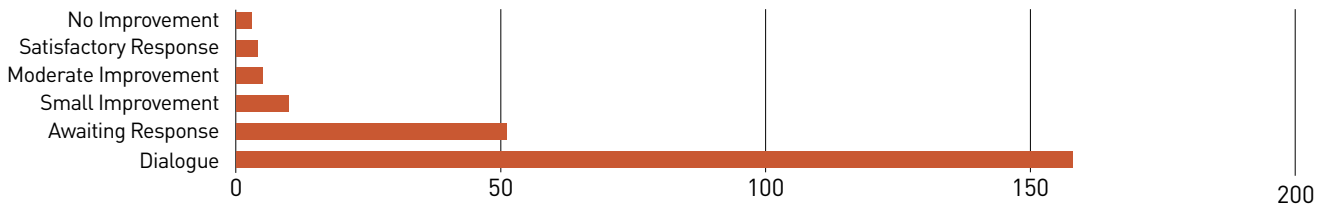
## ENGAGEMENT TOPICS



## ACTIVITY



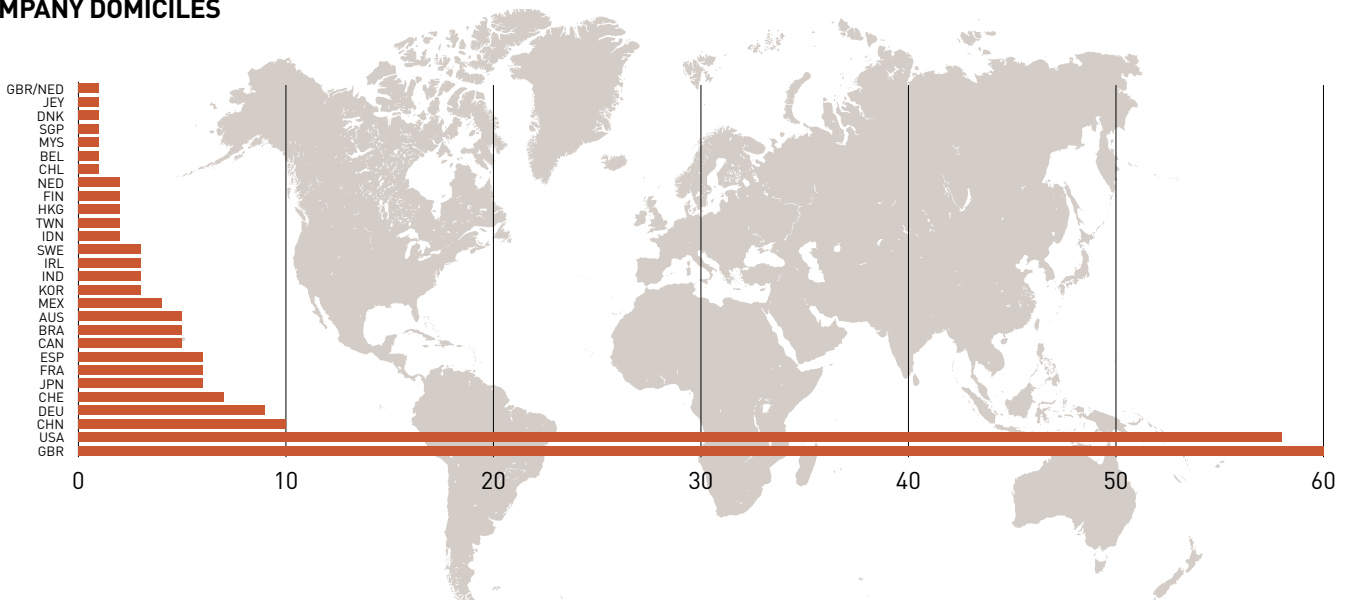
## MEETING ENGAGEMENT OUTCOMES



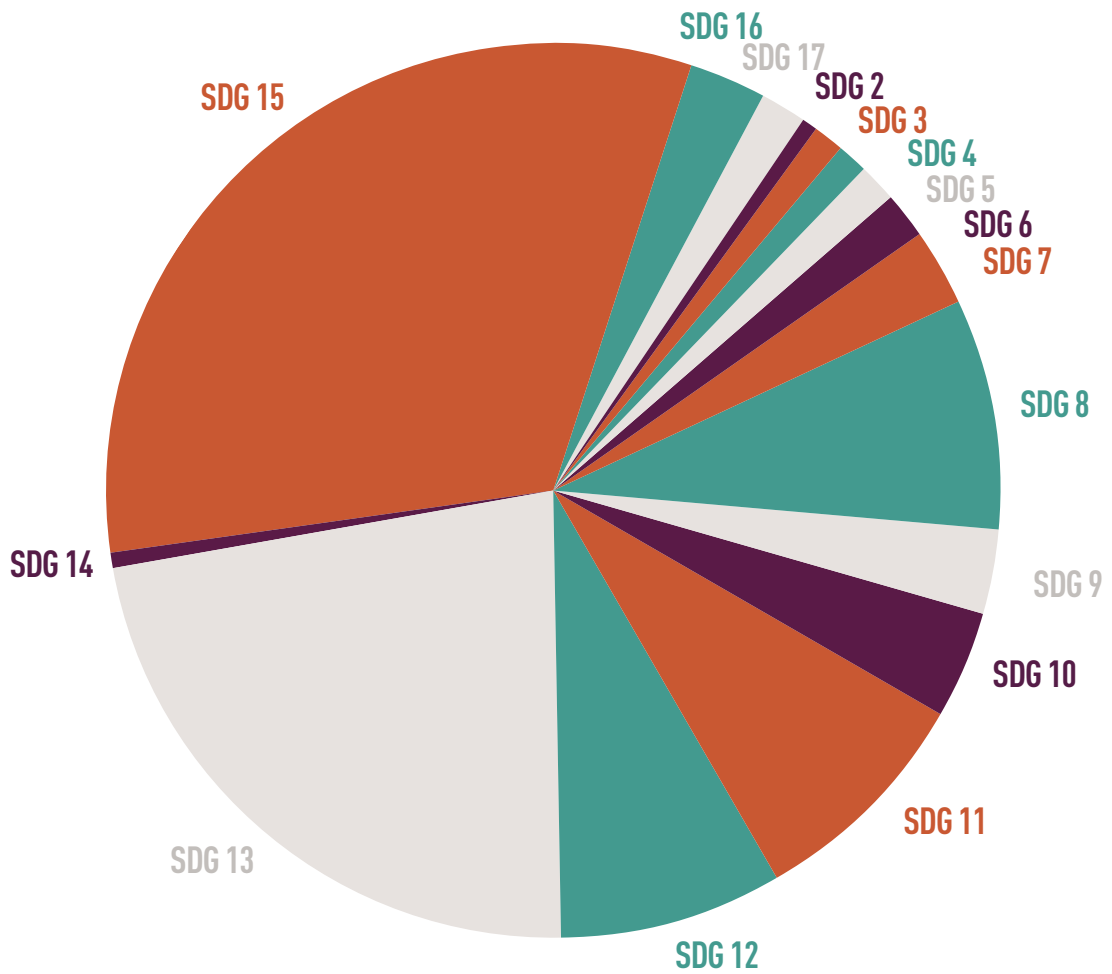
## POSITION ENGAGED



## COMPANY DOMICILES



# ENGAGEMENT DATA



## LAPFF SDG ENGAGEMENTS

SDG 1: No Poverty	0
SDG 2: Zero Hunger	2
SDG 3: Good Health and Well-Being	4
SDG 4: Quality Education	4
SDG 5: Gender Equality	4
SDG 6: Clean Water and Sanitation	6
SDG 7: Affordable and Clean Energy	9
SDG 8: Decent Work and Economic Growth	27
SDG 9: Industry, Innovation, and Infrastructure	10
SDG 10: Reduced Inequalities	13
SDG 11: Sustainable Cities and Communities	27
SDG 12: Responsible Production and Consumption	27
SDG 13: Climate Action	73
SDG 14: Life Below Water	2
SDG 15: Life on Land	106
SDG 16: Peace, Justice, and Strong Institutions	9
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	5

## LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

---

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

## RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

### MUNICIPAL YEAR 2023-24

#### **PENSION FUND COMMITTEE**

**12<sup>TH</sup> DECEMBER 2023**

**REPORT OF: THE DEPUTY CHIEF  
EXECUTIVE AND GROUP DIRECTOR -  
FINANCE, DIGITAL AND FRONTLINE  
SERVICES**

<b>AGENDA ITEM NO. 5</b>
--------------------------

<b>PENSION FUND RISK REGISTER – RISK REGISTER OVERVIEW</b>
--

**Author – Barrie Davies, Deputy Chief Executive and Group Director –  
Finance, Digital and Frontline 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 Deputy Chief Executive and Group Director – Finance, Digital and Frontline 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 Risk Register is also reviewed by the Pension Board, as part of their role in supporting the Fund's overall governance arrangements.
- 4.5 The Risk Register, dated December 2023, is attached as Appendix 1 for consideration by the Committee, noting that the latest quarterly review process as not identified any updates required to the Risk Register to that reported to the October 2023 Pension Fund Committee.

#### **5.0 CONCLUSION**

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

\*\*\*\*\*

**Summary of Pension Fund Risks**

**Introduction**

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

**Key to scoring**

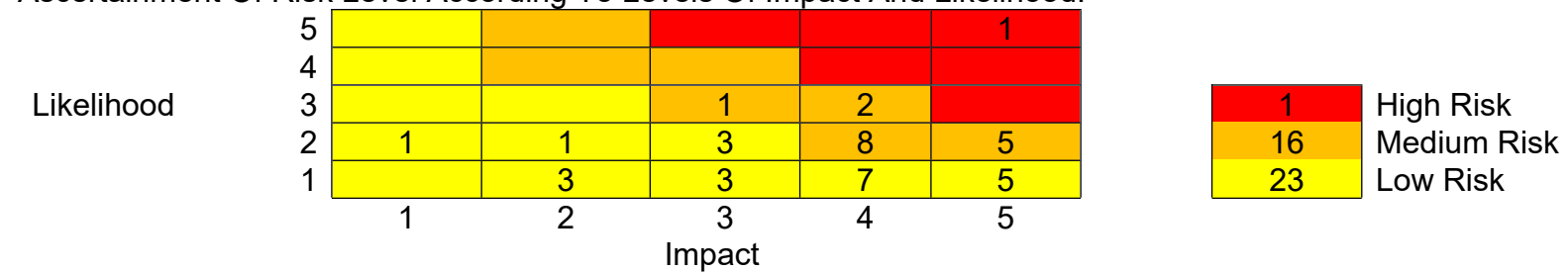
Likelihood Assessment Matrix:

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

Impact Assessment Matrix:

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

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



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

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating Dec 2023 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 funding position, 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 2022 valuation review.</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 economic volatility.</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>	



Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating Dec 2023 qtr
	Detrimental changes to the maturity of fund membership. As the scheme matures the ratio of pensioner / deferred pensioner to active employees increases.	4	2	8	MR	<ul style="list-style-type: none"> <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 diseases.</li> </ul>	
	Failure to adequately take into account climate change, climate risk and ESG factors resulting in the financial loss.	3	2	6	LR	<ul style="list-style-type: none"> <li>The Fund's Responsible Investment Policy is contained within the Investment Strategy Statement and available on the Pension Fund web-site.</li> <li>Appointment of a voting engagement provider to monitor fund managers voting and engagement held outside the WPP.</li> <li>Appointment of a proxy voting engagement provider by the WPP, who engages with managers and companies on climate change, climate risk and ESG factors.</li> <li>Panel engages and challenges fund managers on how they account for ESG factors.</li> <li>Participation in training and development when available.</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>	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating Dec 2023 qtr
	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.</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.</li> </ul>	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating Dec 2023 qtr
	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>	
	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>	Awaiting publication of the new General Code of Practice from The Pension Regulator.
	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 Advisory Panel, Pension Committee and Pension Board.</li> <li>The Pension Fund subscribes to relevant professional bodies, e.g. LAPFF.</li> </ul>	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating Dec 2023 qtr
	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 both directly and through the WPP.</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 web-site <a href="https://www.rctpensions.org.uk/EN/GovernanceAndInvestment/Investments.aspx">https://www.rctpensions.org.uk/EN/GovernanceAndInvestment/Investments.aspx</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 &amp; Democratic 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 Myners 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>	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating Dec 2023 qtr
	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>	
	Inability to comply with Pension Dashboard Staging Dates and Duties	4	1	4	LR	<ul style="list-style-type: none"> <li>• Connection deadline for public service schemes is to be agreed and will be prior to October 2026 – Government announced in March 2023 that it intends to legislate to amend the staging timetable.</li> <li>• Updates from industry bodies regarding staging deadlines and requirements reviewed.</li> <li>• Existing software provider, Heywood, to be used as Integrated Service Provider (ISP).</li> <li>• Data cleansing exercises ahead of staging date.</li> <li>• Resource to be allocated and processes to be implemented to deal with member queries arising from use of dashboards.</li> <li>• Regular progress updates are provided to the Fund's governance groups.</li> </ul>	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating Dec 2023 qtr
	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 Assessments undertaken.</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>	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating Dec 2023 qtr
	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 Triennial Valuations	5	1	5	LR	<ul style="list-style-type: none"> <li>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>Assumptions to be agreed with Actuary.</li> <li>Data to be submitted as per agreed timeline.</li> </ul>	Triennial valuation for 2022 completed.
	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 2022 '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 2022 'Rates and Adjustment Certificate'.</li> <li>Report any material breaches to Regulator in accordance with the Fund's 'Breaches Policy'.</li> </ul>	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating Dec 2023 qtr
	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> <li>• Enhanced processes in place to avoid scam pension fund transfers in accordance with TPR guidance.</li> <li>• The Pension Fund is signed up to the Regulator Pledge to carry out due diligence to reduce the risk of fraud.</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>	



## RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

### MUNICIPAL YEAR 2023-24

#### **PENSION FUND COMMITTEE**

**12<sup>TH</sup> DECEMBER 2023**

**REPORT OF: THE DEPUTY CHIEF  
EXECUTIVE AND GROUP DIRECTOR  
FINANCE, DIGITAL AND FRONTLINE  
SERVICES**

<b>AGENDA ITEM 6</b>
<b>PENSION FUND STATEMENT OF ACCOUNTS (2022/23) AND AUDIT WALES REPORT</b>

**Author – Barrie Davies, Deputy Chief Executive and Group Director –  
Finance, Digital and Frontline 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 2022/23.

#### **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 to receive 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 29<sup>th</sup> November 2023 and the outcome of the external audit, undertaken by Audit Wales, was an unqualified audit opinion (i.e. a clean audit opinion) and is included at Appendix 3.

**4.0 CONCLUSION**

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

\*\*\*\*\*

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

**2022/23**

## Pension Fund Accounts

<b>Contents</b>	<b>Page</b>
Introduction	2
Statement of Responsibilities for the Pension Fund Accounts	4
Certificate of the Deputy Chief Executive/Group Director – Finance, Digital and Frontline Services	5
Fund Account	6
Net Assets Statement	8
Notes to the Accounts	9
Independent Auditor’s Report	25
Glossary of Terms	29

## **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 2022/23 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 Deputy Chief Executive/Group Director – Finance, Digital and Frontline 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 Deputy Chief Executive/Group Director – Finance, Digital and Frontline 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 Deputy Chief Executive/Group Director – Finance, Digital and Frontline 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 various sub-funds for the collective investing of assets as per the table below:

<b>Fund</b>	<b>FCA Approval Date</b>	<b>Launch Date</b>
Global High Alpha Equities	July 2018	January 2019
UK Equities	Sept 2019	September 2019
Fixed Interest	June 2020	July 2020
Emerging Market Equities	March 2021	October 2021
Local Investment	March 2023	April 2023
Private Debt and Infrastructure	March 2023	May 2023
Sustainable Equity	April 2023	June 2023
Private Equity		Still to be launched

## **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 Deputy Chief Executive/Group Director – Finance, Digital and Frontline 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: 29/11/23

#### **Presiding Officer**

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

#### **The Deputy Chief Executive/Group Director – Finance, Digital and Frontline Services' Responsibilities**

The Deputy Chief Executive/Group Director – Finance, Digital and Frontline Services 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 Deputy Chief Executive/Group Director – Finance, Digital and Frontline Services has:

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

The Deputy Chief Executive/Group Director – Finance, Digital and Frontline Services 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 Deputy Chief Executive/Group Director – Finance, Digital and Frontline Services on the Accounts of Rhondda Cynon Taf Pension Fund for 2022/23**

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 2023 and its income and expenditure for the year.

Signature:  Date: 29/11/23

**Barrie Davies**

**Deputy Chief Executive/Group Director – Finance, Digital and Frontline Services**

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



**Fund Account**

<b>2021/22</b>			<b>2022/23</b>	
<b>£'000</b>		<b>Note:</b>	<b>£'000</b>	<b>£'000</b>
	<b>Contributions</b>			
(102,178)	Employer contributions	13.0	(112,985)	
(31,121)	Member contributions	13.0	(34,416)	
<b>(133,299)</b>				<b>(147,401)</b>
	<b>Transfers in from other Pension Funds</b>			
(6,583)	Group Transfers in from other schemes or funds		(5,917)	
(1,673)	Individual Transfers from other schemes or funds		(1,945)	
				<b>(7,862)</b>
(2,865)	<b>Other income</b>		(2,957)	
				<b>(2,957)</b>
	<b>Benefits</b>			
112,224	Pensions		117,196	
18,105	Commutation of pensions and lump sum retirement benefits		22,587	
3,196	Lump sum death benefits		2,741	
<b>133,525</b>		13.0		<b>142,524</b>
	<b>Payments to and on account of leavers</b>			
217	Refunds to members leaving scheme or fund		279	
(1)	Payments for members joining state scheme or fund		(1)	
11,749	Individual transfers to other schemes or funds		7,641	
<b>11,965</b>				<b>7,919</b>
<b>145,490</b>				<b>150,443</b>
1,070	Net (addition)/withdrawals from dealings with members			(7,777)
14,329	Management Expenses	14.0	13,397	
				<b>13,397</b>
<b>15,399</b>	<b>Net (additions)/withdrawals including fund management expenses</b>			<b>5,620</b>
	<b>Investment income</b>			
(17,536)	Dividends from equities		(15,680)	
(21,727)	Dividends from WPP Global Equities*		(13,598)	
(2,201)	Income from WPP UK Credit Fund		(10,423)	
(10,682)	Income from Pooled Property		(10,777)	
(6)	Interest on cash deposits		(298)	
<b>(52,152)</b>				<b>(50,776)</b>

20,480	<b>(Profits) and losses on disposal of investments and changes in the value of investments</b>		299,202	
		11.0 & 12.0		<b>299,202</b>
258	<b>Taxes on income</b>		75	
				<b>75</b>
<b>(31,414)</b>	<b>Net Returns on Investments</b>			<b>248,501</b>
<b>(16,015)</b>	<b>Net (increase)/decrease in net assets available for benefits during the year</b>			<b>254,121</b>
<b>(4,498,581)</b>	<b>Opening Net Assets</b>			<b>(4,514,596)</b>
<b>(4,514,596)</b>	<b>Closing Net Assets</b>			<b>(4,260,475)</b>

\* The dividends from WPP Global Equities are accumulation units, of which only one accumulation took place during 2022/23 for the Global Growth Fund and is included within the £13.598m. From May 2022, income remained within the market value price. At year end the market value of the Global Growth Fund included £14.552m of income.

**Net Assets Statement**

2021/22		Note:	31/03/2023	
			£'000	£'000
	<b>Investment Assets</b>	7.0		
862,087	Equities		786,080	
	Pooled Funds			
1,946,815	WPP Global Equities		1,933,913	
574,241	WPP UK Credit Fund		520,721	
	Other Pooled Investments			
523,355	Passive UK Gilts		438,537	
233,295	Passive Equities		223,739	
331,485	Pooled Property		290,130	
12,549	Pooled Infrastructure		29,613	
<b>4,483,827</b>				<b>4,222,733</b>
<b>26,164</b>	<b>Cash deposits</b>			<b>31,111</b>
	<b>Other investment balances</b>			
3,882	Investment debtors		1,898	
712	Tax recoverable		685	
<b>4,594</b>		11.0		<b>2,583</b>
<b>4,514,585</b>				<b>4,256,427</b>
	<b>Investment Liabilities</b>			
<b>(4,400)</b>	Investment creditors	11.0		<b>(65)</b>
<b>4,510,185</b>	<b>Net Investment Assets</b>	8.0, 9.0 & 11.0		<b>4,256,362</b>
	<b>Current assets</b>			
6,854	Contributions due from employers and employees		6,916	
600	Other current assets		615	
<b>7,454</b>				<b>7,531</b>
	<b>Current Liabilities</b>			
<b>(3,043)</b>	Current liabilities			<b>(3,418)</b>
<b>4,514,596</b>	<b>Net assets of the scheme available to fund benefits at period end</b>			<b>4,260,475</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 2023 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 2023.

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 Additional Voluntary Contributions (AVCs)**

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

The amount of AVCs paid by members during the year amounted to £1.154m and the market value of invested AVCs at the Balance Sheet date was £9.519m. There are two AVC providers, Prudential and Utmost Life.

#### **1.4 Acquisition and Disposal Costs**

Transaction costs incurred in acquiring or disposing of investments are included as part of the purchase cost or netted off against sales proceeds, as appropriate. Transaction costs include fees, commissions and duties. Transaction costs incurred during 2022/23 amounted to £1.22m (£1.13m in 2021/22).

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

## **1.5 Taxation**

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

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

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

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

## **1.6 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.

## **1.7 Contingent Liabilities**

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

## **2.0 Accounting Standards Issued but not Adopted**

The 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:

- IFRS 16 Leases (but only for those local authorities that have decided to voluntarily implement IFRS 16 in the 2023/24 year).
- Where an authority adopted IFRS 16 in 2022/23 but chose to defer implementation of IFRS 16 to PFI/PPP arrangements until 2023/24, information

on that more specific accounting change will be required in its 2022/23 statements of accounts.

- Definition of Accounting Estimates (Amendments to IAS 8) issued in February 2021.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) issued in February 2021.
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) issued in May 2021.
- Updating a Reference to the Conceptual Framework (Amendments to IFRS 3) issued in May 2020.

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

As the Code requires implementation after 1st April 2023, there is no impact on the 2022/23 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.

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if actual results differ from assumptions</b>
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 Deputy Chief Executive/Group Director – Finance, Digital and Frontline Services, as Chief Finance Officer, on 29<sup>th</sup> November 2023. 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 2023, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no events that took place after 31<sup>st</sup> March 2023 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 2022 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 2019 and 2022 valuations are shown in the table below:

	31/03/2019	31/03/2022
	£'m	£'m
Funding Target	3,515	4,291
Market Value of Assets	3,459	4,512
Funding Surplus (deficit)	(56)	221
Funding Ratio	98%	105%

The aggregate employer future service contribution rate is 19.6% of pensionable pay.

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	2022 Valuation
	% p.a.	% p.a.
Average in service discount rate	4.18%	4.24%
Average left service discount rate	3.79%	3.83%
CPI inflation	2.10%	3.00%
Pensionable Pay increases	3.35%	4.25%

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 31/03/2022
	£'m	£'m
Fair Value of net assets	3,458.60	4,512.10
Actuarial present value of promised retirement benefits	4,645.00	5,898.20
Surplus / (deficit) in the Fund as measured for IAS 26 purposes	(1,186.40)	(1,386.10)



### **McCloud / Sargeant Judgement**

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 27<sup>th</sup> 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. The figures produced by AON for 2020/21 disclosures included a McCloud underpin liability within current service cost, together with an allowance reflecting service since the scheme reforms (2014 in Wales). The same approach was adopted for 2021/22 and updated in the 2022 valuation. The method used by AON to value the McCloud remedy is closely aligned to that proposed by the DLUHC in its consultation issued July 2020.

### **Equalisation and Indexation of Guaranteed Minimum Pensions (GMPs)**

The disclosures allow for full CPI inflation pension increases to be paid on Guaranteed Minimum Pension (GMP) for those reaching State Pension Age on or after 6<sup>th</sup> April 2016. This recognises the cost of the Government's commitment to compensate public service scheme members from the removal of the Additional Pension element of the State Pension from this date, and for the outcome of the Lloyds judgement which found GMPs to be illegally sex discriminatory. Government has recognised that this solution will not address all sex inequalities for a minority of members and further guidance is expected from DLUHC on how they propose to deal with this. These inequalities are expected to be small.

In October 2020 a second ruling in the Lloyds bank case clarified that compensation would be required for members who transferred benefits out since May 1990. Government has not yet acknowledged a liability in public service schemes nor indicated an approach in rectifying this. Therefore, no allowance for potential liabilities relating to the second Lloyds ruling is included in the accounts.

### **Cost Management Process**

Legislation requires HM Treasury and the Scheme Advisory Board (SAB) to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. This is referred to as the "Cost Management Process". The outcomes of the reviews recommended no changes to the provisions of the scheme. However, 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 1<sup>st</sup> April 2019.

## 7.0 Analysis of Investments at Fair Value

	2021/22		2022/23	
	£'000	£'000	£'000	£'000
<b>Equities</b>				
Global	862,087		786,080	
		<b>862,087</b>		<b>786,080</b>
<b>Pooled funds</b>				
WPP Global Equities	1,946,815		1,933,913	
WPP UK Credit Fund	574,241		520,721	
		<b>2,521,056</b>		<b>2,454,634</b>
<b>Other Pooled Investments</b>				
Pooled UK Gilts	523,355		438,537	
Pooled Passive Equities	233,295		223,739	
Pooled Property	331,485		290,130	
Pooled Infrastructure	12,549		29,613	
		<b>1,100,684</b>		<b>982,019</b>
<b>Total long-term investments</b>		<b>4,483,827</b>		<b>4,222,733</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 2022/23 is £217k.

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 Net Asset Value (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	
	31/03/2022	31/03/2023	31/03/2022	31/03/2023
	£'000	£'000	%	%
Baillie Gifford (Equities)	866,979	790,914	19.2	18.6
BlackRock (Passive Low Carbon Equities)	233,295	223,739	5.2	5.2
BlackRock (Passive Gilts)	523,355	438,537	11.6	10.3
BlackRock (Infrastructure)	12,549	29,613	0.3	0.7
CBRE (Property)	342,350	299,452	7.6	7.0
Link (Global Growth)	1,540,312	1,526,579	34.2	35.9
Link (Global Opportunities)	406,503	407,334	9.0	9.6
Link (UK Credit Fund)	574,241	520,721	12.7	12.2
Internal	10,601	19,473	0.2	0.5
<b>Total</b>	<b>4,510,185</b>	<b>4,256,362</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 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 and 2023:

Area	Market Value		Proportion of Fund	
	31/03/2022	31/03/2023	31/03/2022	31/03/2023
	£'000	£'000	%	%
UK Equities	327,822	308,336	7.30%	7.24%
Europe	167,330	161,166	3.70%	3.79%
US and Canada	170,353	145,095	3.80%	3.41%
Japan	60,693	54,638	1.30%	1.28%
Pacific	45,901	30,856	1.00%	0.72%
Other International	89,988	85,989	2.00%	2.02%
Passive Low Carbon Pooled Equities	233,295	223,739	5.20%	5.26%
Global Equities (WPP)	1,946,815	1,933,913	43.20%	45.44%
UK Credit (WPP)	574,241	520,721	12.70%	12.23%
UK Gilts	523,355	438,537	11.60%	10.30%
Property	331,485	290,130	7.30%	6.82%
Infrastructure	12,549	29,613	0.30%	0.70%
Cash & Equivalents	26,358	33,629	0.60%	0.79%
<b>Total</b>	<b>4,510,185</b>	<b>4,256,362</b>	<b>100%</b>	<b>100%</b>

## 10.0 Contingent Liabilities

There is a contingent liability of £1.165m (£981k in 2021/22) 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 01/04/22	Purchases	Sales at Historic Book Cost	Change in Market Value	Market Value 31/03/23
	£'000	£'000	£'000	£'000	£'000
Equities	862,088	176,745	(147,677)	(105,076)	786,080
Pooled Global Equities	1,946,816	13,597	0	(26,500)	1,933,913
Pooled UK Credit	574,240	10,422	0	(63,941)	520,721
Other Pooled UK Gilts	523,355	0	0	(84,818)	438,537
Other Pooled Equities	233,296	0	0	(9,557)	223,739
Other Pooled Property	331,483	7,740	(5,687)	(43,406)	290,131
Other Pooled Infrastructure	12,549	14,082		2,982	29,612
	<b>4,483,827</b>	<b>222,586</b>	<b>(153,364)</b>	<b>(330,316)</b>	<b>4,222,733</b>
Cash Deposits	26,164			31,114	31,111
Investment Debtors	4,594				2,583
Investment Creditors	(4,400)				(65)
<b>Total</b>	<b>4,510,185</b>			<b>(299,202)</b>	<b>4,256,362</b>

Comparative note for 2021/2022:

	Market Value 01/04/21	Purchases	Sales at Historic Book Cost	Change in Market Value (Restated)	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			192,618	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>

## 12.0 Profits and Losses on Investments

	2021/22	2022/23
	£'000	£'000
Profit on sales	193,160	64,796
Loss on sales	(9,429)	(42,272)
<b>Net profit / (loss) on sales</b>	<b>183,731</b>	<b>22,524</b>
Change in market value	(204,211)	(321,726)
<b>Net increase/ (decrease) in value</b>	<b>(20,480)</b>	<b>(299,202)</b>

## 13.0 Contributions Receivable and Benefits Payable

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

Type of Body	Member Contributions		Employer Contributions		Pensions, Lump Sums and Death Benefits	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000	£'000
Administering	10,165	11,528	35,146	39,690	38,175	40,804
Admitted	3,867	4,261	17,863	19,416	16,367	16,882
Scheduled	17,089	18,627	49,169	53,879	78,983	84,838
<b>Total</b>	<b>31,121</b>	<b>34,416</b>	<b>102,178</b>	<b>112,985</b>	<b>133,525</b>	<b>142,524</b>

Included in employer contributions are £4,224k of deficit funding contributions (£4,154k in 2021/22).

#### 14.0 Management Expenses

The management expenses borne by the Fund in 2022/23 are set out below:

	2021/22	2022/23
	£'000	£'000
Administrative Costs	2,217	2,181
Investment Management Expenses	11,724	10,775
Oversight and Governance Costs	388	441
<b>Total</b>	<b>14,329</b>	<b>13,397</b>

Investment management expenses represent 0.25% (0.26% in 2021/22) of the value of the Pension Fund as at 31<sup>st</sup> March 2023.

2022/23 Audit Fees of £41k are included in Oversight and Governance Costs (£40k in 2021/22).

The investment management expenses borne by the Fund in 2022/23 are set out below:

2022/23	£'000	£'000	£'000
	Total	Management Fees	Transaction Costs
Equities	1,829	1,486	343
Pooled Funds			
WPP Global Equities	7,295	6,024	1,271
WPP UK Credit Fund	593	484	109
Other Pooled Investments			
UK Gilts	24	24	0
Passive Equities	21	21	0
Pooled Property	552	551	1
	<b>10,314</b>	<b>8,590</b>	<b>1,724</b>
Custody Fees	461		
<b>Total</b>	<b>10,775</b>		

## Comparative Note for 2021/22:

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>		

The Fund incurs no performance related fees.

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:

	2021/22	2022/23
	£'000	£'000
<b>WPP Oversight and Governance Costs</b>		
Running Costs	135	158
<b>WPP Investment Management Expenses</b>		
Fund Managers Fees	7,328	6,961
Transaction Costs	780	880
Custody Fees	428	407
<b>Total</b>	<b>8,671</b>	<b>8,406</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. All other costs, including 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 (£1.6m in 2021/22). 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 (£6.9m in 2021/22), 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 Deputy Chief Executive/Group Director – Finance, Digital and Frontline 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 are disclosed within the Statement of Accounts for Rhondda Cynon Taf at the following link: [Statement of Accounts Rhondda Cynon Taf County Borough Council \(rctcbc.gov.uk\)](https://www.rctcbc.gov.uk).

## **16.0 Membership of the Fund**

Fund membership at 31<sup>st</sup> March is as follows:

	<b>2022</b>	<b>2023</b>
Active Employers	52	54
Contributors	24,121	24,027
Pensioners	18,220	18,860
Dependants	2,899	3,018
Deferred Beneficiaries	29,548	30,702

## **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 2023 amounted to £16.88m deposited with the Debt Management Office with a maturity date of 3<sup>rd</sup> April 2023.

### **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 2022/23 financial year. The possible impact of movements in each asset type is shown in the following table:

Asset type	31/03/23 Value	Change %	Value on increase	Value on decrease
	£'000		£'000	£'000
Equities	786,080	14.06	896,603	675,557
Pooled Funds - Global Equity	1,933,913	14.06	2,205,821	1,662,005
Pooled Funds UK Credit	520,721	7.54	559,983	481,459
Other Pooled - Gilts	438,537	7.54	471,603	405,471
Other Pooled - Passive Equities	223,739	14.06	255,197	192,281
Other Pooled Property	290,130	6.03	307,625	272,635
Infrastructure	29,613	4.97	31,085	28,141
Cash	33,629	0.7	33,864	33,394

PIRC also advised that the potential market movement for the Fund as a whole, could be 9.45%. The possible impact is shown below:

	31/03/2023 Value	Change %	Value on increase	Value on decrease
	£'000		£'000	£'000
Fund Asset Total	4,256,362	9.45	4,658,588	3,854,136

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 2022/23 financial year would have the following effect:

Asset type	31/03/23 Value	Value on increase	Value on decrease
	£'000	£'000	£'000
Pooled Funds UK Credit	520,721	525,928	515,514
Other Pooled - Gilts	438,537	442,922	434,152
Cash deposits & balances	33,629	33,965	33,293
<b>Total</b>	<b>992,887</b>	<b>1,002,815</b>	<b>982,959</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 6.3% would have the following effect:

Asset type	31/03/23 Value	Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas Equities	477,744	507,842	447,646
<b>Total</b>	<b>477,744</b>	<b>507,842</b>	<b>447,646</b>

## **The 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**

### **Opinion on financial statements**

I have audited the financial statements of Rhondda Cynon Taf Pension Fund for the year ended 31 March 2023 under the Public Audit (Wales) Act 2004.

Rhondda Cynon Taf Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including the 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 2023.

In my opinion, in all material respects, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2023, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with legislative requirements and UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023.

### **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.

My staff and I are 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 Pension Fund's Statement of Account other than the financial statements and my auditor's report thereon. The Responsible

Financial Officer is responsible for the other information contained within the Pension Fund's Statement of Account. 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.

### **Opinion on other matters**

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

- the information contained in the Pension Fund's Statement of Account for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I report by exception**

In the light of the knowledge and understanding of the Pension Fund and its environment obtained in the course of the audit, I have not identified material misstatements in the other information provided in the Pension Fund's Statement of Account.

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

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

### **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;
- maintaining proper accounting records;
- internal controls 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; and
- assessing the Rhondda Cynon Taf 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 the responsible financial officer anticipates that the services provided by Rhondda Cynon Taf Pension Fund will not continue to be provided in the future.

### **Auditor's responsibilities for the audit of the financial statements**

My responsibility is to audit the financial statements in accordance with the Public Audit (Wales) Act 2004.

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, the Pension Fund's head of internal audit 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;
- Obtaining an understanding of related party relationships.

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;
- enquiring of management, and legal advisors about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the administering authority; and
- 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.

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team members 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.

### **Other auditor's responsibilities**

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

### **Certificate of completion of audit**

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



Adrian Crompton  
Auditor General for Wales  
30 November 2023

1 Capital Quarter  
Tyndall Street  
Cardiff, CF10 4BZ

## 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.

Date/Dyddiad:  
29th November 2023

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

Auditor General for Wales  
Wales Audit Office  
1 Capital Quarter,  
Tyndall Street  
Cardiff  
CF10 4BZ

Dear Adrian,

**Representations regarding the 2022/23 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 2023 for the purpose of expressing an opinion on their truth and fairness.

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

In addition we have completed the questionnaires provided to us regarding;

- Appendix A - Audit Enquiries of Management
- Appendix B - Audit Enquiries of those charged with Governance.

**Management Representations**

**Responsibilities:**

We have fulfilled our responsibilities for:

- The preparation of the financial statements in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2022-23; 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:**

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. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

**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 full Council of Rhondda Cynon Taf on 29 November 2023.

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.

We have disclosed the identity of all related parties and all the related party relationships and transactions of which we are aware.

Signed by:

Deputy Chief Executive/Group Director –  
Finance, Digital and Frontline Services  
(S.151 Officer)

Leading Member

Date

Date

**Enquiries of Management**

**Enquiries of management - in relation to financial reporting**

Question	2022-23 Response
<p>1. Are there any accounting framework changes affecting the current year financial statements of the Pension Fund? Where there are changes, what actions have been taken in response to these changes?</p>	<p>The Pension Fund Statement of Accounts are produced in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 based on International Financial Reporting Standards (IFRS).</p> <p>There are no changes to the Code of Practice requiring changes to the Statement of Accounts of the Rhondda Cynon Taf Pension Fund.</p>
<p>2. What are your general views on the risk assessment process relating to financial reporting for the Pension Fund?</p>	<p>The Statement of Accounts are produced by a team with the relevant skills and knowledge. Officers also attend training sessions facilitated by CIPFA to ensure knowledge is up to date. Training records are held in a skills and knowledge framework register and reviewed by the Investment and Administration Advisory Panel.</p> <p>Reconciliations are performed and recorded for all balance sheet accounts.</p> <p>The accounts are also subject to review by senior officers as part of Quality Assurance arrangements minimising the risk of material misstatement.</p> <p>Governance and Audit committee also considered and commented on the Fund's certified draft financial statements, reviewing the extent the statements take cognisance</p>



## Enquiries of management - in relation to financial reporting

Question	2022-23 Response
	<p>of audit reports during the year, and changes in accounting policy and internal control mechanisms.</p> <p>As administering authority, the Council's core financial systems are reviewed by Internal Audit as part of the annual risk based audit plan (with substantial assurances in place overall).</p> <p>Therefore, the risk of material misstatement within the Statement of Accounts is low.</p>
<p>3. Have you considered the appropriateness of the accounting policies adopted by the organisation in preparation of the Pension Fund's financial statements?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p> <p>How do you ensure the compliance and completeness of narrative on critical accounting policies and judgements?</p>	<p>Accounting policies and judgements are drafted in line with the Code of Practice, reviewed by the Deputy Chief Executive / Group Director - Finance, Digital and Frontline Services as detailed in the Statement of Responsibilities.</p> <p>No accounting policies have required change for the 2022/23 Statement of Accounts. Quality Assurance and sign-off arrangements in place within the Final Accounts Team as part of Statement of Accounts preparation and certified draft Statement of Accounts are reported to Governance and Audit Committee for review / scrutiny.</p> <p>Accounting policies and critical judgements were reviewed by Governance and Audit committee at its meeting of <a href="#">4th September 2023</a> as required by its terms of reference.</p>

## Enquiries of management - in relation to financial reporting

Question	2022-23 Response
<p>4. Are you aware of significant transactions that are outside the normal activities of the Pension Fund?</p>	<p>No significant transactions took place within 2022/23 outside of normal activities.</p>
<p>5. Are you aware of any transactions, events or changes in circumstances that would cause impairments of non-current assets?</p>	<p>Other than Investment Assets, there are no non-current assets held by the Pension Fund. Investments Assets are valued at year end values in accordance with Note 1.2 of the financial statements.</p>
<p>6. Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?</p> <p>Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used,</p>	<p>Other than those disclosed in note 3 to the Statement of Accounts “Critical Judgements in Applying Accounting Policies”, there are no transactions, events and conditions giving rise to recognition or disclosure of significant accounting estimates that require significant judgement.</p> <p>Note 4 to the Statement of Accounts details “Assumptions Made about the Future and other major Sources of Estimation Uncertainty”.</p> <p>There have been no changes in accounting policies adopted in relation to significant estimates.</p>

**Enquiries of management - in relation to financial reporting**

Question	2022-23 Response
<p>and the degree of estimation uncertainty inherent in the estimate?</p> <p>Have there been any changes in accounting policies adopted in relation to significant estimates?</p>	
<p>7. Have you used any experts in the preparation of the accounts?</p>	<p>AON are engaged to calculate actuarial valuations.</p> <p>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.</p> <p>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.</p>
<p>8. Have there been any issues that may impact the preparation of the accounts identified so far?</p>	<p>No</p>

## Enquiries of management - in relation to financial reporting

Question	2022-23 Response
<p>9. Has the management team carried out an assessment of the going concern basis for preparing the financial statements? What was the outcome of that assessment?</p> <p>Do you have knowledge of events or conditions beyond the period of the going concern assessment that may cast significant doubt on the Pension Fund's ability to continue as a going concern?</p>	<p>By its very nature, the Pension Fund is in place to provide pensions benefits to its members upon retirement and as such has a focus on the long-term sustainability of the Fund.</p> <p>The risk register is updated on a quarterly basis, with one of the key funding risks identified being "long term strategy unable to meet the objective of funding liabilities". The impact and likelihood of this risk is formally assessed by Pension Panel, Pension Board and Pension Committee on a quarterly basis.</p> <p>Given the above, the basis of the preparation of the Statement of Accounts remains as a going concern.</p> <p>There are no events or conditions beyond the period of the going concern assessment that may cast significant doubt on the Pension Fund's ability to continue as a going concern.</p>
<p>10. How do you ensure the compliance and completeness of narrative on critical accounting policies and judgements?</p>	<p>Please refer to response to Q.3</p>

## Enquiries of management - in relation to financial reporting

Question	2022-23 Response
11. Are there any issues around the use of service organisations or common functions, including uncorrected misstatements from service organisations?	No
12. Please provide information on the use of financial instruments, including derivatives.	Please refer to Note 1.2 "Investment Valuation of Financial Instruments" within Significant Accounting Policies.
13. Please provide information on the status of contingencies from the prior year.	Please refer to Note 10 of the Statement of Accounts whereby there is a contingent liability of £1.165m (£981k in 2021/22) in respect of refundable contributions for leavers who have not yet claimed refunds.
14. Are you aware of any guarantee contracts?	The Pension Fund holds no contracts where it accepts debt or liabilities in the event of a third party default.  There are certain admitted bodies that are required to hold a Bond to protect the Fund in the event the admitted body is unable to meet its obligations to the Fund.

**Enquiries of management - in relation to financial reporting**

<b>Question</b>	<b>2022-23 Response</b>
15. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements of the Pension Fund?	Other than those detailed in the Letter of Representation and the Statement of Accounts, there are no further contingencies or claims that may affect the financial statements.

## Enquiries of management- in relation to fraud

Question	2022-23 response
<p>16. What is management's assessment of the risk that the financial statements may be materially misstated due to fraud? What is the nature, extent and frequency of management's assessment?</p>	<p>As “Scheme Manager” for the Rhondda Cynon Taf Pension Fund, the controls applied in Rhondda Cynon Taf CBC also apply to the administration of the Pension Fund.</p> <p>Good governance flows from a shared ethos and culture, as well as from systems and structures. The Council expects all representatives (i.e. Members and Officers) to conduct their duties with the highest levels of honesty and integrity.</p> <p>Policies underpin the culture in place and the Regional Internal Audit Shared Service test compliance with relevant Policies linked to the core financial systems (in line with the approved Annual Audit Plan).</p> <p>To ensure a consistent approach to working practices and processes, all officers are subject to the Council’s terms and conditions of employment. A comprehensive suite of information such as policies and procedures are available for officers on “The Source” such as:</p> <ul style="list-style-type: none"> <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>With specific regard to anti-fraud, bribery and corruption and whistle-blowing, these areas are kept under review on an on-going basis and referrals received considered and</p>

## Enquiries of management- in relation to fraud

Question	2022-23 response
	<p>investigated, as appropriate by the Council's Corporate Fraud Team and Human Resources. Updates on both areas are also reported to and scrutinised by the Governance and Audit Committee.</p> <p>New employees attend a 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>The risk of fraud is identified in the risk register alongside control measures to mitigate the impact and likelihood. The scoring for impact and likelihood of this risk is formally assessed by Pension Panel, Pension Board and Pension Committee on a quarterly basis. The Pension Fund Risk Register includes a specific risk in respect of Fraud with the following control measures (that are reviewed on an on-going basis and reported quarterly to the Pension Panel, Pension Committee and Pensions Board):</p> <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>



## Enquiries of management- in relation to fraud

Question	2022-23 response
	<ul style="list-style-type: none"> <li>• Enhanced processes in place to avoid scam pension fund transfers in accordance with TPR guidance.</li> <li>• The Pension Fund is signed up to the Regulator Pledge to carry out due diligence to reduce the risk of fraud</li> </ul> <p>With specific regard to the Pension Fund, there is an Internal Disputes Resolution Procedure (that also sets out the complaints process to the Regulator). Link to the Pension Fund web-page - <a href="https://www.rctpensions.org.uk/EN/Search/SearchResults.aspx?search_keywords=disputes">https://www.rctpensions.org.uk/EN/Search/SearchResults.aspx?search_keywords=disputes</a></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> <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>

## Enquiries of management- in relation to fraud

Question	2022-23 response
<p>17. Do you have knowledge of any actual, suspected or alleged fraud affecting the Pension Fund?</p>	<p>As “Scheme Manager” for the Rhondda Cynon Taf Pension Fund, the controls applied in Rhondda Cynon Taf CBC also apply to the administration of the Pension Fund.</p> <p>Potential fraud or wrong-doing is managed via the Council’s established anti-fraud, bribery and corruption arrangements and whistle-blowing processes. During the year there have been no known instances of actual, suspected or alleged fraud affecting the financial statements of the Pension Fund.</p> <p>To support transparency and openness, the Council’s arrangements during 2022/23 included:</p> <p><u>Whistle-blowing arrangements</u>  A new Regulation came into force during April 2017 which placed a requirement upon the Council to report annually on whistle-blowing disclosures. The Regulation required the Council to publish the annual report on its website or by other means appropriate for bringing the report to the attention of the public. For Rhondda Cynon Taf, this requirement was met for the 2022/23 financial year via an Annual Report to the Governance and Audit Committee on <a href="#">15<sup>th</sup> March 2023</a> together with the approval of revised Whistleblowing Policy and Procedure.</p> <p><u>Anti-fraud arrangements</u>  The Anti-Fraud Annual Report for 2022/23 was reported to the Governance and Audit Committee on <a href="#">15<sup>th</sup> March 2023</a> (and an Anti-Fraud, Bribery and Corruption mid-year update was reported to the Governance and Audit Committee on <a href="#">7<sup>th</sup> December 2022</a>).</p>

## Enquiries of management- in relation to fraud

Question	2022-23 response
	<p>The Governance and Audit Committee produces an Annual Report setting out its work during the year, with references made to its consideration of both whistleblowing and anti-fraud updates. The Annual Report is presented to Rhondda Cynon Taf's full Council.</p> <p>There are no known actual, suspected or alleged fraud issues affecting the Pension Fund Statement of Accounts.</p>
<p>18. What is management's process for identifying and responding to the risks of fraud, including any specific risks of fraud that management has identified or that have been brought to its attention?</p>	<p>As administering authority for the Rhondda Cynon Taf Pension Fund 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 continue to be undertaken remotely due to revised working arrangements)</li> <li>• An independent Internal Audit Service (the 'scopes' for specific audit assignments included in the 2022/23 Audit Plan took account of revised working arrangements / potential risks as a result of the pandemic).</li> <li>• An independent Corporate Fraud Team</li> </ul>

## Enquiries of management- in relation to fraud

Question	2022-23 response
	<ul style="list-style-type: none"> <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.</p> <p>The Council's Whistleblowing Policy also gives advice on how to raise a concern, as well as providing information on the safeguards and support that are available to those who raise concerns.</p> <p>More specifically in respect of the Pension Fund:</p> <ul style="list-style-type: none"> <li>• The Rhondda Cynon Taf Pension Fund produces an annual Report that sets out the Fund’s governance arrangements and compliance with these, this being shared with Audit Wales prior to publication to ensure / determine consistency with the Pension Fund Statement of Accounts. The Annual Report is published on the RCT Pension Fund website.</li> <li>• Underpinning the Pension Fund’s governance arrangements are a suite of governance documents that are kept under on-going review and updates reported to the Pension Fund Committee at least once per year (with these documents also published on the RCT Pension Fund website -</li> </ul>

## Enquiries of management- in relation to fraud

Question	2022-23 response
	<p><a href="https://www.rctpensions.org.uk/EN/GovernanceAndInvestment/GovernanceandInvestment.aspx">https://www.rctpensions.org.uk/EN/GovernanceAndInvestment/GovernanceandInvestment.aspx</a> ).</p> <ul style="list-style-type: none"> <li>• See also response to Q16 in respect of the Pension Fund Risk Register.</li> </ul> <p>Given the governance arrangements in place, management can give assurance that the risk of material misstatement is low.</p>
<p>19. What classes of transactions, account balances and disclosures have you identified as most at risk of fraud?</p>	<p>As detailed in its Anti-Fraud, Bribery and Corruption progress report for 2022/23, Governance and Audit committee on <a href="#">15<sup>th</sup> March 2023</a>, received an update detailing that the vast majority of referrals received relate to financial fraud against the Revenues and Benefit system.</p> <p>Given the above, there are no identified classes of transactions, account balances and disclosures within the Pension Fund Statement of Accounts identified as most at risk of fraud.</p>
<p>20. Are you aware of any whistleblowing or complaints by potential</p>	<p>There have been no whistleblowing or complaints by potential whistleblowers during the 2022/23 financial year.</p>

## Enquiries of management- in relation to fraud

Question	2022-23 response
whistle blowers? If so, what has been your response?	
21. What is management's communication, if any, to those charged with governance regarding their processes for identifying and responding to risks of fraud?	Please refer to the response for Q17.
22. What is management's communication, if any, to employees regarding their views on business practices and ethical behaviour?	<p>As the administering authority, Rhondda Cynon Taf CBC 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, as administering authority, have a suite of policies and procedures that are available for officers to access.</p> <p>Each new recruit is provided with the '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>

## Enquiries of management- in relation to fraud

Question	2022-23 response
	The Council, as employer, 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.
23. For service organisations, have you reported any fraud to the user entity?	There have been no instances of fraud during 2022/23.

## Enquiries of management- in relation to laws and regulations

Question	2022-23 response
<p>24. Are you aware of any laws, other statutory and regulatory requirements that could affect the financial statements of the Pension Fund?</p>	<p>No. The Fund is not aware of any laws, other statutory and regulatory requirements that could require changes to the financial statements as currently drafted.</p>
<p>25. What are the policies and procedures in place to identify applicable legal and regulatory requirements to ensure compliance?</p>	<p>Revised legal and regulatory updates are reported through the Investment and Administration Advisory Panel.</p> <p>The Risk Register identifies the risk of non-compliance with regulatory requirements and details the control measures in place to mitigate the risk of impact and likelihood of occurrence.</p> <p>Control measures include:</p> <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>• Submission of Annual Pension Scheme Regulator Return.</li> </ul>



## Enquiries of management- in relation to laws and regulations

Question	2022-23 response
26. What policies and procedures are in place for identifying, evaluating and accounting for litigation claims and assessments?	Significant issues would be reported through to Pension Fund Investment and Administration Advisory Panel. The accounting implications would be addressed by the Pension Fund accountant who is a member of the panel.
27. Have there been any changes to laws and regulations that directly impact the entity this year?	No
28. Are you aware of any instances of non-compliance with laws or regulations? Are you on notice of any such possible instances of non-compliance?	No
29. Have there been any examinations or inquiries performed by licensing, tax or other authorities/regulators?	No

### Enquiries of management- in relation to laws and regulations

Question	2022-23 response
30. Has there been any significant communications with regulators?	Other than routine correspondence and the Pensions Regulator Annual Scheme Return and data score, there have been no significant communications with regulators.
31. For service organisations (if applicable), have you reported any non-compliance with laws and regulations?	No

### Enquiries of management- in relation to related parties

Question	2022-23 response
32. Have there been any changes to related parties from the prior year? If so, what is the identity of the related parties and the nature of those relationships?	Related party transactions are disclosed within the notes to the statement of accounts in accordance with the Code of Practice on Local Authority Accounting.

## Enquiries of management- in relation to laws and regulations

Question	2022-23 response
	<p>Related party transactions for both Elected members and Chief Officers who are designated members of the administering authority’s Senior Leadership Team are updated on an annual basis.</p> <p>Changes are documented within Statement of Accounts working papers.</p> <p>Governance arrangements are in place to ensure that a Register of Members Interests is in place and Declarations of Interest are declared and documented at each panel, board and committee meeting.</p>
<p>33. What transactions have been entered into with related parties during the period? What is the purpose of these transactions?</p>	<p>As detailed in response above, transactions are documented and held within Statement of Accounts working papers to evidence the disclosure within the Related Parties note.</p>
<p>34. What controls are in place to identify, account for and disclose related parties?</p>	<p>Governance arrangements are in place to ensure that a Register of Members Interests is in place and Declarations of Interest are declared and documented at each panel, board and committee meeting.</p> <p>Independent checks are undertaken by Finance Officers against publicly available national databases to minimise the risk of non disclosure.</p>

## Enquiries of management- in relation to laws and regulations

Question	2022-23 response
	<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 administering authority.</p> <p>Additional controls include:</p> <ul style="list-style-type: none"><li>• Gift and Hospitality Policy</li><li>• Contract Procedure Rules</li><li>• The Anti- Fraud, Bribery and Corruption Strategy.</li></ul>
35. What controls are in place to authorise and approve significant transactions and arrangements: <ul style="list-style-type: none"><li>• with related parties, and</li><li>• outside the normal course of business?</li></ul>	<p>As above.</p> <p>Any individual declaring an interest in any agenda item would be excluded from decision making.</p>

## Enquiries of management- in relation to control environment, IT systems, risk and governance

Question	2022-23 response
<p>36. What are your views on the entity's control environment? How would you assess the process for reviewing the effectiveness of internal control?</p>	<p>The process for reviewing the effectiveness of the control environment is robust and this is evidenced by having independent reviews undertaken by both the Regional Internal Audit Service and External Audit, with close and regular working with the administering authority's S151 Officer and other senior officers.</p> <p>In addition, the Terms of Reference of the Governance and Audit committee detail its responsibility to review the administering authority's Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances.</p> <p>The Annual Governance Statement specifically references the further requirements for the Pension Fund in addition to the administering authority responsibilities at section 6.10. <a href="#">Appendix 1.pdf (moderngov.co.uk)</a></p>
<p>37. Have there been any changes to significant IT systems or applications in the period?</p>	<p>From a Pension Fund perspective, there have been no changes to IT systems / applications in the period.</p>
<p>38. How do you communicate with those charged with governance regarding business risks including fraud?</p>	<p>As administering authority, the Council's Strategic Risk Register is reported to Cabinet as part of the Council's quarterly Performance Reports, evidencing a review of the</p>

operating environment. Changes to the risks are clearly identified with the full Strategic Risk Register which can be accessed at this [link](#).

The Strategic Risk Register is also scrutinised by the Overview and Scrutiny Committee (as part of quarterly Performance Reports) and specific risk updates reported to the Governance and Audit Committee in line with the Committee's terms of reference (with the Governance and Audit Committee also producing an Annual Report, setting out its work during the year, that is then reported to full Council).

More specifically for the Pension Fund Risk register, the register is presented to the Investment and Administration Advisory Panel, Pension Board and Pension Committee.

**Enquiries to those charged with governance**

Question	2022-23 response
<p>1. Do you have any knowledge of actual, suspected or alleged fraud affecting the Pension Fund?</p>	<p>Potential fraud or wrong-doing is managed via the administering authority, Rhondda Cynon Taf CBC’s established anti-fraud, bribery and corruption arrangements and whistle-blowing processes. During the year there have been no known instances of actual, suspected or alleged fraud affecting the financial statements of the Pension Fund.</p> <p>To support transparency and openness, the Council’s arrangements during 2022/23 included:</p> <p><u>Whistle-blowing arrangements</u>                      A new Regulation came into force during April 2017 which placed a requirement upon the Council to report annually on whistle-blowing disclosures. The Regulation required the Council to publish the annual report on its website or by other means appropriate for bringing the report to the attention of the public. For Rhondda Cynon Taf, this requirement was met for the 2022/23 financial year via an Annual Report to the Governance and Audit Committee on <a href="#">15th March 2023</a> together with the approval of revised Whistleblowing Policy and Procedure.</p> <p><u>Anti-fraud arrangements</u>                      The Anti-Fraud Annual Report for 2022/23 was reported to the Governance and Audit Committee on <a href="#">15th March 2023</a> (and an Anti-Fraud, Bribery and Corruption mid-year update was reported to the Governance and Audit Committee on <a href="#">7th December 2022</a>).</p>

	<p>With specific regard to the Pension Fund, there is an Internal Disputes Resolution Procedure (that also sets out the complaints process to the Regulator). Link to the Pension Fund web-page - <a href="https://www.rctpensions.org.uk/EN/Search/SearchResults.aspx?search_keywords=disputes">https://www.rctpensions.org.uk/EN/Search/SearchResults.aspx?search_keywords=disputes</a></p> <p>There are no known actual, suspected or alleged fraud issues affecting the Pension Fund Statement of Accounts.</p>
<p>2. What is your assessment of the risk of fraud within the Pension Fund?</p>	<p>The assessment of risk of fraud within the Pension Fund is low.</p>
<p>3. How does the Full Council exercise oversight of:</p> <ul style="list-style-type: none"> <li>• management's processes for identifying and responding to the risk of fraud in the Pension Fund, and</li> <li>• the controls that management has established to mitigate these risks?</li> </ul>	<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 continue to be undertaken remotely due to revised working arrangements)</li> <li>• An independent Internal Audit Service (the 'scopes' for audit assignments included in the 2022/23 Audit Plan took into account on-going remote working arrangements / potential risks as a result of the changes following the pandemic).</li> <li>• An independent Corporate Fraud Team (whose work includes completing an Anti-Fraud, Bribery &amp; Corruption Risk Assessment, which helps to target and prioritise areas of activity)</li> <li>• Combining with Others to Prevent and Fight Fraud</li> <li>• Participation in the National Fraud Initiative</li> </ul>



The Anti-Fraud, Bribery & Corruption Strategy provides a clear path for raising concerns and facilitating 'tip-offs', and the fraud response arrangements outlined enables such information or allegations to be properly dealt with and reported.

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.

The governance arrangements detailed above are strategies and policies approved by Elected Members, who, through reports to Governance and Audit committee obtain assurance on the effectiveness of the control environment, receive recommendations on required improvements and updates on actions taken to address required improvements.

In addition, the Head of Internal Audit has produced a Head of Internal Audit Report for 2022/23. At [Governance and Audit Committee in July 2023](#), the Head of Internal Audit Report states:

- *from the work undertaken during the financial year 2022/23 and taking into account other sources of assurance, the Head of Internal Audit's annual opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control for 2022/23 is: "Reasonable Assurance".*
- *based on the work completed by the Regional Internal Audit Shared Service for the financial year no significant cross-cutting control issues have been identified that would impact on the Council's overall control environment. The weaknesses that have been identified are service specific.*

As external auditors, Audit Wales provides updates to full Council and the Governance and Audit Committee to enable elected Members to review and scrutinise its work and also seek assurance from Council Officers that agreed recommendations reported by Audit Wales were being implemented by Council services.

	<p>The Rhondda Cynon Taf Pension Fund produce an Annual Report that sets out the Fund's governance arrangements and compliance with these, this being shared with Audit Wales prior to publication to ensure / determine consistency with the Pension Fund Statement of Accounts. The Annual Report is published on the RCT Pension Fund website.</p> <p>Underpinning the Pension Fund's governance arrangements are a suite of governance documents that are kept under on-going review and updates reported to the Pension Fund Committee at least once per year (with these documents also published on the RCT Pension Fund website - <a href="https://www.rctpensions.org.uk/EN/GovernanceAndInvestment/GovernanceandInvestment.aspx">https://www.rctpensions.org.uk/EN/GovernanceAndInvestment/GovernanceandInvestment.aspx</a> ).</p>
<p>4. Are you aware of any non-compliance with laws and regulations that may be expected to have a fundamental effect on the operations of the Pension Fund?</p>	<p>No</p>
<p>5. How does the Full Council, in its role as those charged with governance, obtain assurance that all relevant laws and regulations have been complied with?</p>	<p>Revised legal and regulatory updates are reported through the Investment and Administration Advisory Panel.</p> <p>The Risk Register (reported to panel, board and committee) identifies the risk of non-compliance with regulatory requirements and details the control measures in place to mitigate the risk of impact and likelihood of occurrence.</p>

	<p>Control measures include:</p> <ul style="list-style-type: none"> <li>• There are sufficient fully trained staff and elected Members of the Pension Fund Committee and Pensions Board (supported by a skills and knowledge framework).</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>• Submission of Annual Pension Scheme Regulator Return.</li> </ul>
<p>6. What is the allocation of responsibilities between those charged with governance and management?</p>	<p>The <a href="#">Council Constitution</a> details responsibilities of Elected Members, being those charged with governance, and Council officers.</p> <p>Specific allocations of responsibilities are detailed in <a href="#">PART 3 (Responsibilities for Functions)</a>.</p> <p>See also response to question 3 (and the electronic link to governance documents) that sets out the governance structure (see in particular the Pension Fund Governance Policy Statement).</p>
<p>7. Are there any matters which those charged with governance consider require particular attention during the audit?</p>	<p>No.</p>

8. How does the Full 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?

Governance arrangements are in place to ensure that a Register of Members Interests is in place and Declarations of Interest are declared and documented at each panel, board and committee meeting.

Independent checks are undertaken by Finance Officers against publicly available national databases to minimise the risk of non disclosure.

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 administering authority.

Additional controls include:

- Gift and Hospitality Policy
- Contract Procedure Rules
- The Anti- Fraud, Bribery and Corruption Strategy.

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

Audit year: 2022-23

Date issued: November 2023

Document reference: 3932A2023

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

Introduction	4
Proposed Audit Opinion	4
Significant issues arising from the audit	4

## Appendices

Appendix 1 – Suggested Letter of Representation	6
Appendix 2 – Proposed Audit Report	9

# Audit of Accounts Report

## Introduction

- 1 We have now completed this year's audit work.
- 2 We summarise the main findings from our audit of your 2022-23 accounts in this report.
- 3 We have already discussed these issues with the relevant officers.
- 4 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.
- 5 We set this level at £42.64 million for this year's audit.
- 6 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, as follows:
  - Related party disclosures: £10,000 for transactions with members of the Pension Board, Committee and Investment Panel, and Rhondda Cynon Taf County Borough Council officers and members.
- 7 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and, our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

## 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 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.
- 10 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 a few minor misstatements in the accounts of a presentational or typographical nature that have now been corrected by management.



- 13 We have also identified some areas where we feel the accounts and associated notes could be improved in terms of presentation and being clearer to the reader of the accounts. We will take these items forward with officers after the conclusion of our audit.

### **Other significant issues arising from the audit**

- 14 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 significant issues arising this year.

# Appendix 1

## Suggested Letter of Representation

Auditor General for Wales  
Wales Audit Office  
1 Capital Quarter,  
Tyndall Street  
Cardiff  
CF10 4BZ

[Date]

### Representations regarding the 2022-23 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 2023 for the purpose of expressing an opinion on their truth and fairness.

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 the Code of Practice on Local Authority Accounting in the United Kingdom 2022-23; 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. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## **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 full Council of Rhondda Cynon Taf on **29 November** 2023.

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.

We have disclosed the identity of all related parties and all the related party relationships and transactions of which we are aware.

Signed by:

Signed by:

Deputy Chief Executive/Group Director –  
Finance, Digital and Frontline Services

**Presiding Officer**

**Date:**

**Date:**

# Appendix 2

## Proposed Audit Report

### **The 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**

#### **Opinion on financial statements**

I have audited the financial statements of Rhondda Cynon Taf Pension Fund for the year ended 31 March 2023 under the Public Audit (Wales) Act 2004.

Rhondda Cynon Taf Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including the 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 2023.

In my opinion, in all material respects, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2023, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with legislative requirements and UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023.

#### **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.

My staff and I are 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 pension fund's Statement of Account other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the pension fund's Statement of Account. 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.

## Opinion on other matters

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

- the information contained in the pension fund's Statement of Account for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

In the light of the knowledge and understanding of the pension fund and its environment obtained in the course of the audit, I have not identified material misstatements in the other information provided in the pension fund's Statement of Account.

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

- I have not received all the information and explanations I require for my audit;
- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my team; or

- the financial statements are not in agreement with the accounting records and returns.

## **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;
- maintaining proper accounting records;
- internal controls 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; and
- assessing the Rhondda Cynon Taf 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 the responsible financial officer anticipates that the services provided by Rhondda Cynon Taf Pension Fund will not continue to be provided in the future.

## **Auditor's responsibilities for the audit of the financial statements**

My responsibility is to audit the financial statements in accordance with the Public Audit (Wales) Act 2004.

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, the pension fund's head of internal audit 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. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, expenditure recognition, posting of unusual journals and (add as appropriate to the audit);
- 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;
- Obtaining an understanding of related party relationships.

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;
- enquiring of management, and legal advisors about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the administering authority; and
- 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.

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team members 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.

## **Other auditor's responsibilities**

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



## **Certificate of completion of audit**

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

Adrian Crompton  
Auditor General for Wales  
30 November 2023

1 Capital Quarter  
Tyndall Street  
Cardiff, CF10 4BZ



Audit Wales  
1 Capital Quarter,  
Tyndall Street  
Cardiff CF10 4BZ

Tel: 029 2032 0500

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 2023-24

**PENSION FUND COMMITTEE  
12<sup>TH</sup> DECEMBER 2023**

**REPORT OF: THE DEPUTY CHIEF  
EXECUTIVE AND GROUP DIRECTOR -  
FINANCE, DIGITAL AND FRONTLINE  
SERVICES**

**AGENDA ITEM NO. 7**

**WALES PENSION  
PARTNERSHIP - UPDATE**

**Author – Barrie Davies, Deputy Chief Executive and Group Director -  
Finance, Digital and Frontline 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 JGC by their Chair (or Vice Chair), with the Committee membership also comprising a co-opted (non-voting) scheme member representative.
- 3.3 The latest meeting of the JGC took place on the 20<sup>th</sup> September 2023. The agenda can be accessed [here](#), which was shared with all Committee (and board) members before the meeting.
- 3.4 At the next JGC meeting to be held on 13<sup>th</sup> December 2023, the following annual policies and papers are to be reviewed (agenda can be accessed [here](#)):

- Host authority update
- WPP Business Plan 2023-24 Q2 review
- WPP Training Policy.
- WPP Sub-fund Rebalancing and Alteration Policy.
- Stock Lending report.
- Operator update.
- Performance reports as at 30<sup>th</sup> September 2023.
- Responsible Investing and Climate Risk reports.
- Quarter 3 2023 engagement report of Robeco, the voting and engagement provide of the WPP.
- Risk Register quarter 3 review.

Next Steps / Priorities:

- Development of the Private Markets Sub-Funds.
  - Launch of the Private equity sub fund.
  - Developing the WPP's Property sub fund.
- Operator contract procurement process.
  - The existing contract comes to an end in December 2024.
  - The procurement process is ongoing.
  - The prior information notice was issued 17<sup>th</sup> January 2023.
  - A market engagement day took place on the 9<sup>th</sup> March 2023.
  - The tender notice was issued 16<sup>th</sup> October 2023 with a response date of 20<sup>th</sup> November 2023.
  - Evaluation days are to be held on 6<sup>th</sup> and 7<sup>th</sup> December 2023.
  - The operator procurement interview / presentation day will take place 30<sup>th</sup> January 2024
  - A report is scheduled to be presented to the JGC to approve the operator appointment March 2024.
  - Each individual Pension Committee will need to approve the appointment March / April 2024.
- Task Force on Climate-Related Financial Disclosures (TCFD) reporting.

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.

\*\*\*\*\*