

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

**2020/21**

DRAFT

## Pension Fund Accounts

<b>Contents</b>	<b>Page</b>
Introduction	2
Statement of Responsibilities for the Pension Fund Accounts	4
Certificate of the Director of Finance and Digital Services	5
Fund Account	6
Net Assets Statement	8
Notes to the Accounts	9
Independent Auditor's Report	25
Glossary of Terms	28

## **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 40 other bodies. Organisations participating in the Fund include:

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

These accounts have been prepared in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting 2020/21 which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. A more detailed Pension Fund Annual Report is available on request from the Director of Finance and Digital Services.

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

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

### **Fund Administration and Investments**

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

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

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

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

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

- Baillie Gifford (Global Equities);
- BlackRock (Passive Low Carbon Equities and Passive Gilts);
- CBRE (Property); and
- Link (Operator of the WPP).

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

### **Wales Pension Partnership (WPP)**

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

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

Positive progress has been made by the WPP in the establishment of four sub-funds for the collective investing of assets. The prospectus for Global High Alpha Equities, comprising of two mandates with differing risk / return characteristics, was approved by the Financial Conduct Authority (FCA) in July 2018. The prospectus for the second sub-fund for UK Equities was approved by the FCA in September 2019. The third sub-fund relating to Fixed Interest, was approved by the FCA in February 2020, with the launch of this fund being July 2020. The fourth sub-fund relates to Emerging Market Equities and was approved by the FCA in March 2021.

## **Statement of Responsibilities for the Pension Fund Accounts**

### **Rhondda Cynon Taf County Borough Council's Responsibilities**

The Council is required:

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

I confirm that these accounts were approved by Council on:

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

**Cllr.**

#### **Presiding Officer**

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

### **The Director of Finance and Digital Services' Responsibilities**

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

In preparing the Pension Fund Accounts, the Director has:


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

The Director has also throughout the financial year:

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

**Certificate of the Director of Finance and Digital Services on the Accounts of Rhondda Cynon Taf Pension Fund for 2020/21**

I certify that the accounts present a true and fair view of the financial position of Rhondda Cynon Taf Pension Fund as at 31<sup>st</sup> March 2021 and its income and expenditure for the year.

Signature:  Date: 02/07/21

**Barrie Davies**

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

DRAFT

**Fund Account**

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

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



**Net Assets Statement**

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

Fixed interest securities are valued "clean", excluding accrued interest. Sterling valuations of securities denominated in foreign currencies are based on closing exchange rates as at 31<sup>st</sup> March 2021.

Pooled Investment Vehicles managed by the WPP are valued using net asset values provided by Link, the WPP operator. These are reported at the closing single price.

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

#### **1.3 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 £ xx m (£1.174m in 2019/20) and the market value of invested AVCs at the Balance Sheet date was £ xx m (£8.010m in 2019/20). There are two AVC providers.

xx Information not available at the time the draft accounts were certified

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

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

## **1.5 Taxation**

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

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

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

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

## **1.6 Derivatives**

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

## **1.7 Cash and Cash Equivalents**

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

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

## **1.8 Contingent Liabilities**

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

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

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

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

## 3.0 **Critical Judgements in Applying Accounting Policies**

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

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

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

<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 draft, unaudited Statement of Accounts was authorised for issue by the Director of Financial and Digital Services, as Chief Finance Officer, on 30<sup>th</sup> June 2021. Events taking place after this date are not reflected in the financial statements or notes.

Where events taking place before this date provide information about conditions existing at 31<sup>st</sup> March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. There are no events that took place after 31<sup>st</sup> March 2021 requiring disclosure providing information that is relevant to an understanding of the Pension Fund's financial position.

## 6.0 Actuarial Position

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

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

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

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

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

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

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

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

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

Assumption	2019 Valuation	2016 Valuation
	% p.a.	% p.a.
Average in service discount rate	4.18%	4.5%
Average left service discount rate	3.79%	4.5%
CPI inflation	2.10%	2.0%
Pensionable Pay increases	3.35%	3.25%
Post-retirement mortality assumption – base table (for retirements in normal health)	S2N heavy tables with best-estimate scaling factors derived from experience analysis combined with postcode analysis	S2P tables with best-estimate scaling factors derived from experience analysis
Post-retirement mortality assumption – future improvements	CMI 2018 projections with Sk=7.5, A=0.0 and long term improvement rate of 1.5% p.a. for men and women	CMI 2014 core projections with long term improvement rate of 1.5% pa for men and women

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

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

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

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

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

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

The actuarial present value of the defined benefit obligation includes an estimated liability in relation to the equalisation and indexation of GMPs beyond the arrangements already formally in place, which apply to members whose State Pension Age (SPA) is between 6<sup>th</sup> April 2016 and 5<sup>th</sup> April 2021 inclusive. Those arrangements require the LGPS to pay pension increases on GMPs at the full rate of CPI for those members, whereas GMP legislation only requires limited price increases to be applied. The additional liability included within the table assumes those arrangements for fully indexing GMPs will be extended to members whose SPA is after 5<sup>th</sup> April 2021. This has increased the defined benefit obligation in the region of 0.1% to 0.2%

### **Cost Management Process**

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

## **7.0 Analysis of Investments at Fair Value**

	2019/20		2020/21	
	£'000	£'000	£'000	£'000
<b>Equities</b>				
Global	722,158		1,192,224	
		<b>722,158</b>		<b>1,192,224</b>
<b>Bonds</b>				
Bonds	896,429		0	
		<b>896,429</b>		<b>0</b>
<b>Pooled funds</b>				
WPP Global Equities	1,270,900		1,867,855	
WPP UK Credit Fund	0		550,961	
Overseas - other	0		0	
		<b>1,270,900</b>		<b>2,418,816</b>
<b>Other Investments</b>				
Pooled UK Gilts	0		372,929	
Pooled Passive Equities	144,462		200,829	

Pooled Property	287,697		282,289	
		<b>432,159</b>		<b>856,047</b>
<b>Total long-term investments</b>		<b>3,321,646</b>		<b>4,467,087</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 2020/21 is £174k.

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

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

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

## 8.0 Fund Manager Asset Allocation

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

Fund Manager	Market Value		Proportion of Fund	
	31/03/2020 £'000	31/03/2021 £'000	31/03/2020 %	31/03/2021 %
Baillie Gifford (Equities)	728,101	1,197,175	21.7	26.6
BlackRock (Passive Low Carbon Equities)	144,528	200,880	4.3	4.5
BlackRock (Passive Gilts)	0	372,929	0.0	8.3
BMOgam (Bonds)	903,811	0	27.0	0.0
CBRE (Property)	290,497	287,956	8.7	6.4
Link (Global Growth)	1,011,978	1,501,146	30.2	33.4
Link (Global Opportunities)	258,922	366,709	7.7	8.2
Link (UK Credit Fund)	0	550,961	0.0	12.3
Internal	12,387	15,651	0.4	0.3
<b>Total</b>	<b>3,350,224</b>	<b>4,493,407</b>	<b>100</b>	<b>100</b>

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



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

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

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

## 9.0 Geographical Spread of the Fund

The Fund Managers invest in shares in a number of countries. The table below shows the value of stocks and shares held by the Fund Managers as at 31<sup>st</sup> March 2021:

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

## 10.0 Contingent Liabilities

There is a contingent liability of £987k (£968k in 2019/20) in respect of refundable contributions for leavers who have not yet claimed refunds.

## 11.0 Reconciliation of Investment Asset Valuation

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

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

Comparative note for 2019/2020:

	Market Value 01/04/19	Purchases	Sales at Historic Book Cost	Change in Market Value	Market Value 31/03/20
	£'000	£'000	£'000	£'000	£'000
Bonds	843,928	270,841	(235,015)	16,675	896,429
Equities	795,421	129,965	(81,374)	(121,854)	722,158
Pooled Global Equities	1,363,745	0	0	(92,845)	1,270,900
Other Pooled Equities	153,737	0	0	(9,275)	144,462
Other Pooled Property	260,851	33,614	(3,362)	(3,406)	287,697
	<b>3,417,682</b>	<b>434,420</b>	<b>(319,751)</b>	<b>(210,705)</b>	<b>3,321,646</b>
Cash Deposits	27,514			69,981	25,423
Investment Debtors	15,440				14,767
Investment Creditors	(3,992)				(11,612)
<b>Total</b>	<b>3,456,644</b>			<b>(140,724)</b>	<b>3,350,224</b>

**12.0 Profits and Losses on Investments**

	<b>2019/20</b>	<b>2020/21</b>
	<b>£'000</b>	<b>£'000</b>
Profit on sales	102,515	169,241
Loss on sales	(41,542)	(19,443)
<b>Net profit / (loss) on sales</b>	<b>60,973</b>	<b>149,798</b>
Change in market value	(201,697)	919,031
<b>Net increase/ (decrease) in value</b>	<b>(140,724)</b>	<b>1,068,829</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	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000	£'000
Administering	9,025	9,671	38,100	33,596	34,967	36,513
Admitted	3,620	3,778	17,109	16,852	16,255	16,501
Scheduled	15,565	16,317	51,718	47,176	80,359	77,968
<b>Total</b>	<b>28,210</b>	<b>29,766</b>	<b>106,927</b>	<b>97,624</b>	<b>131,581</b>	<b>130,982</b>

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

**14.0 Management Expenses**

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

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

Investment management expenses represent 0.29% (0.33% in 2019/20) of the value of the Pension Fund as at 31<sup>st</sup> March 2021.

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

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

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

Comparative note for 2019/20:

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

The Fund incurs no performance related fees.

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

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

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

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

## **15.0 Transactions with Related Parties**

In the course of fulfilling its role as Administering Authority to the Fund, Rhondda Cynon Taf CBC provided services to the Fund for which it charged £1.4m (£1.5m in 2019/20). These costs are mainly in respect of those staff employed in ensuring that the pension service is delivered.

At the year-end, contributions outstanding from the Employing Bodies in the Fund amounted to £6.1m (£6.4m in 2019/20), of which £4.6m related to employer contributions and £1.5m to employee contributions.

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

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

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

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

## **16.0 Membership of the Fund**

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

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

## **17.0 Nature and Extent of Risks Arising From Financial Instruments**

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

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

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

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

### **17.1 Credit Risk**

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

- Counterparties for cash investments made by the Administering Authority must meet the strict credit criteria set out in the Rhondda Cynon Taf CBC Treasury Management Strategy.

- Participating employers may be required to provide a bond to cover the risk to the Fund should they be unable to meet their pension contribution obligations.
- Investment Managers manage funds that are held in the name of the Pension Fund, not in the name of the Investment Managers. In the event of the Investment Manager being unable to fulfil their obligations the Fund's investments will not be considered part of their asset portfolio.

The Pension Fund has had no experience of counterparty default in the last five years. Cash deposits held by the Administering Authority for the Pension Fund as at 31<sup>st</sup> March 2021 amounted to £9.5m with the institution shown in the table below:

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

## **17.2 Liquidity Risk**

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

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

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

## **17.3 Market Risk**

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

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

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

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

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

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

Assuming that all other variables, particularly exchange rates, remain unchanged, a movement in interest rates of 1% for the 2021/22 financial year would have the following effect:

Asset type	31/03/21 Value	Value on increase	Value on decrease
	£'000	£'000	£'000
Pooled Funds UK Credit	550,961	556,471	545,451
Other Pooled - Gilts	372,929	376,658	369,200
Cash deposits & balances	26,320	26,583	26,057
<b>Total</b>	<b>950,210</b>	<b>959,712</b>	<b>940,708</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 8.4% would have the following effect:

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

DRAFT

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

### **Report on the audit of the financial statements**

#### **Opinion**

I have audited the financial statements of Rhondda Cynon Taf Pension Fund for the year ended 31 March 2021 under the Public Audit (Wales) Act 2004. Rhondda Cynon Taf Pension Fund financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2020-2021 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2021, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2020-2021.

#### **Basis for opinion**

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

#### **Conclusions relating to going concern**

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

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

## **Other information**

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

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

## **Report on other requirements**

### **Opinion on other matters**

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

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

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

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

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

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

## **Certificate of completion of audit**

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

## **Responsibilities**

### **Responsibilities of the responsible financial officer for the financial statements**

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

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

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

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

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

Adrian Crompton  
For and on behalf of the Auditor General for Wales  
(Date)

24 Cathedral Road  
Cardiff  
CF11 9LJ

## Glossary of Terms

### **Accrual**

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

### **Active/Passive Management**

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

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

### **Actuary**

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

### **Actuarial Gains and Losses**

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

### **Admitted Body**

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

### **Asset Allocation**

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

### **Attained Age Method**

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

### **Audit**

An audit is an independent examination of activities.

### **Cash and Cash Equivalents**

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

### **Chartered Institute of Public Finance and Accountancy (CIPFA)**

CIPFA is responsible for issuing financial guidance to public bodies.

**Contingent Liabilities or Assets**

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

**Creditor**

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

**Custodian**

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

**Current Assets**

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

**Current Liabilities**

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

**Debtor**

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

**Debt Management Office (DMO)**

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

**Defined Benefit Scheme (Pensions)**

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

**Defined Contribution Scheme (Pensions)**

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

**Derivatives**

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

**Employer Contribution Rates**

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

**Equities**

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

**Fair Value Hierarchy**

Level 1 – Assets and liabilities at level 1 are those where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Assets and liabilities at level 2 are those where quoted market prices are not available.

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

**Financial Assets**

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

**Financial Year**

This is the accounting period. For local authorities it starts on 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.

**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.