

**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**MUNICIPAL YEAR 2017-2018**

**PENSION FUND COMMITTEE**

**24<sup>TH</sup> JULY 2017**

**REPORT OF: THE GROUP DIRECTOR,  
CORPORATE AND FRONTLINE  
SERVICES**

|   | AGENDA ITEM NO.7 |
|---|------------------|
| <p><b>PENSION FUND DRAFT<br/>FINANCIAL STATEMENTS<br/>2016/17</b></p> |                  |

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**1.0 PURPOSE OF REPORT**

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

**2.0 RECOMMENDATIONS**

- 2.1 It is recommended that the Committee :

- 2.1.1 Note the certified draft financial statements of the Pension Fund for the financial year 2016/17.

**3.0 BACKGROUND**

- 3.1 The role of the Pension Fund Committee with regard to the Fund financial statements is set out in the terms of reference, namely :

- Considering the Fund's financial statements as part of the approval process and agreeing the Fund's Annual Report. Receive internal and external audit reports on the same.

**4.0 CONCLUSION**

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

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## **Rhondda Cynon Taf Pension Fund Accounts**

### **Background to the Fund**

The Rhondda Cynon Taf County Borough Council 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.

### **Fund Administration and Investments**

Rhondda Cynon Taf CBC 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 RCT Pension Fund in accordance with its term of reference.

The Group Director Corporate 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 Panel, is chaired by the Group Director Corporate & 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 and 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 six Investment Managers carrying out the actual day-to-day investment management of the Fund's assets:

- Baillie Gifford (Global Equities and High Alpha Equities)
- Newton (High Alpha Equities)
- BlackRock (UK Equities and Passive Equities)
- Invesco (UK Equities)
- BMO Global Asset Management (Bonds)
- CBRE (Property)

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

### **All Wales Pension Fund Investment Pooling**

On the 15<sup>th</sup> March the Council approves 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.

Under the new arrangements Rhondda Cynon Taf CBC and the other administering authorities will retain control over setting their own funds investment strategy and detailed asset allocation. This continues to allow the broad risk and return objectives of the investment strategy to be determined in line with each pension fund's overall funding strategy. Funds will then invest in the Pool through asset Sub-Funds which will be made available by the appointed Pool Operator.

### Fund Account

| 2015/16<br>Restated |   |       | 2016/17  |                  |
|---------------------|---|-------|----------|------------------|
| £'000               |   | Note: | £'000    | £'000            |
|                     |   |       |          |                  |
|                     | <b>Contributions</b>  |       |          |                  |
| (85,799)            | Employer contributions  | 8.0   | (83,216) |                  |
| (25,663)            | Member contributions  | 8.0   | (25,388) |                  |
| <b>(111,462)</b>    |   |       |          | <b>(108,604)</b> |
|                     | <b>Transfers in from other Pension Funds</b>                          |       |          |                  |
| 0                   | Group Transfers in from other schemes or funds                        |       | 0        |                  |
| (4,047)             | Individual Transfers from other schemes or funds                      |       | (3,939)  |                  |
|                     |   |       |          | <b>(3,939)</b>   |
| (9,112)             | <b>Other income</b>   |       | (3,599)  |                  |
|                     |   |       |          | <b>(3,599)</b>   |
| <b>(124,621)</b>    |   |       |          | <b>(116,142)</b> |
|                     | <b>Benefits</b>   |       |          |                  |
| 94,818              | Pensions  |       | 97,391   |                  |
| 24,198              | Commutation of pensions and lump sum retirement benefits              | 8.0   | 18,504   |                  |
| 2,684               | Lump sum death benefits   |       | 2,573    |                  |
| <b>121,700</b>      |   |       |          | <b>118,468</b>   |
|                     | <b>Payments to and on account of leavers</b>                          |       |          |                  |
| 334                 | Refunds to members leaving Scheme or Fund                             |       | 244      |                  |
| 153                 | Payments to members joining State Scheme or Fund                      |       | 101      |                  |
| 6,312               | Group Transfers to other schemes                                      |       | 8,094    |                  |
|                     | Individual transfers to other schemes                                 |       |          |                  |
| 6,799               |   |       |          | <b>8,439</b>     |
| <b>128,499</b>      |   |       |          | <b>126,907</b>   |
| <b>3,878</b>        | Net Addition/(Withdrawals) from Dealings with Members                 |       | 10,765   |                  |
|                     |   |       |          | <b>10,765</b>    |
| 9,718               | Management Expenses   | 9.0   | 11,499   |                  |
|                     |   |       |          | <b>11,499</b>    |
| <b>13,596</b>       | <b>Net Additions/(Withdrawals) Including Fund Management Expenses</b> |       |          |                  |
|                     | <b>Investment income</b>  |       |          |                  |
| (31,142)            | Dividends from equities   |       | (32,203) |                  |
| (23,137)            | Income from bonds   |       | (20,067) |                  |
| 0                   | Income from index-linked securities                                   |       | 0        |                  |
| (2,724)             | Income from pooled investment vehicles                                |       | (2,539)  |                  |
| (5,953)             | Income from pooled property investments                               |       | (7,230)  |                  |
| (93)                | Interest on cash deposits   |       | (38)     |                  |
| <b>(63,049)</b>     |   |       |          | <b>(62,077)</b>  |

*Continued Overleaf...*

|             |   |  |           |             |
|-------------|---|--|-----------|-------------|
| 13,034      | (Profits) and losses on disposal of investments and changes in the value of investments |  | (477,314) |             |
|             |   |  |           | (477,314)   |
| 1,610       | Taxes on income   |  | 744       |             |
|             |   |  |           | 744         |
| (48,405)    | Net Returns on Investments  |  |           | (538,647)   |
|             |   |  |           |             |
| (34,809)    | Net (increase)/decrease in net assets available for benefits during the year            |  |           | (516,383)   |
|             |   |  |           |             |
| (2,448,339) | Opening Net Assets  |  |           | (2,483,148) |
|             |   |  |           |             |
| (2,483,148) | Closing Net Assets  |  |           | (2,999,531) |

### Net Assets Statement

| 31/03/2016<br>Restated |  |       | 31/03/2017 |                  |
|------------------------|--|-------|------------|------------------|
| £'000                  |  | Note: | £'000      | £'000            |
|                        | <b><u>Investment Assets</u></b>  | 4.0   |            |                  |
| 1,412,631              | Equities   |       | 1,823,693  |                  |
| 514,703                | Bonds  |       | 566,144    |                  |
| 59,862                 | Pooled Investment Vehicles - Open Ended investment companies             |       | 81,025     |                  |
| 232,587                | Pooled Investment Vehicles - Managed funds                               |       | 280,565    |                  |
| 162,106                | Pooled Property Investments  |       | 169,498    |                  |
|                        |  |       |            | <b>2,920,925</b> |
| <b>86,063</b>          | <b>Cash deposits</b>   |       |            | <b>63,023</b>    |
|                        | <b>Other investment balances</b>   |       |            |                  |
| 5,753                  | Accrued interest   |       | 6,284      |                  |
| 7,662                  | Investment debtors   |       | 11,113     |                  |
| 2,940                  | Tax recoverable  |       | 2,575      |                  |
|                        |  |       |            | <b>19,972</b>    |
| <b>2,484,307</b>       |  |       |            | <b>3,003,920</b> |
|                        | <b><u>Investment Liabilities</u></b>                                     |       |            |                  |
| <b>(5,828)</b>         | Investment creditors   |       |            | <b>(10,220)</b>  |
|                        |  |       |            |                  |
|                        | <b><u>Current Assets</u></b>   |       |            |                  |
| 5,118                  | Contributions due from employers and employees                           | 10.0  | 5,209      |                  |
| 2,161                  | Cash balances  |       | 3,055      |                  |
| 389                    | Amount owed from RCTCBC  |       | 20         |                  |
| 1,638                  | Other current assets   |       | 1,300      |                  |
|                        |  |       |            | <b>9,584</b>     |
|                        | <b><u>Current Liabilities</u></b>  |       |            |                  |
| <b>(4,637)</b>         | Current liabilities  |       |            | <b>(3,753)</b>   |
|                        |  |       |            |                  |
| <b>2,483,148</b>       | <b>Net assets of the scheme available to fund benefits at period end</b> |       |            | <b>2,999,531</b> |

The accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take into account obligations to pay pensions and benefits which fall due after the end of the scheme year. A summary of the actuarial position of the scheme, which takes account of these obligations, is included in note 4. These accounts should be read in conjunction with the Actuarial Valuation Report.

## **1.0 Introduction**

These accounts have been prepared in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting 2016/17 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 Group Director Corporate & Frontline Services.

## **2.0 Accounting Policies**

### **2.1 Accruals Concept**

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.

### **2.2 Investment Valuation of Financial Instruments**

In terms of "Fair Value", all investments have quoted prices in active markets, with the exception of Pooled Property Funds. Listed securities are valued in accordance with IAS 39 – Financial Instruments, using bid prices as at 31<sup>st</sup> March 2017 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 2017.

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.

### **2.3 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 1998.

The amount of AVCs paid during the year amounted to £1,210k (£1,273k in 2015/16) and the market value of separately invested AVCs at the Balance Sheet date was £8,094k (£6,939k in 2015/16).

### **2.4 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 2016/17 amounted to £0.7m (£0.7m in 2015/16).

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.

## **2.5 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.

## **3.0 Actuarial Position**

The Fund's Actuary, AON Hewitt carried out an actuarial valuation of the Fund as at 31<sup>st</sup> March 2016 in compliance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008. 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 result of the 2016 valuation is shown in the table below.

|                        | 31/03/2016 | 31/03/2013 |
|------------------------|------------|------------|
|                        | £'m        | £'m        |
| Funding Target         | 3,064      | 2,665      |
| Market Value of Assets | 2,485      | 2,080      |
| Funding Deficit        | 579        | 585        |
| Funding Ratio          | 81%        | 78%        |

The aggregate employer future service contribution rate is 17.1% of pensionable pay. To restore the funding ratio to 100% using a recovery period of 22 years the aggregate employer contribution rate is calculated to be 24.3%.

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 6 years. Full 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 below:

|  | 2016 Valuation   | 2013 Valuation   |
|--|--|--|
| Assumption   | % p.a.   | % p.a.   |
| Average in service discount rate                           | 4.5%   | 5.6%   |
| Average left service discount rate                         | 4.5%   | 5.4%   |
| RPI inflation  |  | 3.3%   |
| CPI inflation  | 2.0%   | 2.4%   |
| Pensionable Pay increases                                  | 3.3%   | 3.9%   |
| Post-retirement mortality assumption - base table          | SAPS Normal tables with scaling factors<br>Men 100%<br>Women 100%    | SAPS Normal tables with scaling factors<br>Men 100%<br>Women 95%     |
| Post-retirement mortality assumption - future improvements | CMI 2012 core projections with long-term improvement rate of 1.5% pa | CMI 2012 core projections with long-term improvement rate of 1.5% pa |

The CIPFA Code of Practice on Local Authority Accounting also requires the disclosure of the actuarial present value of promised retirement benefits for the whole fund under IAS 26.

|   | Value as at 31/03/2016 | Value as at 31/03/2013 |
|---|------------------------|------------------------|
|   | £'m                    | £'m                    |
| Fair Value of net assets  | 2,485                  | 2,079                  |
| Actuarial present value of promised retirement benefits         | 3,471                  | 3,200                  |
| Surplus / (deficit) in the Fund as measured for IAS 26 purposes | (985)                  | (1,121)                |

#### 4.0 Analysis of Investments at Fair Value

|                                       | 2015/16   |                  | 2016/17   |                  |
|---------------------------------------|-----------|------------------|-----------|------------------|
|                                       | £'000     | £'000            | £'000     | £'000            |
| <b><u>Equities</u></b>                |           |                  |           |                  |
| UK                                    | 360,050   |                  | 446,452   |                  |
| Overseas                              | 1,052,581 |                  | 1,377,241 |                  |
|                                       |           | <b>1,412,631</b> |           | <b>1,823,693</b> |
| <b><u>Bonds</u></b>                   |           |                  |           |                  |
| UK                                    | 456,709   |                  | 504,792   |                  |
| Overseas                              | 57,994    |                  | 61,352    |                  |
|                                       |           | <b>514,703</b>   |           | <b>566,144</b>   |
| <b><u>Index linked</u></b>            |           |                  |           |                  |
| UK                                    | 0         |                  | 0         |                  |
| Overseas                              | 0         |                  | 0         |                  |
|                                       |           | <b>0</b>         |           | <b>0</b>         |
| <b><u>Pooled funds</u></b>            |           |                  |           |                  |
| UK                                    | 145,808   |                  | 164,456   |                  |
| Overseas - property                   | 146,641   |                  | 197,134   |                  |
|                                       |           | <b>292,449</b>   |           | <b>361,590</b>   |
| <b><u>Pooled funds - property</u></b> |           |                  |           |                  |
| UK – other                            | 153,427   |                  | 162,407   |                  |
| Overseas - other                      | 8,679     |                  | 7,091     |                  |
|                                       |           | <b>162,106</b>   |           | <b>169,498</b>   |
| <b>Total long-term investments</b>    |           | <b>2,381,889</b> |           | <b>2,920,925</b> |

The Fund does not participate in any stock lending arrangements. 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. Bond and pooled property are classified as fair value hierarchy level 2.

## 5.0 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 |                 |
|---------------------------------------|---------------------|---------------------|--------------------|-----------------|
|                                       | 31/03/2016<br>£'000 | 31/03/2017<br>£'000 | 31/03/2016<br>%    | 31/03/2017<br>% |
| Baillie Gifford (Equities)            | 510,410             | 656,126             | 20.7               | 22.0            |
| Baillie Gifford (High Alpha Equities) | 489,916             | 661,065             | 19.9               | 22.2            |
| Newton (High Alpha Equities)          | 404,498             | 493,328             | 16.4               | 16.5            |
| Invesco (UK Equities)                 | 131,535             | 146,034             | 5.3                | 4.9             |
| BlackRock (UK Equities)               | 117,889             | 138,748             | 4.8                | 4.7             |
| L&G (Passive Equities)                | 101,052             | 0                   | 4.1                | 0.0             |
| BlackRock (Passive Equities)          | 0                   | 134,531             | 0.0                | 4.5             |
| BMOgam (Bonds)                        | 531,141             | 572,604             | 21.5               | 19.2            |
| CBRE (Property)                       | 162,530             | 173,373             | 6.6                | 5.8             |
| Internal                              | 18,621              | 7,005               | 0.7                | 0.2             |
| <b>Total</b>                          | <b>2,467,592</b>    | <b>2,982,814</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 4.0 and 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 set by the Pension Fund Investment and Administration Panel. The underlying investments are further diversified by country and industry sector.

Each manager's performance is monitored quarterly by the Pension Fund Investment and Administration Panel 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.

## 6.0 Contingencies

There is a contingent liability of £449k (£375k in 2015/16) in respect of refundable contributions for leavers who have not yet claimed refunds.

## 7.0 Reconciliation of Investment Asset Valuation

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

| Fund Manager                          | Market Value<br>01/04/16 | Purchases        | Sales            | Change in<br>Market Value | Market Value<br>31/03/17 |
|---------------------------------------|--------------------------|------------------|------------------|---------------------------|--------------------------|
|                                       | £'000                    | £'000            | £'000            | £'000                     | £'000                    |
| Baillie Gifford (Equities)            | 495,741                  | 96,606           | (46,093)         | 104,352                   | 650,606                  |
| Baillie Gifford (High Alpha Equities) | 481,339                  | 63,321           | (41,005)         | 147,975                   | 651,630                  |
| Newton (High Alpha Equities)          | 381,514                  | 123,209          | (78,771)         | 43,763                    | 469,715                  |
| Invesco (UK Equities)                 | 131,535                  | 1,726            | 0                | 12,773                    | 146,034                  |
| BlackRock (UK Equities)               | 113,899                  | 13,660           | (10,105)         | 15,383                    | 132,837                  |
| BlackRock (Passive Equities)          | 0                        | 124,238          | 0                | 10,221                    | 134,459                  |
| L&G (Passive Equities)                | 101,052                  | 0                | (79,466)         | (21,586)                  | 0                        |
| BMOgam (Bonds)                        | 514,703                  | 600,274          | (560,234)        | 11,403                    | 566,146                  |
| CBRE (Property)                       | 162,106                  | 20,655           | (24,432)         | 11,169                    | 169,498                  |
| <b>Total</b>                          | <b>2,381,889</b>         | <b>1,043,689</b> | <b>(840,106)</b> | <b>335,453</b>            | <b>2,920,925</b>         |

## 8.0 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 |                |
|---------------|----------------------|---------------|------------------------|---------------|--|----------------|
|               | 2015/16              | 2016/17       | 2015/16                | 2016/17       | 2015/16                                | 2016/17        |
|               | £'000                | £'000         | £'000                  | £'000         | £'000                                  | £'000          |
| Administering | 8,171                | 8,018         | 28,243                 | 28,285        | 33,015                                 | 31,017         |
| Admitted      | 3,281                | 3,376         | 13,814                 | 14,076        | 12,707                                 | 13,654         |
| Scheduled     | 14,211               | 13,994        | 43,742                 | 40,855        | 75,978                                 | 73,797         |
| <b>Total</b>  | <b>25,663</b>        | <b>25,388</b> | <b>85,799</b>          | <b>83,216</b> | <b>121,700</b>                         | <b>118,468</b> |

Included in employer contributions are £8,179k of deficit funding contributions (£10,879k in 2015/16). There are no augmented contributions (£26k in 2015/16).

## 9.0 Management Expenses

The management expenses borne by the Fund in 2016/17 are set out below:

|                                | 2015/16      | 2016/17       |
|--------------------------------|--------------|---------------|
|                                | £'000        | £'000         |
| Administrative Costs           | 1,803        | 1,748         |
| Investment Management Expenses | 7,781        | 9,456         |
| Oversight and Governance Costs | 134          | 295           |
| <b>Total</b>                   | <b>9,718</b> | <b>11,499</b> |

Management Expenses represents 0.33% (0.39% in 2015/16) of the value of the Pension Fund as at 31<sup>st</sup> March. 2017.

The investment management expenses borne by the fund in 2016/17 are set out below:

|                          | 2015/16      | 2016/17      |
|--------------------------|--------------|--------------|
|                          | £'000        | £'000        |
| Management Fees          | 6,073        | 6,479        |
| Performance Related Fees | 856          | 2,033        |
| Custody Fees             | 153          | 264          |
| Transaction Costs        | 699          | 680          |
| <b>Total</b>             | <b>7,781</b> | <b>9,456</b> |

## 10.0 Transactions with Related Parties

In the course of fulfilling its role as administering authority to the Fund, Rhondda Cynon Taf CBC provided services to the Fund for which it charged £1.5m (£1.6m in 2015/16). 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 £5.2m (£5.1m in 2015/16), of which £3.9m related to employer contributions and £1.3m to employee contributions.

There are members of the Pension Fund Investment and Administration Panel and the Pension Fund Board 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 being delegated to the Group Director, Corporate and Frontline Services. As such, the Group Director is required to declare any interests with related parties. The disclosure can be found in the main accounts of Rhondda Cynon Taf County Borough Council.

Officer remuneration and members allowances can be found in the main accounts of Rhondda Cynon Taf County Borough Council.

## 11.0 Membership of the Fund

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

|                        | 2016   | 2017   |
|------------------------|--------|--------|
| Active Employers       | 46     | 49     |
| Contributors           | 25,501 | 23,842 |
| Pensioners             | 15,830 | 16,286 |
| Dependants             | 2,640  | 2,639  |
| Deferred Beneficiaries | 22,358 | 24,632 |

## 12.0 Group Transfers

No material group transfers are recognised in 2016/17. However, the Fund is currently processing inward and outward group transfers. Such transfers are either not material to the financial statements or are in the initial stages of actuarial discussions. Amounts are also due in respect of final settlement of transfers recognised in 2014/15. Estimates are not yet available.

## 13.0 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
- 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.

### 13.1 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 2017 amounted to £3.9m with the institutions shown in the table below.

| Institution                              | Balance at 31/03/17<br>£'000 | Maturity Date |
|--|------------------------------|---------------|
| Debt Management Account Deposit Facility | 3,950                        | 03/04/2017    |
| <b>Total</b>                             | <b>3,950</b>                 |               |

The Treasury Management strategy sets a limit of £15m for cash deposits with individual Local Authorities.

### 13.2 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.

### 13.3 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, State Street, the Fund's custodian, have provided a view of potential market movements for the 2016/17 financial year. The possible impact of movements is shown in the following tables:

| Asset type        | 31/03/17<br>Value | Change<br>% | Value on<br>increase | Value on<br>decrease |
|-------------------|-------------------|-------------|----------------------|----------------------|
|                   | £'000             |             | £'000                | £'000                |
| UK Equities       | 610,908           | 8.6         | 663,446              | 558,370              |
| Overseas Equities | 1,574,375         | 10.21       | 1,735,119            | 1,413,631            |
| Bonds             | 566,144           | 6.77        | 604,472              | 527,816              |
| Property          | 169,498           | 2.46        | 173,668              | 165,328              |
| Cash              | 61,889            | 0.01        | 61,895               | 61,883               |
| <b>Total</b>      | <b>2,982,814</b>  |             | <b>3,238,600</b>     | <b>2,727,028</b>     |

The Fund's interest rate risk is monitored regularly with the advice of the Administering Authority's treasury advisors. Interest rates 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 2016/17 financial year would have the following effect:

| Asset type                | 31/03/17<br>Value | Value on<br>increase | Value on<br>decrease |
|---------------------------|-------------------|----------------------|----------------------|
|                           | £'000             | £'000                | £'000                |
| Fixed interest securities | 566,144           | 571,805              | 560,483              |
| Cash deposits & balances  | 61,889            | 62,508               | 61,270               |
| <b>Total</b>              | <b>628,033</b>    | <b>634,313</b>       | <b>621,753</b>       |

Currency risk is the risk to income and investment asset values from changes in foreign 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 8.64% would have the following effect:

| Asset type               | 31/03/17<br>Value | Value on<br>increase | Value on<br>decrease |
|--------------------------|-------------------|----------------------|----------------------|
|                          | £'000             | £'000                | £'000                |
| Overseas Equities        | 1,574,375         | 1,710,401            | 1,399,147            |
| Overseas Fixed Interest  | 61,352            | 66,653               | 54,524               |
| Overseas Pooled Property | 7,091             | 7,704                | 6,302                |
| <b>Total</b>             | <b>1,642,818</b>  | <b>1,784,758</b>     | <b>1,459,973</b>     |

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