

**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**MUNICIPAL YEAR 2020-2021**

**PENSION FUND COMMITTEE**

**14<sup>th</sup> DECEMBER 2020**

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

<b>AGENDA ITEM NO. 8</b>
<b>PENSION FUND AUDITED FINANCIAL STATEMENTS 2019/20</b>

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424026**

**1.0 PURPOSE OF REPORT**

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

**2.0 RECOMMENDATIONS**

- 2.1 It is recommended that the Committee :
- 2.1.1 Note the audited financial statements of the Pension Fund for the financial year 2019/20.

**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.
- 3.2 For the Committee's information, the Pension Fund Accounts (Appendix 1) were reported to and approved by full Council on 25<sup>th</sup> November 2020 and the outcome of the external audit, undertaken by Audit Wales, was an unqualified audit opinion (i.e. a clean audit opinion) and is included at Appendix 2.

#### **4.0 CONCLUSION**

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

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

**2019/20**

## 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 1<sup>st</sup> April 1996, upon the reorganisation of Local Government in Wales under the Local Government Pension Scheme (Local Government Reorganisation in Wales) Regulations, 1995. The Local Government Pension Scheme (LGPS) is open to all employees in Local Government apart from teachers, who have their own scheme. It is also open to employees of other organisations that have been accepted into the Fund.

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

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

These accounts have been prepared in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting 2019/20 which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. A more detailed Pension Fund Annual Report is available on request from the Director of Finance and Digital Services.

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

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

### **Fund Administration and Investments**

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

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

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

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

The Panel meets quarterly to consider both administration and investment issues, to determine policy in light of market movements and to question and challenge the Investment Managers on their activities and performance. At the Net Assets Statement date there were 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 15<sup>th</sup> March 2017 Council approved the establishment of a Joint Governance Committee to oversee the pooling of the investments of the eight Local Government Pension Scheme (LGPS) funds in Wales. The link to the report can be found here: [All Wales Pension Fund Investment pooling-joint Governance Committee and Inter Authority Agreement.](#)

Link Fund Solutions Ltd (Link) have established an Authorised Contractual Scheme (ACS) (a tax efficient UK collective investment vehicle) on behalf of the WPP. The ACS 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 three sub funds for the collective investing of assets. The prospectus for Global High Alpha Equities, comprising two sub funds with differing risk / return characteristics, was approved by the Financial Conduct Authority (FCA) in July 2018. The prospectus for the second sub fund for UK Equities was approved by the FCA in September 2019. The third sub-fund relates to Fixed Interest and was approved by the FCA in February 2020. Assets were transitioned into the third sub-fund during July 2020.

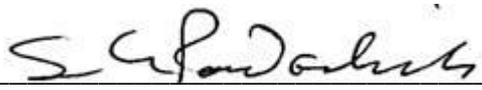
## **Statement of Responsibilities for the Pension Fund Accounts**

### **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: 25/11/20

#### **Presiding Officer**

Rhondda Cynon Taf County Borough Council  
The Pavilions, Cambrian Park  
Clydach Vale  
Tonypandy  
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 2019/20**

I certify that the accounts present a true and fair view of the financial position of Rhondda Cynon Taf Pension Fund as at 31<sup>st</sup> March 2020 and its income and expenditure for the year.

Signature:  Date: 25/11/20

**Barrie Davies**

**Director of Finance and Digital Services**

Rhondda Cynon Taf County Borough Council

Oldway House

Porth

CF39 9ST

**Fund Account**

2018/19			2019/20	
£'000		Note:	£'000	£'000
	<b>Contributions</b>			
(98,732)	Employer contributions	13.0	(106,927)	
(26,779)	Member contributions	13.0	(28,210)	
<b>(125,511)</b>				<b>(135,137)</b>
	<b>Transfers in from other Pension Funds</b>			
(3,433)	Group transfers in from other scheme or funds		(4,243)	
(1,872)	Individual transfers from other schemes or funds		(3,835)	
				<b>(8,078)</b>
(5,141)	<b>Other income</b>		(4,135)	
<b>(5,141)</b>				<b>(4,135)</b>
	<b>Benefits</b>			
105,653	Pensions	13.0	109,078	
20,068	Commutation of pensions and lump sum retirement benefits	13.0	20,072	
2,972	Lump sum death benefits	13.0	2,431	
<b>128,693</b>				<b>131,581</b>
	<b>Payments to and on account of leavers</b>			
305	Refunds to members leaving scheme or fund		245	
9	Payments for members joining state scheme or fund		4	
5,168	Group transfers to other schemes or funds	17.0	0	
9,111	Individual transfers to other schemes of funds		11,804	
<b>14,593</b>				<b>12,053</b>
<b>143,286</b>				<b>143,634</b>
<b>7,329</b>	<b>Net (addition)/withdrawals from dealing with members</b>			<b>(3,716)</b>
11,039	Management expenses	14.0	13,121	
				<b>13,121</b>
<b>18,368</b>	<b>Net (additions)/withdrawals including fund management expenses</b>			<b>9,405</b>
	<b>Investment income</b>			
(34,687)	Dividends from equities		(14,077)	
(24,111)	Income from bonds		(23,806)	
(2,168)	Income from pooled investment vehicles		(1,986)	
(5,942)	Income from pooled property investments		(11,733)	
(160)	Interest on cash deposits		(45)	
<b>(67,068)</b>				<b>(51,647)</b>
(204,694)	<b>(Profits) and losses on disposal of investments and changes in the value of investments</b>	12.0	140,724	
<b>(204,694)</b>				<b>140,724</b>
853	<b>Taxes on income</b>		131	
<b>853</b>				<b>131</b>
<b>(270,909)</b>	<b>Net returns on investments</b>			<b>89,208</b>
<b>(252,541)</b>	<b>Net (increase) / decrease in net assets available for benefits during the year</b>			<b>98,613</b>
<b>(3,206,094)</b>	<b>Opening net assets</b>			<b>(3,458,635)</b>
<b>(3,458,635)</b>	<b>Closing net assets</b>			<b>(3,360,022)</b>

**Net Assets Statement**

<b>2018/19</b>			<b>2019/20</b>	
<b>£'000</b>		<b>Note:</b>	<b>£'000</b>	<b>£'000</b>
	<b>Investment Assets</b>	7.0		
676,076	Equities		629,437	
843,928	Bonds		896,429	
273,082	Pooled investment vehicles – open ended investment companies		92,721	
1,363,745	Pooled investment vehicles – managed funds		1,415,362	
260,851	Pooled property investments		287,697	
<b>3,417,682</b>				<b>3,321,646</b>
<b>29,911</b>	<b>Cash deposits</b>			<b>25,885</b>
	<b>Other investment balances</b>			
7,229	Accrued interest		7,392	
6,323	Investment debtors		5,357	
1,887	Tax recoverable		2,018	
<b>15,439</b>				<b>14,767</b>
<b>3,463,032</b>				<b>3,362,298</b>
	<b>Investment Liabilities</b>			
<b>(3,991)</b>	Investment creditors			<b>(11,612)</b>
<b>(2,397)</b>	Derivative contracts			<b>(462)</b>
<b>3,456,644</b>	<b>Net Investment Assets</b>			<b>3,350,224</b>
	<b>Current assets</b>			
6,116	Contributions due from employers and employees		6,366	
458	Other current assets		6,808	
<b>6,574</b>				<b>13,174</b>
	<b>Current Liabilities</b>			
(4,583)	Current liabilities			(3,376)
<b>3,458,635</b>	<b>Net assets of the scheme available to fund benefits at period end</b>			<b>3,360,022</b>

## **Notes to the Accounts**

### **1.0 Significant Accounting Policies**

#### **1.1 Accruals of Expenditure and Income**

Where material, accruals are made for employee and employer contributions, investment income, benefits paid, administration costs, investment management fees and advisors fees. Transfer values are accounted for on a cash basis, with the exception of material group transfers, which are accounted for during the year of effective date of transfer or the year in which the actuary values the transfer, if later.

#### **1.2 Investment Valuation of Financial Instruments**

In terms of "Fair Value", all investments have quoted prices in active markets, with the exception of Pooled Investment Vehicles managed by the WPP and Pooled Property Funds.

Listed securities are valued in accordance with IAS 39 – Financial Instruments, using bid prices as at 31<sup>st</sup> March 2020 obtained from recognised Stock Exchanges.

Fixed interest securities are valued "clean", excluding accrued interest. Sterling valuations of securities denominated in foreign currencies are based on closing exchange rates as at 31<sup>st</sup> March 2020.

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. The Global High Alpha funds in which Rhondda Cynon Taf Pension Fund invests are accumulation units, therefore, no direct dividend income is received.

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 £1.174m (£1.230m in 2018/19) and the market value of invested AVCs at the Balance Sheet date was £8.010m (£8.169m in 2018/19). 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 2019/20 amounted to £1.90m (£1.74m in 2018/19).

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 dependent upon the position as at 31<sup>st</sup> March 2020.

## **1.7 Cash and Cash Equivalents**

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

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

## 1.8 Contingent Liabilities

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

## 2.0 Accounting Standards Issued but not Adopted

The standards that may be relevant for additional disclosures that will be required in the 2019/20 and 2020/21 financial statements in respect of accounting changes that are introduced in the 2020/21 Code are:

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

Appendix C of the 2020/21 Code only includes standards adopted in the Code and therefore for 2019/20 local authorities are not required to include IFRS 16 in their consideration of accounting standards that have been issued but not yet adopted, although this is subject to approval of the 2020/21 Code.

## 3.0 Critical Judgements in Applying Accounting Policies

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

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimations of the liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries increase,	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

	changes in mortality rates and expected returns on pension fund assets. The actuary provides the Fund with advice regarding the assumptions to be used.	pension liability. An increase in assumed earnings inflation or assumed life expectancy would increase the value of the liabilities.
Pooled property fund valuations	The 31 <sup>st</sup> March 2020 property valuations provided by the property manager, has been predominantly based on either December 2019 or February 2020. This would not have included any Covid-19 impact. The majority of the underlying fund managers within the property mandate have recently attached a 'material valuation uncertainty' clause to their valuations.	The net asset value was prepared in accordance with the property manager's valuation policy, whilst any underlying property appraisals may have been qualified with a material valuation uncertainty clause. They are the valuer's opinion as at 31 <sup>st</sup> March 2020. Not all the portfolio would be affected by Covid-19 in the same way, therefore it is the fund manager's opinion that it is currently not possible to determine a percentage impact or a volatility metric.

The actuarial present value of promised retirement benefits includes the potential impact of the McCloud judgement. Refer to Note 6 for further details.

## **5.0 Events after the Reporting Date**

The audited Statement of Accounts was authorised for issue by the Director of Financial and Digital Services, as Chief Finance Officer, on 25<sup>th</sup> November 2020. Events taking place after this date are not reflected in the financial statements or notes.

Where events taking place before this date provide information about conditions existing at 31<sup>st</sup> March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. There are no events that took place after 31<sup>st</sup> March 2020 requiring disclosure providing information that is relevant to an understanding of the Pension Fund's financial position.

## **6.0 Actuarial Position**

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

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

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

The funding policy of the Scheme is to ensure that:

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

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

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

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

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

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

<b>Assumption</b>	<b>2019 Valuation</b>	<b>2016 Valuation</b>
	<b>% p.a.</b>	<b>% p.a.</b>
Average in service discount rate	4.18%	4.5%
Average left service discount rate	3.79%	4.5%
CPI inflation	2.10%	2.0%
Pensionable Pay increases	3.35%	3.25%
Post-retirement mortality assumption – base table (for retirements in normal health)	S2N heavy tables with best-estimate scaling factors derived from experience analysis combined with postcode analysis	S2P tables with best-estimate scaling factors derived from experience analysis

Post-retirement mortality assumption – future improvements	CMI 2018 projections with Sk=7.5, A=0.0 and long term improvement rate of 1.5% p.a. for men and women	CMI 2014 core projections with long term improvement rate of 1.5% pa for men and women
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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.

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

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

The above table, the Fund Account and Net Assets Statement does not include the potential impact of:

- Cost management process; and
- GMP equalisation and indexation, beyond indexation for members reaching State Pension Age before 5<sup>th</sup> April 2021.

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 is expected to 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 Supreme Court denied the Government's application for permission to appeal this judgement on 27<sup>th</sup> June 2019.

The matter will now be referred back to the Employment Tribunal for a remedy hearing. Once a Tribunal makes a finding on remedy, compensation will be awarded and the schemes amended as appropriate.

The cost management process will recommence taking into account the remedy and any scheme amendments. No allowance has been made in the disclosures for the outcome of this process.

On 26<sup>th</sup> 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".

## 7.0 Analysis of Investments at Fair Value

	2018/19		2019/20	
	£'000	£'000	£'000	£'000
<b>Equities</b>				
UK	279,594		169,833	
Overseas	396,482		459,604	
		<b>676,076</b>		<b>629,437</b>
<b>Bonds</b>				
UK	767,811		800,807	
Overseas	76,117		95,622	
		<b>843,928</b>		<b>896,429</b>
<b>Pooled funds</b>				
UK	19,189		17,192	
WPP Global Equities	1,363,745		1,270,900	
Overseas - other	253,893		219,991	
		<b>1,636,827</b>		<b>1,508,083</b>
<b>Pooled funds - property</b>				
UK - other	260,292		287,562	
Overseas - other	559		135	
		<b>260,851</b>		<b>287,697</b>
<b>Total long-term investments</b>		<b>3,417,682</b>		<b>3,321,646</b>

The Fund has not participated in any stock lending arrangements during 2019/20 but has agreed to do so in 2020/21 for investments in the WPP.

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 31<sup>st</sup> March 2020.

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.

## 8.0 Fund Manager Asset Allocation

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

Fund Manager	Market Value		Proportion of Fund	
	31/03/2019 £'000	31/03/2020 £'000	31/03/2019 %	31/03/2020 %
Baillie Gifford (Global Equities)	799,135	728,101	23.2	21.7
BlackRock (Passive Equities)	153,809	144,528	4.4	4.3
BMOGAM (Bonds)	857,306	903,811	24.8	27.0
CBRE (Property)	263,792	290,497	7.6	8.7
Link (Global Growth)	1,091,893	1,011,978	31.6	30.2
Link (Global Opportunities)	271,852	258,922	7.9	7.7
Internally Managed	18,857	12,387	0.5	0.4
<b>Total</b>	<b>3,456,644</b>	<b>3,350,224</b>	<b>100</b>	<b>100</b>

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

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

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

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

## 9.0 Geographical Spread of the Fund

The Fund Managers invest in shares in a number of countries. The table below shows the value of stocks and shares held by the Fund Managers as at 31<sup>st</sup> March 2020:

Area	£'000	%
UK Equities	269,841	8.1%
European Equities	175,921	5.2%
US and Canadian Equities	243,740	7.3%
Japanese Equities	56,221	1.7%
Pacific Equities	30,153	0.9%
Other International Equities	90,744	2.7%
Global Pooled Equities	1,270,900	37.9%
Bonds	896,429	26.7%
Property	287,697	8.6%
Cash & Equivalents	28,578	0.9%
<b>Total</b>	<b>3,350,224</b>	<b>100%</b>

## 10.0 Contingent Liabilities

There is a contingent liability of £968k (£836k in 2018/19) in respect of refundable contributions for leavers who have not yet claimed refunds.

## 11.0 Reconciliation of Investment Asset Valuation

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

	Market Value 01/04/19	Purchases	Sales at Historic Book Cost	Change in Market Value	Market Value 31/03/20
	£'000	£'000	£'000	£'000	£'000
Bonds	843,928	270,841	(235,015)	16,675	896,429
Equities	676,076	125,748	(74,301)	(98,086)	629,437
Pooled Investments	1,636,827	4,217	(7,073)	(125,888)	1,508,083
Pooled Property	260,851	33,614	(3,362)	(3,406)	287,697
	<b>3,417,682</b>	<b>434,420</b>	<b>(319,751)</b>	<b>(210,705)</b>	<b>3,321,646</b>
Cash Deposits	27,514			69,981	25,423
Investment Debtors	15,440				14,767
Investment Creditors	(3,992)				(11,612)
<b>Total</b>	<b>3,456,644</b>			<b>(140,724)</b>	<b>3,350,224</b>

Comparative note for 2018/2019:

	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
	<b>3,116,636</b>	<b>2,270,755</b>	<b>(1,570,187)</b>	<b>(399,522)</b>	<b>3,417,682</b>
Cash Deposits	80,192			604,216	27,514
Investment Debtors	15,295				15,440
Investment Creditors	(8,498)				(3,992)
<b>Total</b>	<b>3,203,625</b>			<b>204,694</b>	<b>3,456,644</b>

## 12.0 Profits and Losses on Investments

	<b>2018/19</b>	<b>2019/20</b>
	<b>£'000</b>	<b>£'000</b>
Profit on sales	657,501	102,515
Loss on sales	(51,788)	(41,542)
<b>Net profit / (loss) on sales</b>	<b>605,713</b>	<b>60,973</b>
Change in market value	(401,019)	(201,697)
<b>Net increase/ (decrease) in value</b>	<b>204,694</b>	<b>(140,724)</b>

## 13.0 Contributions Receivable and Benefits Payable

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

Type of Body	Member Contributions		Employer Contributions		Pensions, Lump Sums and Death Benefits	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000	£'000
Administering	8,480	9,025	35,181	38,100	35,904	34,967
Admitted	3,518	3,620	15,078	17,109	13,706	16,255
Scheduled	14,781	15,565	48,473	51,718	79,083	80,359
<b>Total</b>	<b>26,779</b>	<b>28,210</b>	<b>98,732</b>	<b>106,927</b>	<b>128,693</b>	<b>131,581</b>

Included in employer contributions are £11,428k of deficit funding contributions (£9,790k in 2018/19). There are no augmented contributions.

## 14.0 Management Expenses

The management expenses borne by the Fund in 2019/20 are set out below:

	<b>2018/19</b>	<b>2019/20</b>
	<b>£'000</b>	<b>£'000</b>
Administrative Costs	1,839	1,845
Investment Management Expenses	8,973	11,001
Oversight and Governance Costs	227	275
<b>Total</b>	<b>11,039</b>	<b>13,121</b>

Investment management expenses represent 0.33% (0.26% in 2018/19) of the value of the Pension Fund as at 31<sup>st</sup> March 2020.

2019/20 Audit Fees of £39k are included in Oversight and Governance Costs (£39k in 2018/19).

The investment management expenses borne by the Fund in 2019/20 are set out below:

	2018/19	2019/20
	£'000	£'000
Management Fees	6,843	8,590
Custody Fees	390	473
Transaction Costs	1,740	1,938
<b>Total</b>	<b>8,973</b>	<b>11,001</b>

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:

	2018/19	2019/20
	£'000	£'000
<b>WPP Oversight and Governance Costs</b>		
Set up Costs	33	0
Running Costs	20	58
<b>WPP Investment Management Expenses</b>		
Fund Managers Fees	733	4,317
Transaction Costs	0	1,538
Custody Fees	114	215
<b>Total</b>	<b>900</b>	<b>6,128</b>

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

## 15.0 Transactions with Related Parties

In the course of fulfilling its role as Administering Authority to the Fund, Rhondda Cynon Taf CBC provided services to the Fund for which it charged £1.5m (£1.5m in 2018/19). 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 £6.4m (£6.1m in 2018/19), of which £4.9m related to employer contributions and £1.5m to employee contributions.

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

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

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

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

## 16.0 Membership of the Fund

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

	2019	2020
Active Employers	49	53
Contributors	23,329	23,696
Pensioners	17,025	17,512
Dependants	2,679	2,726
Deferred Beneficiaries	27,104	28,108

## 17.0 Group Transfers

There were no group transfers in 2019/20. The Fund transferred £5.2m to Cardiff and Vale of Glamorgan Pension Fund in 2018/19 in respect of regulatory joint working.

## 18.0 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.

### 18.1 Credit Risk

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

- Counterparties for cash investments made by the Administering Authority must meet the strict credit criteria set out in the Rhondda Cynon Taf CBC Treasury Management Strategy.
- Participating employers may be required to provide a bond to cover the risk to the Fund should they be unable to meet their pension contribution obligations.
- Investment Managers manage funds that are held in the name of the Pension Fund, not in the name of the Investment Managers. In the event of the Investment Manager being unable to fulfil their obligations the Fund's investments will not be considered part of their asset portfolio.

The Pension Fund has had no experience of counterparty default in the last five years. Cash deposits held by the Administering Authority for the Pension Fund as at 31<sup>st</sup> March 2020 amounted to £9.97m with the institutions shown in the table below:

<b>Institution</b>	<b>Balance at 31/03/20 £'000</b>	<b>Maturity Date</b>
Debt Management Office	9,970	01/04/20
<b>Total</b>	<b>9,970</b>	

## 18.2 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.

## 18.3 Market Risk

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

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

Asset type	31/03/20 Value	Change %	Value on increase	Value on decrease
	£'000		£'000	£'000
Core Equity Mandate	872,629	13.2	987,428	757,830
Global Equity Mandate	1,270,900	13.2	1,438,659	1,103,141
Bond Mandate	903,811	5.9	957,233	850,389
Property Mandate	290,497	2.4	297,462	283,532
Internal Mandate	12,387	0.5	12,448	12,326

PIRC also advised that the potential market movement for the Fund as a whole, could be 9.3%. The possible impact is shown below:

	31/03/20 Value	Change %	Value on increase	Value on decrease
	£'000		£'000	£'000
Fund Asset Total	3,350,224	9.3	3,660,952	3,039,496

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

Assuming that all other variables, particularly exchange rates, remain unchanged, a movement in interest rates of 1% for the 2020/21 financial year would have the following effect:

Asset type	31/03/20 Value	Value on increase	Value on decrease
	£'000	£'000	£'000
Bond securities	896,429	905,393	887,465
Cash deposits & balances	28,578	28,864	28,292
<b>Total</b>	<b>925,007</b>	<b>934,257</b>	<b>915,757</b>

Currency risk is the risk to income and investment asset values from changes in exchange rates. The Fund is exposed to this risk from non-sterling denominated investments in a range of assets.

A movement in currency exchange rates of 7.4% would have the following effect:

Asset type	31/03/20 Value	Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas Equities	596,799	640,962	552,636
Overseas Bonds	95,622	102,698	88,546
Overseas Pooled Property	135	145	125
<b>Total</b>	<b>692,556</b>	<b>743,805</b>	<b>641,307</b>

## **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 2020 under the Public Audit (Wales) Act 2004. Rhondda Cynon Taf Pension Fund financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-2020 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020, 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 2019-2020.

#### **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.

#### **Emphasis of matter – effects of the Covid-19 pandemic on the valuation of property fund and alternative assets**

I draw attention to Note 4 of the financial statements, which describes the impact of a material uncertainty disclosed in the fund managers' year-end valuation reports for the UK property fund and alternatives fund they manage on behalf of the Rhondda Cynon Taf Pension Fund. The Fund has disclosed this material uncertainty and my audit opinion is not modified in respect of this matter.

## Conclusions relating to going concern

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

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

## Other information

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

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

## Report on other requirements

### Opinion on other matters

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

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

### Matters on which I report by exception

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

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

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

## **Certificate of completion of audit**

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

### **Responsibilities**

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

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

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

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

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

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



Adrian Crompton  
Auditor General for Wales  
26 November 2020

24 Cathedral Road  
Cardiff  
CF11 9LJ

The maintenance and integrity of Rhondda Cynon Taf County Borough Council website is the responsibility of the Accounting Officer; the work carried out by auditors does not involve consideration of these matters and accordingly auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

## Glossary of Terms

### **Accrual**

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

### **Active/Passive Management**

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

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

### **Actuary**

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

### **Actuarial Gains and Losses**

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

### **Admitted Body**

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

### **Asset Allocation**

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

### **Attained Age Method**

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

### **Audit**

An audit is an independent examination of activities.

### **Cash and Cash Equivalents**

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

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

CIPFA is responsible for issuing financial guidance to public bodies.

**Contingent Liabilities or Assets**

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

**Creditor**

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

**Custodian**

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

**Current Assets**

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

**Current Liabilities**

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

**Debtor**

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

**Debt Management Office (DMO)**

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

**Defined Benefit Scheme (Pensions)**

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

**Defined Contribution Scheme (Pensions)**

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

**Derivatives**

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

**Employer Contribution Rates**

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

**Equities**

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

**Fair Value Hierarchy**

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

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

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

**Financial Assets**

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

**Financial Year**

This is the accounting period. For local authorities it starts on 1<sup>st</sup> April and finishes on 31<sup>st</sup> March of the following year.

**Fixed Interest Securities/Bonds**

Investments, especially in government stocks, with a guaranteed rate of interest. Conventional bonds have fixed rates, whilst Index Linked vary with inflation. They represent loans repayable at a stated future date and which can be traded on a stock exchange in the meantime.

**Fund of Funds**

A pooled fund that invests in other pooled funds. They are able to move money between the best funds in the industry and thereby aim to lower stakeholder risk with greater diversification than is offered by a single fund.

**GMP**

Guaranteed Minimum Pension.

**Impairment**

Impairment occurs when the value of a long-term asset falls below the value it is currently held at in the Fund Account.

**International Accounting Standard (IAS)**

Financial Regulations to be followed as set by the International Accounting Standards Board (IASB).

**International Financial Reporting Standards (IFRS)**

International Financial Reporting Standards are produced by the IASB (International Accounting Standards Board) with the aim of ensuring consistency within the countries adopting the standards.

**Liability**

A liability is an obligation to transfer economic benefits as a result of past transactions or events.

**Pooled Funds**

Pooled investment vehicles issue units to a range of investors. Unit's prices move in response to changes in the value of the underlying portfolio and investors do not own directly the assets in the fund. The main types are: unit trusts, open-ended investment companies (OEICs), insurance linked vehicles and investment trusts.

**Portfolio**

A collective term for all the investments held in a fund, market or sector. A segregated portfolio is a portfolio of investments of a specific type held directly in the name of the investor e.g. Global Bonds, or a specific market e.g. UK Equities, Far East Equities.

**Prior Year Adjustment**

Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of material errors.

**Provision**

A provision is an obligation to transfer economic benefits as a result of past events where a reliable estimate can be made of the obligation, but the amount or timing of which cannot yet be determined accurately.

**Related Party**

A related party exists where there is control or influence by one party over another.

**Return**

The total gain from holding an investment, including both income and any increase or decrease in market value. Returns over periods longer than a year are usually expressed as an average annual return.

**Scheduled Bodies**

An organisation that has the right to become a member of the Local Government Pension Scheme under the scheme regulations. Such an organisation does not need to be admitted, as its right to membership is automatic.

**Unrealised Gains/Losses**

The increase or decrease in the market value of investments held by the Pension Fund since the date of their purchase. Note: values throughout these accounts are presented rounded to whole numbers. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match to the core statements or other tables due to rounding differences.

**Strain on Funds**

When an employee retires early and is immediately paid a pension, without actuarial reduction, the lost contribution income and interest cost arising from the associated earlier increased cash flow is referred to as pension strain cost. The pension strain cost is determined by actuarial calculation.

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

Audit year: 2019-20

Date issued: November 2020

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This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to Audit Wales at [infoofficer@audit.wales](mailto:infoofficer@audit.wales).

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

# Contents

We intend to issue an unqualified audit report on your Accounts. There are no issues to report to you prior to their approval.

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# Audit of Accounts Report

## Introduction

- 1 We summarise the main findings from our audit of your 2019-20 annual accounts in this report.
- 2 We have already discussed these issues with Director of Finance and Digital Services
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £33.6m for this year's audit.
- 5 There are some areas of the accounts that may be of more importance to the reader, including related parties.
- 6 We have now completed this year's audit work.
- 7 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and, our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

## Impact of COVID-19 on this Year's Audit

- 8 The COVID-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You are required by law to prepare accounts and it is of considerable testament to the commitment of your accounts team that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. We are extremely grateful to the professionalism of the team in supporting us to complete our audit in such difficult circumstances.
- 9 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. The detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year's audit process.

## Exhibit 1 – impact of COVID-19 on this year's audit

<b>Timetable</b>	<ul style="list-style-type: none"> <li>We received the draft accounts on 15<sup>th</sup> July 2020.</li> <li>We expect your audit report to be signed on 26<sup>th</sup> November 2020.</li> </ul>
<b>Electronic signatures</b>	<p>Given current social distancing requirements, it may be difficult for signing and certification of the accounts in hard copy this year. We may need to use electronic signatures for this purpose. We will liaise with management to ensure arrangements are in place irrespective of the approach taken.</p>
<b>Audit evidence</b>	<p>As in previous years, we received the majority of audit evidence in electronic format. We have used various techniques to ensure its validity. Where we have been unable to obtain access to paper documents because of COVID-19 restrictions we have devised alternative audit methodologies to obtain sufficient audit evidence. Specifically:</p> <ul style="list-style-type: none"> <li>officers provided electronic working papers in accordance with our agreed Audit Deliverables Report;</li> <li>officers provided audit evidence to the audit team via email or the shared folder accessible by auditors through the Council laptops;</li> <li>officers were available by video conferencing for discussions, and for the sharing of on-screen information/evidence; and</li> </ul> <p>Audit Wales also secured remote read only access to the ledger system which enabled the audit team to run reports and view evidence.</p>
<b>Other</b>	<ul style="list-style-type: none"> <li>Video conferencing has enabled the audit team to correspond effectively with officers throughout the audit.</li> <li>Video conference-based Audit Committee meetings have enabled us to proficiently discharge our responsibility for reporting to those charged with governance</li> </ul>

- 10 We will be reviewing what we have learned for our audit process from the COVID-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process.

## Proposed Audit Opinion

- 11 We intend to issue an unqualified audit opinion on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 12 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 13 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards.
- 14 Our proposed audit report is set out in **Appendix 2**. This audit report includes an emphasis of matter paragraph. The aim of this paragraph is to draw the attention of the reader of the accounts to note 4 which includes reference to material uncertainty clauses disclosed in year-end valuation reports for a pooled property fund.
- 15 The audit opinion is not modified in respect of this matter.

## Significant Issues arising from the Audit

### Uncorrected misstatements

- 16 There are no misstatements identified in the financial statements which remain uncorrected.

### Corrected misstatements

- 17 There were no corrected misstatements to the accounts, only minor narrative and presentational changes throughout the course of the audit.

## Other Significant Issues arising from the Audit

- 18 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year.

# Appendix 1

## Final Letter of Representation

[Audited body's letterhead]

Auditor General for Wales  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

[Date]

### Representations regarding the 2019-20 financial statements

This letter is provided in connection with your audit of the financial statements of Rhondda Cynon Taf Pension Fund for the year ended 31 March 2020 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

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

### Management representations

#### Responsibilities

We have fulfilled our responsibilities for:

- The preparation of the financial statements in accordance with legislative requirements and CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom UK 2019-20; in particular the financial statements give a true and fair view in accordance therewith.
- The design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

### Information provided

We have provided you with:

- Full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;

- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects the Pension fund and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

## **Financial statement representations**

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions.

## Representations by Rhondda Cynon Taf County Borough Council

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Council on 25 November 2020.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

[Officer who signs on behalf of management]

Date:

Signed by:

[Officer or Member who signs on behalf of those charged with governance]

Date:

# Appendix 2

## Proposed Audit Report

### **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 2020 under the Public Audit (Wales) Act 2004. Rhondda Cynon Taf Pension Fund financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020, 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 2019/20.

##### **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.

## **Emphasis of matter – effects of the Covid-19 pandemic on the valuation of property fund and alternative assets**

I draw attention to Note 4 of the financial statements, which describes the impact of a material uncertainty disclosed in the fund managers year-end valuation reports for the UK property fund and alternatives fund they manage on behalf of the Rhondda Cynon Taf Pension Fund. The Fund has disclosed this material uncertainty and my audit opinion is not modified in respect of this matter.

## **Conclusions relating to going concern**

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

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

## **Other information**

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

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

## **Report on other requirements**

### **Opinion on other matters**

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

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

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

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

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

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

## **Certificate of completion of audit**

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

## **Responsibilities**

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

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

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

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

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

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

Adrian Crompton  
Auditor General for Wales  
26 November 2020

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We welcome correspondence and telephone calls in Welsh and English.  
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.