

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2018-2019

PENSION FUND COMMITTEE

24TH JULY 2018

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

	AGENDA ITEM NO.8
PENSION FUND DRAFT FINANCIAL STATEMENTS 2017/18	

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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 2017/18.

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.

Rhondda Cynon Taf Pension Fund Accounts

Background to the Fund

The Rhondda Cynon Taf Pension Fund was established with effect from 1st April 1996, upon the reorganisation of Local Government in Wales under the Local Government Pension Scheme (Local Government Reorganisation in Wales) Regulations, 1995. The Local Government Pension Scheme (LGPS) is open to all employees in Local Government apart from teachers, who have their own scheme. It is also open to employees of other organisations that have been accepted into the Fund.

The Rhondda Cynon Taf Pension Fund provides pension benefits for employees of Rhondda Cynon Taf, Bridgend and Merthyr Tydfil County Borough Councils, together with employees from around 40 other bodies. Organisations participating in the Fund include:

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

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 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 Pensions 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.

Wales Pension Partnership

On the 15th March 2017, the 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 Wales Pension Partnership has appointed Link Fund Solutions Ltd. (Link) to establish and run a collective investment vehicle for the sole use of the LGPS Funds in Wales. This will enable the pooling of assets across a range of asset classes. The LGPS Funds will retain full control over strategic asset allocation decisions.

As at the 31st March 2018 no assets have yet transferred into the new collective investment vehicle.

Fund Account

2016/17			2017/18	
£'000		Note:	£'000	£'000
	Contributions			
(83,216)	Employer contributions	8.0	(93,945)	
(25,388)	Member contributions	8.0	(26,052)	
(108,604)				(119,997)
	Transfers in from other Pension Funds			
0	Group Transfers in from other schemes or funds		(17,545)	
(3,939)	Individual Transfers from other schemes or funds		(4,246)	
				(21,791)
(3,599)	Other income		(2,960)	
				(2,960)
(116,142)				(144,748)
	Benefits			
97,391	Pensions		100,162	
18,504	Commutation of pensions and lump sum retirement benefits		16,736	
2,573	Lump sum death benefits		2,846	
118,468		8.0		119,744
	Payments to and on account of leavers			
244	Refunds to members leaving Scheme or Fund		221	
101	Payments to members joining State Scheme or Fund		37	
0	Group Transfers to other schemes		1,088	
8,094	Individual transfers to other schemes		6,680	
8,439				8,026
126,907				127,770
10,765	Net Addition/(Withdrawals) from Dealings with Members		(16,978)	
				(16,978)
11,499	Management Expenses	9.0	10,779	
				10,779
22,264	Net Additions/(Withdrawals) Including Fund Management Expenses			(6,199)
	Investment income			
(32,203)	Dividends from equities		(36,566)	
(20,067)	Income from bonds		(20,128)	
(2,539)	Income from pooled investment vehicles		(2,944)	
(7,230)	Income from pooled property investments		(6,541)	
(38)	Interest on cash deposits		(41)	
(62,077)				(66,220)
			Continued Overleaf...	

(477,314)	(Profits) and losses on disposal of investments and changes in the value of investments		(135,030)	
				(135,030)
744	Taxes on income		886	
				886
(538,647)	Net Returns on Investments			(200,364)
(516,383)	Net (increase)/decrease in net assets available for benefits during the year			(206,563)
(2,483,148)	Opening Net Assets			(2,999,531)
(2,999,531)	Closing Net Assets			(3,206,094)

Net Assets Statement

31/03/2017			31/03/2018	
£'000		Note:	£'000	£'000
	<u>Investment Assets</u>	4.0		
1,823,693	Equities		1,973,190	
566,144	Bonds		581,747	
81,025	Pooled Investment Vehicles - Open Ended investment companies		117,649	
280,565	Pooled Investment Vehicles - Managed funds		276,219	
169,498	Pooled Property Investments		167,831	
2,920,925				3,116,636
	Cash deposits			80,192
	Other investment balances			
6,284	Accrued interest		6,331	
11,113	Investment debtors		7,093	
2,575	Tax recoverable		1,871	
19,972				15,295
3,003,920				3,212,123
	Investment Liabilities			
(10,220)	Investment creditors			(8,498)
2,993,700	Net Investment Assets			3,203,625
	<u>Current Assets</u>			
5,209	Contributions due from employers and employees	10.0	5,750	
3,055	Cash balances		0	
20	Amount owed from RCTCBC		0	
1,300	Other current assets		479	
9,584				6,229
	<u>Current Liabilities</u>			
(3,753)	Current liabilities			(3,760)
2,999,531	Net assets of the scheme available to fund benefits at period end			3,206,094

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 3. 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 2017/18 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 31st March 2018 obtained from recognised Stock Exchanges. Fixed interest securities are valued "clean", excluding accrued interest. Sterling valuations of securities denominated in foreign currencies are based on closing exchange rates as at 31st March 2018.

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 2016.

The amount of AVCs paid during the year amounted to £1,245k (£1,210k in 2016/17) and the market value of separately invested AVCs at the Balance Sheet date was £7,604k (£8,094k in 2016/17).

There are two AVC providers, one of which was only able to provide interim figures.

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 2017/18 amounted to £0.7m (£0.7m in 2016/17).

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 31st March 2016 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 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 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	2016 Valuation	2013 Valuation
	% p.a.	% p.a.
Average in service discount rate	4.5%	5.6%
Average left service discount rate	4.5%	5.6%
RPI inflation	3.1%	3.3%
CPI inflation	2.0%	2.4%
Pensionable Pay increases	3.25%	3.9%
Post-retirement mortality assumption - base table	SAPS Normal tables with scaling factors Men 100% Women 100%	SAPS Normal tables with scaling factors Men 100% Women 95%
Post-retirement mortality assumption - future improvements	CMI 2014 core projections with long-term improvement rate of 1.5% pa	CMI 2012 core projections with long-term improvement rate of 1.5% pa

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

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

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

	Value as at 31/03/2016	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)

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2016 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

4.0 Analysis of Investments at Fair Value

	2016/17		2017/18	
	£'000	£'000	£'000	£'000
<u>Equities</u>				
UK	446,452		473,325	
Overseas	1,377,241		1,499,865	
		1,823,693		1,973,190
<u>Bonds</u>				
UK	504,792		552,838	
Overseas	61,352		28,909	
		566,144		581,747
<u>Index linked</u>				
UK	0		0	
Overseas	0		0	
		0		0
<u>Pooled funds</u>				
UK	164,456		156,755	
Overseas - other	197,134		237,113	
		361,590		393,868
<u>Pooled funds - property</u>				
UK – other	162,407		165,342	
Overseas - other	7,091		2,489	
		169,498		167,831
Total long-term investments		2,920,925		3,116,636

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	
	31/03/2017 £'000	31/03/2018 £'000	31/03/2017 %	31/03/2018 %
Baillie Gifford (Equities)	656,126	734,706	22.0	22.9
Baillie Gifford (High Alpha Equities)	661,065	748,744	22.2	23.4
Newton (High Alpha Equities)	493,328	502,347	16.5	15.7
Invesco (UK Equities)	146,034	137,544	4.9	4.3
BlackRock (UK Equities)	138,748	139,837	4.7	4.4
BlackRock (Passive Equities)	134,531	138,755	4.5	4.3
BMOgam (Bonds)	573,558	589,971	19.2	18.4
CBRE (Property)	173,373	174,860	5.8	5.4
Internal	7,005	36,861	0.2	1.2
Total	2,983,768	3,203,625	100	100

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

The market value of investments shown in this table includes short-term investments such as cash balances and money deposits, and so differs from the total of long-term investments only, as shown in note 4.0.

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.

6.0 Contingencies

There is a contingent liability of £555k (£449k in 2016/17) 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.

	Market Value 01/04/17	Purchases	Sales at Historic Book Cost	Change in Market Value	Market Value 31/03/18
	£'000	£'000	£'000	£'000	£'000
Bonds	566,144	575,712	(540,066)	(20,043)	581,747
Equities	1,823,693	399,348	(247,229)	(2,622)	1,973,190
Pooled Investments	361,590	27,061	(428)	5,645	393,868
Pooled Property	169,498	9,134	(21,846)	11,045	167,831
	2,920,925	1,011,255	(809,569)	(5,975)	3,116,636
Cash Deposits	63,023			141,005	80,192
Investment Debtors	19,972				15,295
Investment Creditors	(10,220)				(8,498)
Total	2,993,700			135,030	3,203,625

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	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
	£'000	£'000	£'000	£'000	£'000	£'000
Administering	8,018	8,197	28,285	33,402	31,017	31,034
Admitted	3,376	3,442	14,076	13,907	13,654	13,776
Scheduled	13,994	14,413	40,855	46,636	73,797	74,934
Total	25,388	26,052	83,216	93,945	118,468	119,744

Included in employer contributions are £9,649k of deficit funding contributions (£8,179k in 2016/17). There are no augmented contributions.

9.0 Management Expenses

The management expenses borne by the Fund in 2017/18 are set out below:

	2016/17	2017/18
	£'000	£'000
Administrative Costs	1,748	1,828
Investment Management Expenses	9,456	8,642
Oversight and Governance Costs	295	309
Total	11,499	10,779

Management Expenses represents 0.27% (0.33% in 2016/17) of the value of the Pension Fund as at 31st March. 2018.

The investment management expenses borne by the fund in 2017/18 are set out below:

	2016/17	2017/18
	£'000	£'000
Management Fees	6,479	6,265
Performance Related Fees	2,033	1,452
Custody Fees	264	201
Transaction Costs	680	724
Total	9,456	8,642

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 £1.6m (£1.5m in 2016/17). 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 £5.8m (£5.2m in 2016/17), of which £4.4m related to employer contributions and £1.4m to employee contributions.

There are members of the Pension Fund Investment and Administration 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 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 31st March is as follows:

	2017	2018
Active Employers	49	49
Contributors	23,918	24,109
Pensioners	16,315	16,609
Dependants	2,640	2,653
Deferred Beneficiaries	24,641	25,956

12.0 Group Transfers

The Fund transferred £1.1m to Cardiff and Vale of Glamorgan Pension Fund in respect of the Glamorgan Record Office.

The Fund received £7.8m from Greater Gwent (Torfaen) Pension Fund in respect of the University of South Wales and also £9.7m from Cardiff and Vale of Glamorgan Pension Fund in respect of Central South Consortium Joint Education Services.

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 31st March 2018 amounted to £30.8m with the institutions shown in the table below.

Institution	Balance at 31/03/18 £'000	Maturity Date
Stockport Council	2,200	03/04/2018
Debt Management Office	3,300	04/04/2018
Wakefield Metropolitan District Council	5,000	05/04/2018
Debt Management Office	5,000	06/04/2018
Office of the Police and Crime Commissioner for Humberside Police	4,000	09/04/2018
Debt Management Office	5,000	10/04/2018
Bournemouth Council	1,000	11/04/2018
Debt Management Office	5,330	11/04/2018
Total	30,830	

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 2017/18 financial year. The possible impact of movements is shown in the following table:

Asset type	31/03/18 Value	Change %	Value on increase	Value on decrease
	£'000		£'000	£'000
Core Equity Mandate	873,461	9.41	955,654	791,268
Global Equity Mandate	1,251,091	9.71	1,372,572	1,129,610
UK Equity Mandate	277,381	8.73	301,596	253,166
Bond Mandate	589,971	5.67	623,422	556,520
Property Mandate	174,860	2.43	179,109	170,611
Internal Mandate	36,861	0	36,861	36,861
Total	3,203,625		3,469,214	2,938,036

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 2017/18 financial year would have the following effect:

Asset type	31/03/18 Value	Value on increase	Value on decrease
	£'000	£'000	£'000
Bond securities	581,747	587,564	575,930
Cash deposits & balances	86,989	87,859	86,119
Total	668,736	675,423	662,049

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 9.8% would have the following effect:

Asset type	31/03/18 Value	Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas Equities	1,736,978	1,907,202	1,566,754
Overseas Bonds	28,909	31,742	26,076
Overseas Pooled Property	2,489	2,733	2,245
Total	1,768,376	1,941,677	1,595,075

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 2018 under the Public Audit (Wales) Act 2004. Rhondda Cynon Taf Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including 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 2017-2018 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 31st March 2018, 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 2017-18.

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 annual report. The other information comprises the information included in the annual report 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 annual report for the financial year for which the financial statements are prepared is consistent with the financial statements and the annual report has been prepared in accordance with the Local Government Pension Scheme Regulations 2013.

Matters on which I report by exception

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

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 page 15], 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. This description forms part of my auditor's report.

Anthony J Barrett
For and on behalf of the Auditor General for Wales
[Date]

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