

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2019-2020

PENSION FUND COMMITTEE

22ND JULY 2019

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

	AGENDA ITEM NO.7
PENSION FUND DRAFT FINANCIAL STATEMENTS 2018/19	

**Author – Barrie Davies, Director of Finance and Digital Services (01443)
424026**

1.0 PURPOSE OF REPORT

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

2.0 RECOMMENDATIONS

- 2.1 It is recommended that the Committee :

2.1.1 Note the certified draft financial statements of the Pension Fund for the financial year 2018/19.

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 receiving the Fund's Annual Report. Receive internal and external audit reports on the same.
- 3.2 The draft, certified Pension Fund accounts for financial year 2018/19 are attached at Appendix 1.
- 3.3 The audit process is progressing and the final audited accounts are scheduled to be presented to the Council meeting on the 31st July 2019.

They will also be presented to the next meeting of the Pension Fund Committee.

4.0 CONCLUSION

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

**Rhondda Cynon Taf Pension Fund
Statement of Accounts**

2018/19

DRAFT – SUBJECT TO AUDIT

Pension Fund Accounts

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Rhondda Cynon Taf Pension Fund Accounts

Introduction

The Rhondda Cynon Taf Pension Fund was established with effect from 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.

These accounts have been prepared in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting 2018/19 which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. A more detailed Pension Fund Annual Report is available on request from the Director of Finance and Digital Services.

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

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

Fund Administration and Investments

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

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

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

The Pension Fund Investment and Administration Advisory Panel, is chaired by the Director of Finance and Digital Services, 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 four 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 Equities);
- BMO Global Asset Management (Bonds);
- 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 15th 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 will have sub-funds in a range of asset classes that will meet the needs of the LGPS funds in Wales, to allow them to execute their differing asset allocation strategies. The LGPS funds will retain full control over strategic asset allocation decisions.

Positive progress has been made by the WPP in the establishment of the first two sub funds for the collective investing of assets. The prospectus for Global High Alpha Equities, comprising 2 sub funds with differing risk / return characteristics, was approved by the Financial Conduct Authority (FCA) (July 2018), and transition into these sub funds was completed during January 2019. The proposals for the second sub fund for UK and European Equities was agreed by the Joint Governance Committee in September 2018 and has recently been approved by the FCA. The third phase relates to Fixed Interest with options in the process of being reviewed.

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. Steve Powderhill

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 2018/19

I certify that the accounts present a true and fair view of the financial position of Rhondda Cynon Taf Pension Fund as at 31st March 2019 and its income and expenditure for the year.

Signature:  Date: 31 MAY 2019.

Barrie Davies

Director of Finance and Digital Services
Rhondda Cynon Taf County Borough Council
Bronwydd House
Porth
CF39 9DL

Fund Account

2017/18			2018/19	
£'000		Note:	£'000	£'000
	Contributions			
(93,945)	Employer contributions	14.0	(98,732)	
(26,052)	Member contributions	14.0	(26,779)	
(119,997)				(125,511)
	Transfers in from other Pension Funds			
(17,545)	Group transfers in from other schemes or funds		(3,433)	
(4,246)	Individual transfers from other schemes or funds		(1,872)	
				(5,305)
(2,960)	Other income		(5,141)	
				(5,141)
(144,748)				(135,957)
	Benefits			
100,162	Pensions	14.0	105,653	
16,736	Commutation of pensions and lump sum retirement benefits	14.0	20,068	
2,846	Lump sum death benefits	14.0	2,972	
119,744				128,693
	Payments to and on account of leavers			
221	Refunds to members leaving scheme or fund		305	
37	Payments for members joining state scheme or fund		9	
1,088	Group transfers to other schemes or funds	18.0	5,168	
6,680	Individual transfers to other schemes or funds		9,111	
8,026				14,593
127,770				143,286
(16,978)	Net (addition)/withdrawals from dealings with members		7,329	
				7,329
10,779	Management expenses	15.0	11,039	
				11,039
(6,199)	Net (additions)/withdrawals including fund management expenses			18,368
	Investment income			
(36,566)	Dividends from equities		(34,687)	
(20,128)	Income from bonds		(24,111)	
(2,944)	Income from pooled investment vehicles		(2,168)	
(6,541)	Income from pooled property investments		(5,942)	
(41)	Interest on cash deposits		(160)	
(66,220)				(67,068)
			Continued Overleaf...	

(135,030)	(Profits) and losses on disposal of investments and changes in the value of investments		(204,694)	
				(204,694)
886	Taxes on income		853	
				853
(200,364)	Net returns on investments			(270,909)
(206,563)	Net (increase)/decrease in net assets available for benefits during the year			(252,541)
(2,999,531)	Opening net assets			(3,206,094)
(3,206,094)	Closing net assets			(3,458,635)

Net Assets Statement

31/03/2018			31/03/2019	
£'000		Note:	£'000	£'000
	Investment Assets	8.0		
1,973,190	Equities		676,076	
581,747	Bonds		843,928	
117,649	Pooled investment vehicles - open ended investment companies		273,082	
276,219	Pooled investment vehicles - managed funds		1,363,745	
167,831	Pooled property investments		260,851	
3,116,636				3,417,682
80,192	Cash deposits			29,911
	Other investment balances			
6,331	Accrued interest		7,229	
7,093	Investment debtors		6,323	
1,871	Tax recoverable		1,887	
15,295				15,439
3,212,123				3,463,032
	Investment Liabilities			
(8,498)	Investment creditors			(3,991)
0	Derivative contracts			(2,397)
3,203,625	Net Investment Assets			3,456,644
	Current Assets			
5,750	Contributions due from employers and employees	17.0	6,116	
479	Other current assets		458	
6,229				6,574
	Current Liabilities			
(3,760)	Current liabilities			(4,583)
	Net assets of the scheme available to fund benefits at period end			
3,206,094				3,458,635

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 7. These accounts should be read in conjunction with the Actuarial Valuation Report.

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 31st March 2019 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 2019.

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

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

1.3 Additional Voluntary Contributions (AVCs)

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

The amount of AVCs paid by members during the year amounted to £1,230k (£1,245k in 2017/18) and the market value of separately invested AVCs at the Balance Sheet date was £8,169k (£7,604k in 2017/18). There are two AVC providers.

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 2018/19 amounted to £1.74m (£0.7m in 2017/18).

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 uses derivative financial instruments to manage exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. The use of derivatives is managed in line with the investment agreement between the Fund and Investment Manager. Derivatives are held on the Net Asset Statement as assets or liabilities dependant upon the position as at 31st March 2019.

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 asset 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

Standards that have been issued but not yet adopted, which may require disclosure in 2018/19 accounts, are anticipated to be listed in Appendix C of the 2019/20 Code when it is published. In the interim potentially relevant standards include:

- Amendments to IAS 40 Investment Property: Transfers of Investment Property;
- Annual Improvements to IFRS Standards 2014-2016 Cycle;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- IFRIC 23 Uncertainty over Income Tax Treatments; and
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation.

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 and in accordance with IAS19. 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 contains estimated figures based on assumptions made taking into account historical experience, current trends and other factors. As balances cannot be determined with certainty, actual costs could be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
Actual 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	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

	regarding the assumptions to be used.	increase the value of the liabilities.
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5.0 Material Items of Income and Expenditure

The Pension Fund transitioned assets in its high alpha equity mandates into the WPP collective investment vehicle during January 2019. Net profits realised in this transition amounted to £358.15m.

6.0 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 31st May 2019. 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 31st March 2019, 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 31st March 2019 requiring disclosure providing information that is relevant to an understanding of the Pension Fund's financial position.

7.0 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 results of the 2013 and 2016 valuations are 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.

8.0 Analysis of Investments at Fair Value

	2017/18		2018/19	
	£'000	£'000	£'000	£'000
Equities				
UK	473,325		279,594	
Overseas	1,499,865		396,482	
		1,973,190		676,076
Bonds				
UK	552,838		767,811	
Overseas	28,909		76,117	
		581,747		843,928
Pooled funds				
UK	156,755		19,189	
WPP Global Equities	0		1,363,745	
Overseas - other	237,113		253,893	
		393,868		1,636,827
Pooled funds - property				
UK – other	165,342		260,292	
Overseas - other	2,489		559	
		167,831		260,851
Total long-term investments		3,116,636		3,417,682

The Fund has not participated in any stock lending arrangements during the year but did agree to do so in the future.

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.

The Pension Fund holds derivative contracts which are valued as a liability in the Net Asset Statement as at 31st March 2019.

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, pooled investments within the WPP and derivative contracts are classified as fair value hierarchy level 2.

9.0 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	
	31/03/2018	31/03/2019	31/03/2018	31/03/2019
	£'000	£'000	%	%
Baillie Gifford (Global Equities)	734,706	799,135	22.9	23.2
Baillie Gifford (High Alpha Equities)	748,744	0	23.4	0.0
Newton (High Alpha Equities)	502,347	0	15.7	0.0
Invesco (UK Equities)	137,544	0	4.3	0.0
BlackRock (UK Equities)	139,837	0	4.4	0.0
BlackRock (Passive Equities)	138,755	153,809	4.3	4.4
BMOGAM (Bonds)	589,971	857,306	18.4	24.8
CBRE (Property)	174,860	263,792	5.4	7.6
Link (Operator of WPP)	0	1,363,745	0.0	39.5
Internally Managed	36,861	18,857	1.2	0.5
Total	3,203,625	3,456,644	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 8.0.

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.

10.0 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 31st March 2019:

Area	£'000	%
UK Equities	298,783	8.7%
European Equities	173,961	5.0%
US and Canadian Equities	266,310	7.7%
Japanese Equities	11,988	0.3%
Pacific Equities	79,312	2.3%
Other International Equities	118,804	3.4%
Global Pooled Equities	1,363,745	39.5%
Bonds	843,928	24.4%
Property	260,851	7.6%
Cash & Equivalents	38,962	1.1%
Total	3,456,644	100%

11.0 Contingencies

There is a contingent liability of £836k (£555k in 2017/18) in respect of refundable contributions for leavers who have not yet claimed refunds.

The Fund Account and Net Asset Statement does not include the potential impact of:

- McCloud judgement;
- Cost management process; and
- GMP equalisation and indexation, beyond indexation for members reaching State Pension Age before 5th December 2018.

Legislation requires HM Treasury and the Scheme Advisory Board (SAB) to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. This is referred to as the "Cost Management Process". HM Treasury and the SAB have paused their reviews following the "McCloud" judgement in the Court of Appeal which found that the transitional protection arrangements put in place when firefighters' and judges' pension schemes were reformed were age discriminatory. This potentially could have implications for other public sector schemes that were reformed around the same time (including the LGPS) and could potentially lead to members deemed to be discriminated against being compensated. The Government has appealed to the Supreme Court for permission to appeal this judgement.

Due to the uncertainty of the conclusion of the legal process and also the uncertainty of how members of the LGPS could be compensated, no provision has been made.

The Cost Management Process will not recommence until the final outcome of the McCloud judgement is known. Therefore no allowance has been made in the disclosures for the outcome of this process.

On 26th October 2018, the High Court ruled in the case of Lloyds Bank that equalisation for the effect of unequal Guaranteed Minimum Pensions (GMPs) is required. The ruling confirmed that trustees have a duty “to equalise benefits for men and women”. HM Treasury have stated that “public sector schemes already have a method to equalise GMP benefits, which is why we will not have to change our method as a result of this judgement”.

No amounts are recognised in the financial statements as it is not probable that an outflow of resources will be required for the above issues and neither can the potential obligation be measured with sufficient reliability.

12.0 Reconciliation of Investment Asset Valuation

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

	Market Value 01/04/18	Purchases	Sales at Historic Book Cost	Change in Market Value	Market Value 31/03/19
	£'000	£'000	£'000	£'000	£'000
Bonds	581,747	596,804	(346,770)	12,147	843,928
Equities	1,973,190	285,107	(1,126,241)	(455,980)	676,076
Pooled Investments	393,868	1,295,035	(87,646)	35,570	1,636,827
Pooled Property	167,831	93,809	(9,530)	8,741	260,851
	3,116,636	2,270,755	(1,570,187)	(399,522)	3,417,682
Cash Deposits	80,192			604,216	27,514
Investment Debtors	15,295				15,440
Investment Creditors	(8,498)				(3,992)
Total	3,203,625			204,694	3,456,644

Comparative note for 2017/2018:

	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

13.0 Profits and Losses on Investments

	2017/18	2018/19
	£'000	£'000
Profit on sales	176,900	657,501
Loss on sales	(35,942)	(51,788)
Net profit / (loss) on sales	140,958	605,713
Change in market value	(5,928)	(401,019)
Net increase/ (decrease) in value	135,030	204,694

14.0 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	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000	£'000
Administering	8,197	8,480	33,402	35,181	31,034	35,904
Admitted	3,442	3,518	13,907	15,078	13,776	13,706
Scheduled	14,413	14,781	46,636	48,473	74,934	79,083
Total	26,052	26,779	93,945	98,732	119,744	128,693

Included in employer contributions are £9,790k of deficit funding contributions (£9,649k in 2017/18). There are no augmented contributions.

15.0 Management Expenses

The management expenses borne by the Fund in 2018/19 are set out below:

	2017/18	2018/19
	£'000	£'000
Administrative Costs	1,828	1,839
Investment Management Expenses	8,642	8,973
Oversight and Governance Costs	309	227
Total	10,779	11,039

Investment management expenses represent 0.26% (0.27% in 2017/18) of the value of the Pension Fund as at 31st March 2019.

2018/19 Audit Fees of £39k are included in Oversight and Governance Costs (£39k in 2017/18).

The Investment management expenses borne by the Fund in 2018/19 are set out below:

	2017/18	2018/19
	£'000	£'000
Management Fees	6,265	6,843
Performance Related Fees	1,452	0
Custody Fees	201	390
Transaction Costs	724	1,740
Total	8,642	8,973

In addition to these costs, indirect costs are incurred. These are reflected in the net asset value (NAV) of the pooled units. Transition costs of moving from the segregated high alpha equity managers into the WPP during January 2019 amounted to £5,443k, 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:

	2017/18	2018/19
	£'000	£'000
WPP Oversight and Governance Costs		
Set up Costs	78	33
Host Authority Costs	0	20
WPP Investment Management Expenses		
Fund Manager Fees	0	733
Custody Fees	0	114
Total	78	900

16.0 Transactions with Related Parties

In the course of fulfilling its role as Administering Authority to the Fund, Rhondda Cynon Taf CBC provided services to the Fund for which it charged £1.6m (£1.6m in 2017/18). 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 (£5.8m in 2017/18), of which £4.7m 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 up to 10th March 2019 and from 11th March 2019, delegated to the Director of Finance and Digital Services. As such, the postholders 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.

17.0 Membership of the Fund

Fund membership at 31st March is as follows:

	2018	2019
Active Employers	49	49
Contributors	24,109	23,329
Pensioners	16,609	17,025
Dependants	2,653	2,679
Deferred Beneficiaries	25,956	27,104

18.0 Group Transfers

The Fund transferred £5.2m to Cardiff and Vale of Glamorgan Pension Fund in respect of regional regulatory joint working.

19.0 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.

19.1 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 2019 amounted to £12.6m with the institutions shown in the table below:

Institution	Balance at 31/03/19 £'000	Maturity Date
Shropshire Council	4,840	01/04/2019
London Borough of Sutton	4,000	02/04/2019
Debt Management Office	1,830	02/04/2019
City of Coventry	1,920	03/04/2019
Total	12,590	

19.2 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.

19.3 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 2018/19 financial year. The possible impact of movements is shown in the following table:

Asset type	31/03/19	Change	Value on	Value on
	Value		increase	decrease
	£'000	%	£'000	£'000
Core Equity Mandate	952,944	9.8	1,046,333	859,555
Global Equity Mandate	1,363,745	9.8	1,497,392	1,230,098
Bond Mandate	857,306	5.5	904,458	810,154
Property Mandate	263,792	2.5	270,387	257,197
Internal Mandate	18,857	0.3	18,914	18,800
Total	3,456,644	7.4	3,712,436	3,200,852

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 2018/19 financial year would have the following effect:

Asset type	31/03/19	Value on	Value on
	Value	increase	decrease
	£'000	£'000	£'000
Bond securities	843,928	852,367	835,489
Cash deposits & balances	38,962	39,352	38,572
Total	882,890	891,719	874,061

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 8.8% would have the following effect:

Asset type	31/03/19	Value on	Value on
	Value	increase	decrease
	£'000	£'000	£'000
Overseas Equities	650,375	707,608	593,142
Overseas Bonds	76,117	82,815	69,419
Overseas Pooled Property	559	608	510
Total	727,051	791,031	663,071

The independent auditor's report of the Auditor General for Wales to the Members of Rhondda Cynon Taf Pension Fund Accounts

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 2019 under Public Audit (Wales) Act 2004.

Rhondda Cynon Taf Pension Fund financial statements comprise the Fund Account, the Net Asset 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 2018-19 based on International Financial Reporting Standards (IFRSs)

In my opinion the financial statements:

- give a true and fair view of the financial position of Rhondda Cynon Taf Pension Fund as at 31 March 2019 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom in 2018-19.

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 Rhondda Cynon Taf 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 Rhondda Cynon Taf 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 and accounts. 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 later 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

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

- proper 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 Statement of Accounts [set out on page 4], the responsible financial officer is responsible for the preparation of the statement of accounts, 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 statements of accounts that are free from material misstatement, whether due to fraud or error. In preparing the statement of accounts, 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]

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 1st April and finishes on 31st 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.

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.

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.

Scheme Employers

Local authorities and bodies specified in the LGPS Regulations, whose employees are entitled automatically to be members of the Fund and Admission Bodies including voluntary, charitable and similar bodies, carrying out work of a public nature, whose staff can become members of the Fund by virtue of an admission agreement with the Council.

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.