



Complete Agenda

Democratic Service
Swyddfa'r Cyngor
CAERNARFON
Gwynedd
LL55 1SH

Meeting

PENSIONS COMMITTEE

Date and Time

10.30 am, WEDNESDAY, 14TH OCTOBER, 2020

Location

Virtual Meeting

Contact Point

Lowri Haf Evans

01286 679878

lowrihafevans@gwynedd.llyw.cymru

(DISTRIBUTED 06/10/20)

PENSIONS COMMITTEE

MEMBERSHIP (7)

Plaid Cymru (4)

Councillors

Aled Wyn Jones
Vacant Seat

Peredur Jenkins

Ioan Thomas

Independent (2)

Councillors

John Brynmor Hughes

John Pughe Roberts

Individual Member (1)

Councillor

Stephen W. Churchman

Co-opted Members

Councillor Robin Wyn Williams Isle of Anglesey County Council
Councillor Goronwy Owen Edwards Conwy County Borough Council

Ex-officio Members

Chair and Vice-Chair of the Council

A G E N D A

1. ELECT CHAIR

To elect a Chair for 2020/2021

2. ELECT VICE CHAIR

To elect a Vice Chair for 2020/2021

3. APOLOGIES

To receive any apologies for absence

4. DECLARATION OF PERSONAL INTEREST

To receive any declaration of personal interest

5. URGENT ITEMS

To note any items which are urgent business in the opinion of the Chairman so that they may be considered

6. MINUTES

5 - 8

The Chairman shall propose that the minutes of the meeting of this committee held on 23rd July 2020 to be signed as a true record

7. FINAL ACCOUNTS 2019/20 - GWYNEDD PENSION FUND

9 - 77

a) To submit the revised statutory financial statements

b) To submit the formal "ISA 260" report for the Pension Fund

8. FIXED INCOME TRANSITION UPDATE OCTOBER 2020

78

To consider the report

9. EXCLUSION OF PRESS AND PUBLIC

The Chairman shall propose that the press and public be excluded from the meeting during the discussion on the following items due to the likely disclosure of exempt information as defined in paragraph 14 of Schedule 12A of the Local Government act 1972 Information relating to the financial or business affairs of any particular person (including the authority holding that information).

There is an acknowledged public interest in openness in relation to the use of public resources and related financial issues. It is also acknowledged that there are occasions, in order to protect the financial interests of public authorities that matters related to commercial information need to be discussed without being publicised. The report relates specifically to the

award of contracts and includes details of bids as well as the status and business of proposed suppliers. Publication of such commercially sensitive information could undermine supplier's confidence to engage with the Council and therefore the Council's ability to procure effectively. This would be contrary to the wider public interest of securing value for money and the best overall outcome. For those reasons I am satisfied that the matter should be exempt in the public interest.

10. WALES PENSION PARTNERSHIP EMERGING MARKETS EQUITY SUB-FUND

(copy for members only)

11. REOPEN MEETING FOR PRESS AND PUBLIC

The Chairman shall propose that the meeting be reopened for the press and public

12. BLACK ROCK LOW CARBON FUND 79

To consider the report

13. PENSION ADMINISTRATION 80 - 83

To consider the report

PENSIONS COMMITTEE 23.07.2020

Present: Councillors: John Pughe Roberts (Chair), Stephen Churchman, Ioan Thomas, John Brynmor Hughes, Aled Wyn Jones, Dave Cowans (Conwy County Borough Council) and Robin Williams (Isle of Anglesey County Council)

Officers:- Dafydd Edwards (Head of Finance), Delyth Wyn Jones-Thomas (Investment Manager), Meirion Jones (Pensions Manager) and Lowri Haf Evans (Democratic Services Officer)

Others invited: Osian Richards (Chair of Pension Board – observing)

1. APOLOGIES

None to note

2. DECLARATION OF PERSONAL INTEREST

None to note.

3. URGENT ITEMS

Following the issuing of a consultation by the Treasury, it was reported that the MHCLG had issued a consultation on the proposed amendments to the Local Government Pension Scheme in response to the judgement in the McCloud case. It was reported that the Head of Finance, the Pensions Manager and the Investment Manager would draw up a draft response in consultation with the Chairs of the Pensions Committee and Pension Board (closing date 11th October 2020). It was added that the Pensions Manager was working alongside Hymans to ascertain the number of records that would need to be amended. Although no timetable had been released, it was noted that this task involved significant additional administrative work and would be undertaken after the consultation had been completed and the order received.

4. MINUTES

The Chair accepted the minutes of the meeting held on 18th March 2020, as a true record.

5. DRAFT ACCOUNTS OF THE GWYNEDD PENSION FUND FOR THE YEAR ENDING 31 MARCH 2020

Submitted – a report by the Head of Finance providing details of the Pension Fund's financial activities for the year ending 31st March 2020. It was highlighted that the (draft) accounts were currently subject to audit which was being undertaken by Deloitte. Following a decision by Audit Wales that accounts would remain open to public inspection until the beginning of September, the final accounts would be presented to the Audit and Governance Committee on 14th September 2020.

It was reported that the value of the Fund on 31st March was down £143m, this was due to the implications of the Covid-19 pandemic. It was noted that a significant fall in

market value was reflected at the end of March, but the values had now risen and remained stable.

Reference was made to Notes 12, 13 and 14 where further information was included on investment costs in light of Gwynedd Fund's involvement with the Wales Pension Partnership's arrangement of pooling combined investments.

In response to questions regarding the costs of the Wales Pension Partnership (WPP) and Host Authority – note 13 (£70k), was there a saving in the fees reduction compared with the costs for the Gwynedd Council Fund, and how could we ensure value for money, it was noted that the situation was very difficult to test and that the important thing was the returns as opposed to the amount of fees. It was considered that our membership of the WPP provided economies of scale, which had resulted in reduced fees, and there was greater resilience in being part of a larger fund. It was noted that the sum for 2018/19 had been omitted in error.

In response to a comment regarding a significant fall in equity dividends (Note 15), it was reported that all dividends were automatically reinvested into their relevant funds and not distributed as investment income. The fund value and change in market value on these funds would reflect both capital appreciation / depreciation plus reinvested investment income.

RESOLVED to accept the information.

6. INVESTMENT STRATEGY STATEMENT

Submitted for information, a report by the Investment Manager. It was reported that the statement was reviewed every three years following valuation and that it had been discussed with the Investment Panel in May 2020.

Attention was drawn specifically to the allocation of the Fund which reflected the transfer of global equity to the Wales Pension Partnership (WPP) Multi Assets Credit fund - which now formed a significant part of the Gwynedd Fund investments.

Attention was drawn to a suggestion made by the Pension Board Members (20/07/20) that the statement did not highlight the risks / lessons learned of the impact of the Covid-19 pandemic and recent events in China. The members had suggested at that meeting that a sentence should be added to the Managers' paragraph (page 57) to illustrate that the response had been positive. A sentence constructed by Paul Potter (Hymans Robertson) was proposed, to illustrate that the Managers had been proactive and positive during the Covid-19 pandemic.

Although accepting of the logic, it was considered that this was the day-to-day work of any Manager and it was often too late to make changes after an unexpected shock - the skill was to predict any changes. In response, the Head of Finance noted that the statement did not attempt to describe what the Assets Managers were already doing, and that it was not intended to change their brief. He added that Managers in general had responded to the change and that the Pension Board faced challenges in promoting transparency.

RESOLVED to adopt the Investment Strategy Statement.

7. WALES PENSION PARTNERSHIP UPDATE

Submitted – a report by the Investment Manager stating that since its establishment in 2017, the Partnership had been going from strength to strength with officers meeting often. During the Covid-19 pandemic, it was noted that officers had been meeting every fortnight via Teams and that a full meeting had been scheduled for the 24th of July 2020.

Attention was drawn to the Fund's performance, and despite the pandemic it appeared that the market had recovered very well. Reference was made to Pzena's performance, who had contributed to the under-performance of the Global Growth Fund up to 31st March 2020, but who was now responsible for the increase in the fund due to their investment methods.

Reference was made to the fixed income transfer which had been due to take place at the end of April, however, it would now be transferred at the end of July 2020. With regard to Emerging Markets, it was noted that work on these had been quiet over the pandemic but it would be a priority area for the next six months, with an Investment Managers structure to be determined for this new fund. With regard to Private Markets, it was reported that a group had been established to look at potential options of pooling assets into this category. It was added that Russell Investments were leading on analysing the options available with the current portfolio, and the development and management of Wales Pension Partnership funds. It was noted that individual discussions were required with all Funds to seek a way forward with 'property'. Although satisfied with the current portfolio, the officer highlighted that there were opportunities for further investment with Global Equity property. With a possible allocation of 10% in property, it was noted that only 9% was being used at present, with the suggestion to increase to the full 10%.

During the ensuing discussion, the following observations were noted:

- Members anticipated that the situation with property would worsen globally as a side-effect of Covid-19, with reduced demand for business premises. Despite this, it was a good reason to move ahead using the remaining funding, provided we were cautious with 'selling'.
- The Fund must act carefully – the Covid-19 pandemic had impacted the whole World, therefore it was essential to consider carefully the types of investments before transferring.

In response to the members' observations, it was noted that the crisis had made it even more pressing to act. It was added that 80% of the Gwynedd Fund had already been transferred to the WPP Fund. There was no intention to rush to make further investments, but opportunities were presenting themselves where they could take advantage, for example, looking maybe at the possibility of further investment in Wales's infrastructure.

The information was accepted.

8. WALES PENSION PARTNERSHIP BUSINESS PLAN

Submitted – a report by the Investment Manager advising members of the Wales Pension Partnership's wish for each individual Committee within the Partnership to approve their Business Plan. It was reported that the Business Plan contained details about the Partnership's priorities and how it would deliver its objectives for 2020-2023. The Plan also contained governance arrangements, policies and plans as well as information about their marketing stance, financial budgets and a summary of the Partnership's performance objectives and investments.

It was noted that meetings were being held every fortnight with Officers, Hymans and the Host Authority (Carmarthenshire) in order to share updates, information and have input into documents. It was added that a number of policies had been formalised during the lock-down, and these were available on the Partnership's website. The officer drew attention to the training plan which covered a number of topics with the aim for Members to have the appropriate knowledge and understanding - these would be beneficial sessions and would be flexible for the Members of the Committee and the Pension Board. They were likely to be delivered on-line.

In response to a previous comment regarding the Wales Pension Partnership's costs (£70k), it was highlighted that the Host Authority was dealing with considerable / additional work and that the budget seemed insufficient. The Investment Manager added that one extra officer had been appointed and that the Authority's existing officers were taking on additional responsibilities. The Head of Finance added that the sum was reasonable.

RESOLVED to approve the Business Plan

9. TREASURY MANAGEMENT 2019/2020

Submitted – a report by the Investment Manager noting that an annual decision had been made to permit the surplus funds of the Pension Fund to be pooled and co-invested with the Council's overall cash-flow. The officer stated that the report compared actual performance against the strategy for the 2019/20 financial year, and fulfilled the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Welsh Government's Investment Guidance.

It was reported that during the 2019/20 financial year, the Council's borrowing activity had remained within the limits originally set, and it had received £546,000 of interest on investments which was above the budgeted level of £406,000. She added that there had been no defaults by any banks with which the Council had invested money, and all prudential indicators had been met.

Although the reduced value of investments by year end at 31/03/20 highlighted the negative impact of the Covid-19 pandemic, she stressed that medium-term investments were the focus, therefore there was an opportunity to recover / reclaim the loss.

RESOLVED to accept the information.

The meeting commenced at 10:30am and concluded at 11:45am

MEETING	PENSIONS COMMITTEE
DATE	14 OCTOBER 2020
TITLE	Gwynedd Pension Fund's Final Accounts for the year ended 31 March 2020 and relevant Audit
PURPOSE	To Submit – <ul style="list-style-type: none">• Statement of Accounts post- Audit;• Deloitte's 'ISA260' report ;• Letter of Representation (Appendix 1)
RECOMMENDATION	Accept the information
AUTHOR	Dafydd L Edwards, Head of Finance

1. ACCOUNTS FOR 2019/20

The Gwynedd Pension Fund's statutory 2019/20 Statement of Accounts (post audit) are attached here, providing details of the Fund's financial activities during the year which ended on 31 March 2020.

2. AUDIT BY DELOITTE ON BEHALF OF THE AUDITOR GENERAL FOR WALES

These accounts have been audited by Deloitte, and the 'ISA 260' report is presented here on behalf of the Auditor General for Wales, detailing Deloitte's findings.

These documents will be formally presented to the Audit Committee on 15th October, 2020 for approval.

3. RECOMMENDATION

The Pensions Committee is asked to note -

- the Statement of Accounts for 2019/20 (post-audit)
- the 'ISA 260' report by Deloitte in respect of Gwynedd Pension Fund
- the Letter of Representation.

4. PENSION FUND ANNUAL GENERAL MEETING

Gwynedd Pension Fund's Statement of Accounts will also be presented formally to all employers at the Pension Fund's Annual General Meeting on 19 November 2020.

Gwynedd Pension Fund

STATEMENT OF ACCOUNTS 2019/20

NARRATIVE REPORT

Introduction

Gwynedd Pension Fund's accounts and notes for the year 2019/20 are presented here on pages 4 to 40.

The accounts consist of the Gwynedd Pension Fund Account and Net Assets Statement.

These accounts are supported by this Narrative Report, the Accounting Policies and various notes to the accounts.

The Pension Fund accounts, and accompanying notes, summarise the financial transactions and net assets related to the provision of pensions and other benefits payable to former employees of all the Fund's employers, including Anglesey, Conwy and Gwynedd Councils, Snowdonia National Park Authority, Police and Crime Commissioner for North Wales, Cartrefi Conwy, Adra, various town and community councils, and other scheduled and admitted bodies.

The Coronavirus (COVID-19) pandemic has impacted global financial and property markets. As a result of the volatility in market conditions, year-end valuation reports provided to the Fund include a statement that there is a material valuation uncertainty related to the UK property fund managed on behalf of the Fund. The total value of these funds as at 31 March 2020 is £191.3m. The Committee members and key officers will continue to monitor the impact of this pandemic on the Pension Fund.

The Statement of Accounts and further information is available on Gwynedd Pension Fund's website www.gwyneddpensionfund.org.uk.

The Fund has two important statements which set out the strategies for ensuring pensions are funded now and in the future as follows:

- Funding Strategy Statement – the statement sets out the fund-specific strategy which will identify how employers pensions liabilities are best met going forward. It is reviewed every three years after the triennial actuarial valuation and includes individual employer rates for the following period.
- Investment Strategy Statement - the statement sets out the types of investments and broad limits on each type of investment.

Both these statements are available on the Fund's website under the investments section.

An Actuarial Valuation is required every three years to establish the level of assets available to pay pensions now and in the future. The most recent valuation was at 31 March 2019 and any changes to employers' contributions will be made from 1 April 2020 onwards.

Further information relating to the accounts is available from:

Delyth Jones-Thomas
Investment Manager
01286 679128

Finance Department
Gwynedd Council
Council Offices
Caernarfon
Gwynedd
LL55 1SH

It is part of the Fund's policy to provide full information relating to the Fund's affairs. In addition, interested members of the public have a statutory right to inspect the accounts before the audit is completed. The availability of the accounts for inspection will be notified on the Pension Fund website at the appropriate time.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

THE PENSION FUND'S RESPONSIBILITIES

Gwynedd Council as administrating authority (effectively the trustee) for Gwynedd Pension Fund is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Gwynedd Council, that "Section 151 Officer" is the Head of Finance. It is also the administrating authority's responsibility to manage its affairs to secure economic, efficient and effective use of its resources, to safeguard its assets, and to approve the Statement of Accounts.

15th October 2020

Audit and Governance Committee Chair

THE HEAD OF FINANCE'S RESPONSIBILITIES

The Head of Finance is responsible for the preparation of the Pension Fund Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code").

In preparing the statement of accounts, the Head of Finance has selected suitable accounting policies and then applied them consistently; has made judgements and estimates that were reasonable and prudent; and complied with the Code.

The Head of Finance has also kept proper accounting records which were up to date, and has taken reasonable steps for the prevention and detection of fraud and other irregularities.

RESPONSIBLE FINANCIAL OFFICER'S CERTIFICATE

I certify that the Statement of Accounts has been prepared in accordance with the arrangements set out above, and presents a true and fair view of the financial position of Gwynedd Pension Fund at 31 March 2020 and the Pension Fund's income and expenditure for the year then ended.

15th October 2020

Dafydd L. Edwards B.A., C.P.F.A., I.R.R.V.
Head of Finance, Gwynedd Council

GWYNEDD PENSION FUND ACCOUNTS
2019/20

THE FUND ACCOUNT

31 March 2019 £'000		Notes	31 March 2020 £'000
	Dealings with members, employers and others directly involved in the Fund		
67,930	Contributions	7	74,416
6	Other Income	8	5
3,007	Transfers in from other pension funds	9	4,887
70,943	Total received		79,308
(59,213)	Benefits paid or payable	10	(62,328)
(3,128)	Payments to and on account of leavers	11	(4,669)
(62,341)	Total benefits paid		(66,997)
(14,659)	Management Expenses	12	(13,121)
	Returns on investments		
13,964	Investment income	15	9,318
(195)	Taxes on income		0
135,660	Profit and losses on disposal of investments and changes in the market value of investments	16	(151,518)
149,429	Net returns on investments		(142,200)
143,372	Increase/ (Decrease) in the net assets available for benefits during the year		(143,010)
	Net assets of the Fund		
1,937,975	At 1 April		2,081,347
143,372	Increase/ (Decrease) in net assets		(143,010)
2,081,347			1,938,337

The notes on pages 6 to 40 form part of these Financial Statements

NET ASSETS STATEMENT

31 March 2019 £'000		Notes	31 March 2020 £'000
2,054,595	Investment assets	16	1,928,515
538	Cash deposits	16	783
2,055,133	Total Investment assets		1,929,298
(123)	Investment liabilities	16	0
29,226	Current assets	21	11,929
(2,889)	Current liabilities	22	(2,890)
2,081,347			1,938,337

The Financial Statements do not take into account the Fund's liability to pay pensions and other benefits to all the present contributors to the Fund after the Fund year-end, but rather summarises the transactions and net assets of the Fund. The liabilities of the Fund are taken into account in the periodic actuarial valuations of the Fund (most recently as at 31 March 2019) and are reflected in the levels of employers' contributions determined at the valuation, so that the Fund will be able to meet future liabilities. The actuarial present value of promised retirement benefits is shown in Note 20.

NOTES TO THE GWYNEDD PENSION FUND ACCOUNTS

NOTE I – DESCRIPTION OF FUND

The Gwynedd Pension Fund (“the Fund”) is part of the Local Government Pension Scheme (LGPS) and is administered by Gwynedd Council. The Council is the reporting entity for this Pension Fund. The following description of the Fund is a summary only. For more detail, reference should be made to the Gwynedd Pension Fund Annual Report 2019/20 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The Fund is governed by the Public Service Pensions Act 2013. The Fund is 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);
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

It is a contributory defined benefit pension scheme administered by Gwynedd Council to provide pensions and other benefits for pensionable employees of Gwynedd Council, two other local authorities and other scheduled, resolution and admission bodies within the former Gwynedd County Council area. Teachers, police officers and firefighters are not included as they are in other national pension schemes. The Fund is overseen by the Pensions Committee, which is a committee of Gwynedd Council.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the Gwynedd Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Resolution bodies, which are city, town and community councils. They have the power to decide if their employees can join the LGPS and pass a resolution accordingly.
- Admission 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.

NOTE I – DESCRIPTION OF FUND (continued)

The following bodies are active employers within the Pension Fund:

Scheduled Bodies	
Gwynedd Council	Snowdonia National Park
Conwy County Borough Council	Bryn Eilian School
Isle of Anglesey County Council	Emrys ap Iwan School
Police and Crime Commissioner for North Wales	Pen y Bryn School
Llandrillo – Menai Group	Eirias High School
GWE	NMWTRA
Resolution Bodies	
Llanllyfni Community Council	Ffestiniog Town Council
Bangor City Council	Llandudno Town Council
Abergele Town Council	Llangefni Town Council
Colwyn Bay Town Council	Menai Bridge Town Council
Beaumaris Town Council	Towyn and Kinmel Bay Town Council
Holyhead Town Council	Tywyn Town Council
Caernarfon Town Council	Conwy Town Council
Trefriw Community Council	Llanfairfechan Town Council
Admission Bodies	
Adult Learning Wales (formerly Coleg Harlech WEA)	North Wales Society for the Blind
CAIS	Conwy Voluntary Services
Conwy Citizens Advice Bureau	Careers Wales North West
Holyhead Joint Burial Committee	Mantell Gwynedd
Cwmni Cynnal	Medrwn Môn
Cwmni'r Fran Wen	Menter Môn
Community Admission Bodies	
Cartrefi Conwy	Adra
Byw'n Iach	
Transferee Admission Bodies	
ABM Catering	Caterlink
Kingdom Services Group	A E & A T Lewis

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 2.75% to 12.5% of pensionable pay for the financial year ended 31 March 2020. Employers also make contributions which are set based on triennial actuarial funding valuations. New employer contribution rates were applied for the three years from 1 April 2017 to 31 March 2020 following the actuarial valuation carried out as at 31 March 2016.

NOTE 1 – DESCRIPTION OF FUND (continued)

d) Benefits

Prior to 1 April 2014 pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below:

	Service pre-1 April 2008	Service post-31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the Fund became a career average scheme as summarised below:

	Service post-31 March 2014
Pension	Each year worked is worth 1/49 x career average revalued earnings (CARE)
Lump Sum	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

Accrued pension is increased annually in line with the Consumer Prices Index.

There are a number of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Gwynedd Pension Fund scheme handbook available from Gwynedd Council's Pensions Section.

Benefits are index-linked in order to keep pace with inflation.

NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its position at year-end as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2019/20.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year or the actuarial present value of promised retirement benefits. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 20 of these accounts. The accounts have been prepared on a going concern basis.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – revenue recognition

a) Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employers deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the fund's actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 9 and 11).

Individual transfers in and out of the Fund are accounted for on a receipts and payments basis, which is normally when the member liability is accepted or discharged.

Transfers into the Fund from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 9).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds including property

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- iv) **Movement in the net market value of investments**
Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

f) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Council discloses its pension Fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs, management, accommodation and other overheads associated with oversight and governance are apportioned to the Fund in accordance with Council policy.

Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. In addition the Fund had negotiated with Fidelity International that an element of their fee would be performance-related. This arrangement was terminated on the 30 September 2016, and since then the fee has been based on the market value of the investments under their management.

The cost of obtaining investment advice from external consultants is included in investment management charges.

A proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets statement

g) Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined as follows:

- i) **Equities**
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- ii) **Pooled investment vehicles**
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.
- iii) **Private Equity and Infrastructure**
Investments in private equity funds and infrastructure funds which are unquoted listed partnerships are valued based on the Fund's share of the net assets in the funds or limited partnerships using the latest financial statements published by the respective fund managers in accordance with IFRS guidelines. It is important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments. They are inherently based on forward-looking estimates and judgements involving many factors.

h) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

i) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

k) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the fund actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

l) Additional voluntary contributions

Gwynedd Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. There are three AVC funds. They are held with Clerical Medical, The Equitable Life Assurance Society and Standard Life. The AVC providers secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in these arrangements each receive an annual statement made up to 31 March confirming the amounts held in their account and the movements in year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 23).

NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Unquoted private equity and infrastructure investments

The fair value of private equity investments and infrastructure are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure are valued by the investment managers using guidelines set out by IFRS accounting standards. The value of unquoted securities at 31 March 2020 was £157.2 million (£145.6 million at 31 March 2019).

Property fund valuations

The Coronavirus (COVID-19) pandemic has impacted global financial and property markets. As a result of the volatility in market conditions, year-end valuation reports provided to the Fund include a statement that there is a material valuation uncertainty related to the UK property fund managed on behalf of the Fund. The total value of these funds as at 31 March 2020 is £191.3m. As a result, the property fund valuations at 31 March 2020 may be subject to a higher level of uncertainty.

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

NOTE 5 – ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported in the accounts. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity and infrastructure	Private equity and infrastructure investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity and infrastructure investments in the financial statements are £157.2 million. There is a risk that this investment may be under or overstated in the accounts.
Property funds	The Coronavirus (COVID-19) pandemic has impacted global financial and property markets. As a result of the volatility in market conditions, year-end valuation reports provided to the Fund include a statement that there is a material valuation uncertainty related to the UK property fund managed on behalf of the Fund. The total value of these funds as at 31 March 2020 is £191.3m. As a result, the property fund valuations at 31 March 2020 may be subject to a higher level of uncertainty.	The total property fund investments in the financial statements are £191.3 million. There is a risk that this investment may be under or overstated in the accounts.

NOTE 6 – EVENTS AFTER THE REPORTING DATE

There are no significant events after the year end to report.

NOTE 7 – CONTRIBUTIONS

By category

2018/19		2019/20
£'000		£'000
17,003	Employees/Members contributions	17,914
	Employers' contributions:	
50,821	• Normal contributions	56,376
106	• Deficit recovery contributions	126
50,927	Total employers' contributions	56,502
67,930	Total contributions receivable	74,416

By type of employer

2018/19		2019/20
£'000		£'000
22,410	Gwynedd Council	27,055
40,980	Other scheduled bodies	42,075
2,000	Admission bodies	2,076
1,953	Community admission bodies	2,623
247	Transferee admission bodies	221
268	Resolution bodies	312
72	Closed fund*	54
67,930		74,416

* Closed fund – These are contributions received from North Wales Magistrates Court Committee and Theatr Ardudwy which was an admitted body but is now a closed fund.

NOTE 8 – OTHER INCOME

2018/19		2019/20
£'000		£'000
1	Interest on deferred contributions	2
5	Income from divorce calculations	3
6		5

NOTE 9 – TRANSFERS IN FROM OTHER PENSION FUNDS

2018/19		2019/20
£'000		£'000
3,007	Individual transfers	4,887
3,007		4,887

NOTE 10 - BENEFITS PAID

By category

2018/19		2019/20
£'000		£'000
45,278	Pensions	48,356
11,949	Commutation and lump sum retirement benefits	12,343
1,986	Lump sum death benefits	1,629
59,213		62,328

By type of employer

2018/19		2019/20
£'000		£'000
16,494	Gwynedd Council	17,714
30,510	Other scheduled bodies	31,958
1,467	Admission bodies	1,520
963	Community admission body	1,472
61	Transferee admission body	223
225	Resolution body	119
9,493	Closed fund	9,322
59,213		62,328

NOTE 11 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2018/19		2019/20
£'000		£'000
	Refunds to members leaving service net of tax	
139	repayments	161
2	Payments for members joining state scheme	1
984	Group Transfers	0
2,003	Individual transfers	4,507
3,128		4,669

The group transfer in 2018/19 was to the North and Mid Wales Trunk Road Agency.

NOTE 12 – MANAGEMENT EXPENSES

2018/19		2019/20
£'000		£'000
1,311	Administrative costs	1,491
13,283	Investment management expenses	11,494
65	Oversight and governance costs	66
0	Wales Pension Partnership	70
14,659		13,121

This analysis of the costs of managing the Gwynedd Pension Fund during the period has been prepared in accordance with CIPFA guidance.

Administrative expenses include amounts charged to the Pension Fund by Gwynedd Council for staff costs, support services and accommodation. Further details are given in Note 24.

Wales Pension Partnership

Included in Management Expenses is the cost of our involvement in the Wales Pension Partnership (WPP) collective Investment Pooling arrangement. The Oversight and Governance costs in Note 13 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 in Note 14 are fees payable to Link Fund Solutions (the WPP operator) and include fund manager fees (which also includes the operator fee and other associated costs), transaction costs and custody fees. These costs are based on each Fund's percentage share of WPP pooled assets and are deducted from the Net Asset Value (NAV). The underlying manager fees for the Global Opportunities sub-funds are not included in this table, these fees are disclosed as a narrative to Note 14. Further details on the WPP can be found in the Annual Report.

The following fees are included in Note 12, 13 and 14 in relation to the Wales Pension Partnership:

	2019/20
	£'000
Investment Management Expenses	
Fund Manager fees	1,656
Transaction costs	924
Custody fees	102
	2,682
Oversight and governance costs	
Running Costs	70
	70
Total	2,752

NOTE 13 – ADMINISTRATIVE, OVERSIGHT AND GOVERNANCE COSTS

2018/19		2019/20
£'000		£'000
	Administrative costs	
504	Direct employee costs	563
320	Other direct costs	377
357	Support services, including IT	367
35	External audit fees	34
95	Actuarial fees	150
1,311		1,491
	Oversight and governance costs	
65	Pensions Committee and Local Pension Board	66
0	Wales Pensions Partnership	70
1,376		1,627

NOTE 14 – INVESTMENT MANAGEMENT EXPENSES

2018/19		2019/20
£'000		£'000
13,166	Fund Manager fees	10,393
0	Transaction costs	924
56	Custody fees	117
13	Performance monitoring service	13
48	Investment consultancy fees	47
13,283		11,494

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled investment vehicles. Transaction costs are being reported for the first time in 2019/20, a charge of £165,628 was incurred in transaction costs for 2018/19, however, this was disclosed in the accounts but not actually charged to the accounts in 2018/19.

The WPP Global Opportunities Fund are investments which are appointed via a manger of manager approach which have their own underlying fees. The return for this mandate are net of the underlying manager fees which is reflected in Note 16a within the Change in Market value- for transparency, the fees in 2019/20 were £820,000.

There are no performace- related fees paid to investment managers. In addition to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. They are reflected in the cost of investment purchases and in the proceeds of sales of investments (see Note 16a).

NOTE 15 – INVESTMENT INCOME

2018/19		2019/20
£'000		£'000
6,309	Pooled equities	1,463
1,090	Pooled private equity	529
126	Pooled infrastructure	101
6,241	Pooled property investments	6,929
198	Interest on cash deposits	296
13,964	Total before taxes	9,318

The Gwynedd Pension Fund has two bank accounts which are held as part of Gwynedd Council's Group of Bank Accounts. The overall surplus cash held in the Group of Bank Accounts is invested on a daily basis. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund, based on the Fund's daily balances over the year.

The Pension Fund also has a Euro account to deal with receipts and payments in Euros and to minimise the number and costs of exchange transactions.

NOTE 16 – INVESTMENTS

31 March		31 March
2019		2020
£'000		£'000
Investment assets		
1,908,982	Pooled investment vehicles (PIV)	1,771,285
107,218	Private equity (PIV)	112,661
38,395	Infrastructure (PIV)	44,569
2,054,595		1,928,515
538	Cash deposits	783
0	Amount receivable from sales of investments	0
2,055,133	Total investment assets	1,929,298
Investment liabilities		
(123)	Amounts payable for purchases	(0)
(123)	Total investment liabilities	(0)
2,055,010	Net investment assets	1,929,298

During the year 2018/19 Gwynedd Pension Fund transferred most of the active equities into the two global funds in the Wales Pension Partnership (WPP). Further transfers will be made in the coming years until most of the investments are in the WPP.

Note 16a – Reconciliation of movements in investments and derivatives

2019/20	Market value at 1 April 2019	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2020
	£'000	£'000	£'000	£'000	£'000
Equities	0	0	0	0	0
Pooled investment vehicles (PIV)	1,908,982	31,189	(10,317)	(158,569)	1,771,285
Private equity / infrastructure (PIV)	145,613	26,464	(13,054)	(1,793)	157,230
	<u>2,054,595</u>	<u>57,653</u>	<u>(23,371)</u>	<u>(160,362)</u>	<u>1,928,515</u>
Cash deposits	538				783
Amount receivable from sales of investments	0				0
Amounts payable for purchases of investments	(123)				0
Fees within pooled vehicles				8,844	
Net investment assets	2,055,010			(151,518)	1,929,298

2018/19	Market value at 1 April 2018	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2019
	£'000	£'000	£'000	£'000	£'000
Equities	337,188	115,778	(489,524)	36,558	0
Pooled investment vehicles (PIV)	1,412,705	631,601	(216,255)	80,931	1,908,982
Private equity / infrastructure (PIV)	104,310	43,758	(11,401)	8,946	145,613
	<u>1,854,203</u>	<u>791,137</u>	<u>(717,180)</u>	<u>126,435</u>	<u>2,054,595</u>
Cash deposits	44,352			31	538
Amount receivable from sales of investments	5,432				0
Amounts payable for purchases of investments	(4,690)				(123)
Fees within pooled vehicles				9,194	
Net investment assets	1,899,297			135,660	2,055,010

Note 16b – Analysis of investments

31 March 2019 £'000		31 March 2020 £'000	
1,444,431	Pooled Equities (PIV)	1,299,750	
285,250	Pooled Fixed Interest (PIV)	280,279	
179,301	Pooled property investments (PIV)	191,256	
107,218	Private equity (PIV)	112,661	
38,395	Infrastructure (PIV)	44,569	
2,054,595		1,928,515	

Investments analysed by fund manager

Market Value at 31 March 2019			Market Value at 31 March 2020		
£'000	%		£'000	%	
656,138	31.9	BlackRock	565,379	29.3	
192,395	9.4	Fidelity	181,742	9.4	
285,254	13.9	Insight	280,282	14.5	
61,073	3.0	Lothbury	60,570	3.2	
145,614	7.1	Partners Group	157,230	8.2	
20,862	1.0	Threadneedle	31,401	1.6	
50,182	2.4	UBS	47,832	2.5	
411	0.0	Veritas	625	0.0	
643,081	31.3	Wales Pensions Partnership	604,237	31.3	
2,055,010	100.0		1,929,298	100.0	

The following investments represent more than 5% of the net assets of the Fund:

Market Value at 31 March 2019			Market Value at 31 March 2020		
£'000	%		£'000	%	
285,253	15.4	LF Wales PP Global Opportunities Equity Fund	305,618	15.8	
322,200	15.5	LF Wales PP Global Growth Fund	298,619	15.4	
285,251	13.7	LDI Solutions Plus Bonds	280,279	14.5	
324,729	15.6	Aquila Life UK Equity Index Fund	274,417	14.2	
142,648	7.1	Fidelity Institutional Select Global Equity	137,117	7.1	
139,699	6.7	Aquila Life Global Dev Fundamental Fund	119,881	6.2	

Note 16c – Stock lending

The Investment Strategy Statement permits stock lending subject to specific approval. Currently the Fund does not undertake any stock lending.

NOTE 17 – FINANCIAL INSTRUMENTS

Note 17a – Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

As at 31 March 2019			As at 31 March 2020		
Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at cost
£'000	£'000	£'000	£'000	£'000	£'000
Financial assets					
1,908,982			1,771,285		
107,218			112,661		
38,395			44,569		
	23,151			8,883	
	6,613			3,829	
2,054,595	29,764	0	1,928,515	12,712	0
Financial liabilities					
		(3,012)			(2,890)
0	0	(3,012)	0	0	(2,890)
2,054,595	29,764	(3,012)	1,928,515	12,712	(2,890)

Note 17b – Net gains and losses on financial instruments

31 March 2019		31 March 2020
Fair value		Fair value
£'000		£'000
Financial assets		
126,435	Fair value through profit and loss	(160,362)
31	Loans and receivables	0
126,466	Total financial assets	(160,362)
Financial liabilities		
0	Fair value through profit and loss	0
0	Financial liabilities at cost	0
0	Total financial liabilities	0
126,466	Net financial assets	(160,362)

Note 17c – Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

31 March 2019			31 March 2020	
Carrying value	Fair value		Carrying value	Fair value
£'000	£'000		£'000	£'000
Financial assets				
1,532,175	2,054,595	Fair value through profit and loss	1,576,105	1,928,515
29,764	29,764	Loans and receivables	12,712	12,712
1,561,939	2,084,359	Total financial assets	1,588,817	1,941,227
Financial liabilities				
(123)	(123)	Fair value through profit and loss	0	0
(2,889)	(2,889)	Financial liabilities at cost	(2,890)	(2,890)
(3,012)	(3,012)	Total financial liabilities	(2,890)	(2,890)
1,558,927	2,081,347	Net financial assets	1,585,927	1,938,337

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Note 17d – Valuation of financial instruments carried at fair value

All investments are held at fair value. The valuation bases are set out below. All assets have been valued using fair values techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market based information. The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments could include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. All property funds have been shown as Level 3 for 31st March 2020 due to restrictions on redemption.

Note 17d – Valuation of financial instruments carried at fair value (continued)

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Gwynedd Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2020	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	0	1,580,030	348,485	1,928,515
Loans and receivables	12,712	0	0	12,712
Total financial assets	12,712	1,580,030	348,485	1,941,227
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at cost	(2,890)	0	0	(2,890)
Total financial liabilities	(2,890)	0	0	(2,890)
Net financial assets	9,822	1,580,030	348,485	1,938,337

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2019	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	0	1,797,728	256,867	2,054,595
Loans and receivables	29,764	0	0	29,764
Total financial assets	29,764	1,797,728	256,867	2,084,359
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(123)	0	(123)
Financial liabilities at cost	(2,889)	0	0	(2,889)
Total financial liabilities	(2,889)	(123)	0	(3,012)
Net financial assets	26,875	1,797,605	256,867	2,081,347

Note 17e – Reconciliation of fair value measurements within Level 3

	Market Value 1 April 2019	Transfers into Level 3	Purchases during the year	Sales during the year	Unrealised gains/ (losses)	Realised gains/ (losses)	Market Value 31 March 2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Property Unit Trusts	111,254	68,047	20,644	777	(7,818)	95	191,255
Private Equity	107,218	0	19,408	5,144	(3,101)	5,720	112,661
Infrastructure	38,395	0	7,056	1,746	1,307	443	44,569
Total Level 3	256,867	68,047	47,108	7,667	(9,612)	6,258	348,485

NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**Risk and risk management**

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pensions Committee. The Pension Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to pay pensions. The Funding Strategy Statement produced by the Administering Authority in conjunction with the Fund's Actuaries states how solvency and risk will be managed in relation to liabilities. The Administering Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Statement of Investment Principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Investment Regulations) and the funding policy set out in this Statement. The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk for its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

- the exposure of the Fund to market risk is monitored through a risk factor analysis to ensure that risk remains within tolerable levels;
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within the limits set in the Fund investment strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2019/20 reporting period.

Following analysis of the observed historical volatility of asset class returns in consultation with the Fund's investment advisors potential price changes have been determined for the various classes of assets held by the Fund. The rates to be applied to the Fund's asset categories are as follows:

Asset type	Potential market movement (+/-)	
	31 March 2019	31 March 2020
	%	%
UK Equities	16.6	27.5
Global Equities	16.9	28.0
Emerging Markets Equity	25.3	25.4
Private Equity	28.3	28.4
Pooled Fixed Income	3.0	3.9
Infrastructure	20.1	20.1
Property	14.3	14.2
Cash	0.0	0.0
Total Fund	12.3	18.9

The potential volatilities disclosed above are consistent with a one-standard deviation movement in the change of value of the assets over the latest three years. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Had the market price of the Fund investments increased/decreased in line with the above, the change in the market price of the net assets available to pay benefits would have been as follows:

Asset type	Value as at 31 March 2020 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
UK Pooled Equities	274,417	27.5	349,881	198,952
Overseas Pooled Equities	1,025,335	28.0	1,312,428	738,241
Pooled Private Equity	112,661	28.4	144,544	80,778
Pooled Fixed Income	280,279	3.9	291,210	269,348
Pooled Infrastructure	44,569	20.1	53,528	35,611
Pooled Property	191,255	14.2	218,414	164,097
Cash	9,821	0.0	9,821	9,821
Total assets available to pay benefits	1,938,337	18.9*	2,304,683	1,571,991

* The whole fund values in the table above are based on 18.9% rather than the total of the individual asset types.

Asset type	Value as at 31 March 2019 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Pooled Equities	1,444,431	16.8	1,687,566	1,201,297
Pooled Private Equity	107,218	28.3	137,561	76,875
Pooled Fixed Income	285,250	3.0	293,808	276,693
Pooled Alternatives (Infrastructure)	38,395	20.1	46,112	30,678
Pooled Property	179,301	14.3	204,941	153,661
Cash	26,752	0.0	26,752	26,752
Total assets available to pay benefits	2,081,347	12.3*	2,343,597	1,819,098

* The whole fund values in the table above are based on 12.3% rather than the total of the individual asset types.

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2020 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March 2019 £'000	As at 31 March 2020 £'000
Cash and cash equivalents	22,614	8,100
Cash balances	538	783
Pooled Fixed Income	285,251	280,279
Total	308,403	289,162

NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of net assets available to pay benefits. A 1% movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates:

Asset type	Carrying amount as at 31 March 2020	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	8,100	81	(81)
Cash balances	783	8	(8)
Pooled Fixed Income *	280,279	33,633	(33,633)
Total change in assets available	289,162	33,722	(33,722)

* A change of 1% in interest rate does not have a direct impact on fixed interest securities but does have a partial impact as calculated in the tables above.

Asset type	Carrying amount as at 31 March 2019	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	22,614	226	(226)
Cash balances	538	5	(5)
Pooled Fixed Income *	285,251	34,230	(34,230)
Total change in assets available	308,403	34,461	(34,461)

* A change of 1% in interest rate does not have a direct impact on fixed interest securities but does have a partial impact as calculated in the tables above.

The impact that a 1% change in interest rates would have on interest received is minimal as the average interest rate received on cash during the year was 1.53% amounting to interest of £266,995 for the year.

A 1% increase in interest rates will not affect the interest received on fixed income assets but will reduce their fair value, as shown in the tables above. Changes in interest rates do not impact on the value of cash / cash equivalents but they will affect the interest income received on those balances. Changes to both the fair value of assets and income received from investments impact on the net assets to pay benefits but as noted above this does not have a significant effect on the Fund.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds assets denominated in currencies other than £UK.

NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The Fund has made commitments to private equity and infrastructure in foreign currency, (€284 million and \$88.6 million). These commitments are being drawn down on request from the investment manager over a number of years. The current commitments still outstanding are shown in Note 25. The risk is that the pound is weak relative to the dollar and euro at the time of the drawdown and then strengthens when the Fund is fully funded. The Fund has been funding the commitments since 2005 and therefore the liability is balanced out over a long period.

The Fund's currency rate risk has been calculated based on the volatility of the currencies which would affect the value of the investments and any cash held in those currencies.

The following table summarises the Fund's currency exposure as at 31 March 2020 and as at the previous year end:

Currency exposure - asset type	As at	As at
	31 March 2019	31 March 2020
	£'000	£'000
Overseas and Global Equities	1,119,701	1,025,335
Global Pooled Fixed Income	285,250	280,279
Overseas Alternatives (Pooled Private Equity and Pooled Infrastructure)	145,613	157,230
Pooled Overseas Property	1,000	226
Overseas Currency	0	0
Total overseas assets	1,551,564	1,463,070

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Fund investment advisors, the likely volatility associated with foreign exchange rate movements has been calculated with reference to the historic volatility of the currencies and their relative amounts in the Fund's investments.

A 10% fluctuation in the currency is considered reasonable based on the Fund investment advisors' analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period to 31 March 2020. The equivalent rate for the year ended 31 March 2019 was 10%. This analysis assumes that all other variables, in particular interest rates, remain constant.

NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The tables below show a breakdown of the Fund's exposure to individual currencies as at 31 March 2020 and at the end of the previous financial year:

Currency exposure - by asset type	Carrying amount as at 31 March 2020	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	1,025,335	1,127,868	922,801
Global Pooled Fixed Income	280,279	308,307	252,251
Overseas Alternatives (Pooled Private Equity and infrastructure)	157,230	172,953	141,507
Pooled Overseas Property	226	249	204
Overseas Currency	0	0	0
Total change in assets available	1,463,070	1,609,377	1,316,763

Currency exposure - by asset type	Carrying amount as at 31 March 2019	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	1,119,701	1,231,671	1,007,731
Global Pooled Fixed Income	285,250	313,776	256,726
Overseas Alternatives (Pooled Private Equity and infrastructure)	145,613	160,174	131,052
Pooled Overseas Property	1,000	1,100	900
Overseas Currency	0	0	0
Total change in assets available	1,551,564	1,706,721	1,396,409

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The benchmark for the concentration of the funds held with investment managers is as follows.

Investment Manager	Percentage of Portfolio
BlackRock	29.5%
Fidelity	10.0%
Wales Pension Partnership	28.0%
Insight	15.0%
Property (UBS, Threadneedle, Lothbury, BlackRock)	10.0%
Partners Group	7.5%

All investments held by investment managers are held in the name of the Pension Fund so, if the investment manager fails, the Fund's investments are not classed amongst their assets.

Contractual credit risk is represented by the net payment or receipt that remains outstanding. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

In order to maximise the returns from Short-Term Investments and Cash Deposits, the Council invests any temporarily surplus funds in its bank accounts along with any surplus funds in the Gwynedd Pension Fund bank accounts. An appropriate share of the interest earned is paid to the Pension Fund and any losses on investment are shared with the Pension Fund in the same proportion. Due to the nature of the banking arrangements any surplus cash in the Pension Fund bank accounts is not transferred to the Council's bank accounts. As the Short-Term Investments are made in the name of Gwynedd Council they are shown in full on the Council's Balance Sheet. The Pension Fund element of the Short-Term Investments and Cash Deposits at 31 March 2020 was £8.2m (£22.6m at 31 March 2019).

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum percentage of deposits placed with any one class of financial institution. In addition, the Council invests an agreed percentage of funds in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency. The Council believes it has managed its exposure to credit risk, and has had only one experience of default or uncollectable deposits when Heritable Bank went into administration in 2008. Full details can be seen in Note 28.

NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Employers in the Fund are not currently assessed for their creditworthiness or individual credit limits set. There is risk of being unable to collect contributions from employers with no contributing members (e.g. risk associated with employers with a small number of declining contributing members) so the Administering Authority monitors membership movements on an annual basis.

New employers to the Fund will need to agree to the provision of a bond or obtain a guarantee to reduce the risk of future financial loss to the Fund in the event of not being able to meet its pension liability on cessation. As shown in Note 26 two employers have provided bonds. Any future liabilities falling on the Fund as a result of cessation are borne by the whole Fund and spread across all employers. This is done to ensure that actuarial recovery periods and amounts are kept at a manageable level for smaller employers.

This risk has increased by a legal judgement, which potentially indicates that employers with no contributing members cannot be charged contributions under the LGPS Administration Regulations. This ruling, however, does not affect the ability to collect contributions following a cessation valuation under Regulation 38(2). The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions under Regulation 38 of the LGPS (Administration) Regulations 2008 between triennial valuations.

c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments to pay pensions and other costs and to meet investment commitments.

The Administering Authority has a cash flow system that seeks to ensure that cash is available if needed. In addition, current contributions received from contributing employers and members far exceed the benefits being paid. Surplus cash is invested and cannot be paid back to employers. The Fund's Actuaries establish the contributions that should be paid in order that all future liabilities can be met.

There is no limit on the amount that the Pension Fund bank account can hold. The amounts held in this account should meet the normal liquidity needs of the Fund. Any temporary surplus is invested by the Administering Authority in accordance with the Treasury Management Strategy Statement to provide additional income to the Pension Fund. Surplus cash is invested in accordance with the Statement of Investment Principles.

The Fund also has access to an overdraft facility through the Administering Authority's group bank account arrangements. This facility would only be used to meet short-term timing differences on pension payments. As these borrowings would be of a limited short-term nature, the Fund's exposure to credit risk is considered negligible.

NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2020 the value of illiquid assets was £348m, which represented 18.0% of the total Fund assets (31 March 2019: £325m, which represented 15.6% of the total Fund assets).

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy.

All financial liabilities at 31 March 2020 are due within one year as was the case at 31 March 2019.

Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

NOTE 19 – FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (Funding Strategy Statement) reviewed as part of the 2019 valuation.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment.
- to ensure that employer contribution rates are reasonably stable where appropriate.
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return.
- to reflect the different characteristics of different employers in determining contribution rates by having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years.
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The Funding Strategy Statement sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 17 years if the

NOTE 19 – FUNDING ARRANGEMENTS (continued)

valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the Funding Strategy Statement, there is still around a 70% chance that the Fund will return to full funding over the 17 years.

Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £2,081 million, were sufficient to meet 108% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2019 valuation was £156 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measured as per the Funding Strategy Statement. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its Funding Strategy Statement.

Principal Actuarial Assumptions and Method used to Value the Liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2020.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	3.9%
Salary increase	2.6%
Benefit increase	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, assuming the current rate of improvements has reached a peak and will converge to a long-term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Mortality assumption	Male Years	Female Years
Current pensioners	21.3	23.4
Future pensioners (aged 45 at the 2019 valuation)	22.2	25.1

NOTE 19 – FUNDING ARRANGEMENTS (continued)

Copies of the 2019 valuation report and the Funding Strategy Statement are available on the Pension Fund's website www.gwynedd-pensionfund.org.uk

Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

NOTE 20 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS19 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 (see Note 19) and has also used them to provide the IAS19, and FRS102 reports for individual employers in the Fund. The actuary has also valued ill health and death benefits in line with IAS19.

The actuarial present value of promised retirement benefits at 31 March 2019 and 2020 are shown below:

	31 March 2019	31 March 2020
Assumptions	£m	£m
Active members	1,674	1,279
Deferred members	434	445
Pensioners	722	809
Total	2,830	2,533

As noted above the liabilities above are calculated on an IAS19 basis and therefore differ from the results of the 2019 triennial funding valuation (see Note 19) because IAS19 stipulates a discount rate rather than a rate that reflects market rates.

NOTE 20 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS (continued)

Assumptions used

The financial assumptions used are those adopted for the Administering Authority's IAS19 report as shown below:

	31 March 2019	31 March 2020
Assumption	%	%
Pension increase rate	2.5	1.9
Salary increase rate	2.5	2.2
Discount rate	2.4	2.3

The longevity assumption is the same as used for assessing the funding position as shown in Note 19 above.

The commutation assumption allows for future retirements to elect to take 50% of the maximum tax-free cash up to the HMRC limit for pre-April 2008 service and 75% of the maximum tax-free cash up to the HMRC limit for post-April 2008 service.

The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate % increase to liabilities	Approximate monetary amount £m
	%	
0.5% p.a. increase in the pension increase rate	9	83
0.5% p.a. increase in the salary increase rate	1	12
0.5% p.a. decrease in the discount rate	10	97

The principal demographic assumption is the longevity assumption. For sensitivity purpose the actuary estimates that a one year increase in life expectancy would increase the liabilities by approximately 3–5%.

NOTE 21 – CURRENT ASSETS

31 March 2019		31 March 2020
£'000		£'000
1,227	Contributions due - employees	403
3,682	Contributions due – employers	1,234
1,704	Sundry debtors	2,192
6,613	Total debtors	3,829
22,613	Cash	8,100
29,226	Total	11,929

NOTE 22 – CURRENT LIABILITIES

31 March 2019 £'000		31 March 2020 £'000
1,922	Sundry creditors	1,828
967	Benefits payable	1,062
2,889	Total	2,890

NOTE 23 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

The market value of the funds are stated below:

	Market value at 31 March 2019 £'000	Market value at 31 March 2020 £'000
Clerical Medical	3,851	3,674
Utmost Life	203	193
Standard Life	61	5
Total	4,115	3,872

AVC contributions were paid directly to the managers as follows:

	2018/2019 £'000	2019/2020 £'000
Clerical Medical	613	601
Standard Life	14	10
Total	627	611

NOTE 24 - RELATED PARTY TRANSACTIONS

Gwynedd Council

The Gwynedd Pension Fund is administered by Gwynedd Council. Consequently there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £1,275,899 (£1,152,315 in 2018/19) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also one of the largest employers of members of the Fund and contributed £27.06m to the Fund in 2019/20 (£22.41m in 2018/19). At the end of the year the Council owed £0.49m to the Fund which was primarily in respect of interest paid on pension fund balances and contributions for March 2020 and the Fund owed £1.24m to the Council which was primarily in respect of recharges from the Council.

The Gwynedd Pension Fund has two bank accounts which are held as part of Gwynedd Council's Group of Bank Accounts. The overall surplus cash held in the Group of Bank Accounts is invested on a daily basis. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund, based on the Fund's daily balances over the year. During 2019/20, the Fund received interest of £266,995 (£166,303 in 2018/19) from Gwynedd Council.

NOTE 24 - RELATED PARTY TRANSACTIONS (continued)

Governance

There were two members of the Pensions Committee who were in receipt of pension benefits from the Gwynedd Pension Fund during 2019/20 (committee members J.B. Hughes and P. Jenkins). In addition, committee members S.Glyn (member until 02/05/2019), S.W. Churchman, D. Cowans, A.W. Jones, P. Read, R.W. Williams and I. Thomas are active members of the Pension Fund.

Three members of the Pension Board were in receipt of pension benefits from the Gwynedd Pension Fund during 2019/20 (Board members A.W. Deakin (member until 06/08/2019), H.E. Jones and S. Warnes). In addition, Board members A.Ll. Evans, O. Richards, H. Trainor and S.E. Parry are active members of the Pension Fund.

Key Management Personnel

The CIPFA Code of Practice on Local Authority Accounting exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances in the Code satisfy the key management personnel disclosure requirements of IAS24. This also applies to the accounts of Gwynedd Pension Fund.

The disclosures required can be found in the accounts of Gwynedd Council.

NOTE 25 - COMMITMENTS UNDER INVESTMENT CONTRACTS

Outstanding capital commitments (investments) at 31 March were as follows:

	Total commitments €'000	Commitment at 31 March 2019 €'000	Commitment at 31 March 2020 €'000
P.G. Direct 2006	20,000	776	776
P.G. Global Value 2006	50,000	3,477	3,477
P.G. Secondary 2008	15,000	1,960	1,960
P.G. Global Value 2011	15,000	2,096	2,096
P.G. Global Infrastructure 2012	40,000	8,147	8,147
P.G. Direct 2012	12,000	1,181	1,181
P.G. Global Value 2014	12,000	2,302	1,531
P.G. Direct Equity 2016	50,000	10,348	2,826
P.G. Global Value 2017	42,000	33,677	25,973
P.G. Global Infrastructure 2018	28,000	0	23,688
Total Euros	284,000	63,964	71,655
	\$'000	\$'000	\$'000
P.G. Emerging Markets 2011	7,000	1,082	1,082
P.G. Secondary 2015	38,000	24,692	18,401
P.G. Direct Infrastructure 2015	43,600	23,798	20,840
Total Dollars	88,600	49,572	40,323

'PG' above refers to Partners Group, the investment manager which invests in 'alternatives' (private equity and infrastructure) on behalf of the Fund.

These commitments relate to outstanding call payments on unquoted limited partnership funds held in the private equity part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a number of years from the date of the original commitment.

NOTE 26 – CONTINGENT ASSETS

Two admitted body employers in the Gwynedd Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default.

NOTE 27 – CONTINGENT LIABILITIES

There are no contingent liabilities identified in accordance with the following explanations:

The McCloud Case

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. The Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there is no finalised outcome of the McCloud case, the Fund Actuary acted in line with SAB's advice in the 2019 valuation and valued all member benefits in line with the current LGPS Regulations. The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes arising from the McCloud judgement are uncertain, the Fund has elected to make an approximate allowance by increasing the required likelihood of success set for contribution rates for all employers. Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

Guaranteed Minimum Pension Equalisation

Guaranteed minimum pension (GMP) accrued in the LGPS from 6 April 1978 to 5 April 1997. In broad terms, the GMP represents the minimum pension an occupational pension scheme must provide a scheme member as an alternative to the State Earnings Related Pension Scheme (SERPS).

GMP's are inherently unequal due to a number of factors, including the differing retirement ages for men (age 65) and women (age 60) and female GMP's accruing at a higher rate. While this can result in differences in GMP Values, what was deemed to matter more is what the members receive in total from the LGPS and the state and whether that leads to inequality. In the past responsibility for paying annual pension increases was divided between the LGPS fund and the state. However, the introduction of the new Single State Pension in April 2016 brought uncertainty over the ongoing indexation of the GMP amount. This led to the Government announcing an interim solution for members reaching State Pension Age between 6 April 2016 and 5 December 2018, which was later extended to at least 5 April 2021, which involves the LGPS fund paying for everything i.e. both initial pension and all increases.

Hymans Robertson, the Fund's Actuary, have said that given the interim solution has been extended to 5 April 2021 they have allowed for the Government's preferred long term (i.e. post 2021) solution of converting GMP to scheme pension in the 31 March 2019 valuations.

NOTE 28 – IMPAIRMENT LOSSES

a) Impairment for bad and doubtful debts

As explained in Note 5 there has not been any impairment for bad and doubtful debts.

b) Impairment of Icelandic bank deposit

During 2008/09 the Council made a deposit of £4m with Heritable Bank which is a UK registered bank under Scottish Law. The pension fund's share of that investment was £565,200. The company was placed in administration on 7 October 2008. The Council has received a return of £3,938,407, equating to 98% from the administrators up to 31 March 2020. The administration is continuing, but the full amount is expected to be recovered in due course.

NOTE 29 - PENSION FUND PUBLICATIONS

A separate Annual Report is produced for the Pension Fund. This document includes the accounts for the Fund along with more information regarding the administration and investment activities. It includes the following documents:

Investment Strategy Statement
Funding Strategy Statement
Governance Policy and Governance Compliance Statement
Communications Policy Statement

Copies can be obtained from the Pension Fund website www.gwyneddpensionfund.org.uk on the investment page or by contacting Delyth Jones-Thomas on 01286 679128.

Audit of Accounts Report – Gwynedd Pension Fund

Audit year: 2019-20

Date issued: October 2020

Document reference:

Purpose of this document

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

Contents

The Auditor General intends to issue an **unqualified audit opinion** which includes an emphasis of matter paragraph regarding the valuation uncertainty for the UK property funds on your financial statements. There are no material issues to report to you prior to their approval.

Audit of Accounts Report

Introduction	4
Impact of Covid-19 on this Year's Audit	4-5
Proposed Audit Opinion	5
Significant Issues arising from the Audit	6-9
Recommendations	10
Appendices	
Appendix 1 – Final Letter of Representation	11-14
Appendix 2 – Proposed Audit Opinion	15-17
Appendix 3 – Summary of Uncorrected and Corrected Misstatements	18-19
Appendix 4 – Recommendations	20-24

Audit of Accounts Report

Introduction

- 1 We summarise the main findings from our audit of your 2019-20 accounts in this report.
- 2 We have already discussed these issues with Delyth Wyn Jones-Thomas (Investment manager)
- 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 £19,000,000 for this year's audit.
- 5 We have now substantially completed this year's audit. All outstanding areas of testing are detailed below:
 - a. Completion of subsequent events review
 - b. Final quality assurance procedures
 - c. Receipt of signed management representation letter
- 6 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

- 7 The Covid-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You are required 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.
- 8 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, 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

Timetable	<ul style="list-style-type: none">• The deadline for completing your accounts has been changed.• We expect your audit report to be signed in October 2020.
Electronic signatures	Electronic signatures can be used by the audited body and Audit Wales.
Audit evidence	This year journal testing and benefit payments were tested remotely. Usually, this is completed during a site visit by the audit team.
Other	<p>Other challenges we faced included:</p> <ul style="list-style-type: none">• Real Estate specialists were used to assist in the audit of the property funds as they were subject to material valuation uncertainty disclaimer by the valuer;• Receiving third party confirmation information from investment managers later than usual; and• Bank confirmations were requested differently in line with the banks changes to processes due to COVID-19.

- 9 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

- 10 We intend to issue an **unqualified audit opinion** which includes an emphasis of matter paragraph regarding the valuation uncertainty for the UK property funds on your financial statements once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 11 We issue a ‘qualified’ audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 12 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards along with confirmation of other specific information you have provided to us during our audit.
- 13 Our proposed audit report is set out in **Appendix 2**.

Significant Issues arising from the Audit

Uncorrected misstatements

14 The misstatements identified in the accounts, which remain uncorrected are noted below:

[i] GMP equalisation - Adjustments were made as part of the 2019 Valuation and these totalled around £4m additional liabilities. This relates to 0.2% of total liabilities. The estimate is not material and has not yet been split between past and future costs. As a result, we have included the £4m in the uncorrected misstatement schedule as the 'worst case' provision required. We would expect the past amount to be much lower than this total figure.

[ii] McCloud – The actuary confirmed the McCloud adjustment included in this year's IAS26 report was 0.5% of the active liabilities. An amount of 0.5% of the liability (£1,925m) would be £9.625m based on the 31 March 2019 valuation. The estimate is not material and has not yet been split between past and future costs. As a result, we have included the £9.625m in the uncorrected misstatement schedule as the 'worst case' provision required. We would expect the past amount to be much lower than this total figure.

[iii] Goodwin – The actuary has confirmed this is in the early stages but his initial understanding is that it only affects a very small proportion of Fund members. Quotes in external papers have implied impacts of c0.1-0.2% of total liabilities. An amount of 0.2% of the liability would be £3.85m based on the 31 March 2019 valuation. This is a total amount and not based on a past future split. As a result, we have included the £3.85m in the uncorrected misstatement schedule as the 'worst case' provision required. We would expect the past amount to be much lower than this total figure. No disclosure has been made in the financial statements with respect to Goodwin.

A summary of uncorrected misstatements is set out in **Appendix 3**.

Corrected misstatements

15 Corrections have been made to add estimation uncertainty disclosures regarding the property funds as a result of COVID-19 and all property funds have been reclassified to Level 3 assets due to redemption restrictions.

A summary of corrected misstatements is set out in **Appendix 3**.

Significant Risk and other areas of audit attention

Financial audit risk	Proposed audit response
Significant risk	
<p>Management Override of Controls. The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<p>My audit team performed the following tests to address the significant risk around Management Override of Controls:</p> <ul style="list-style-type: none"> • using enhanced data analytics to analyse the whole journal population for characteristics of interest and then substantively test the appropriateness of the journals identified; • reviewed the design and implementation of controls over journal entries to the financial ledger and accounting estimates; • reviewed accounting estimates for evidence of bias; and • evaluated the rationale for any significant transactions outside the normal course of business including those with related parties. <p>No issues were noted other than the control observation in respect of a lack of review of journal entries.</p>
Other areas of audit attention	
<p>Valuation of investments The valuation of investments is an area of focus due to the impact of COVID-19 at the balance sheet date.</p>	<p>My audit team performed the following tests to address the other areas of audit attention:</p> <ul style="list-style-type: none"> • reviewed the design and implementation of key controls over the valuation of investments by obtaining the investment manager internal controls reports (where applicable) and evaluating the implications for our audit of any exceptions noted; • agreed the year end valuations as reported in the financial statements to reports received directly from the investment managers; • performed independent valuation testing for a sample of year end holdings using procedures such as rolling forward the valuation from the

Other areas of audit attention

	<p>most recently available audited financial statements of the Fund to the balance sheet date using an appropriate benchmark;</p> <ul style="list-style-type: none"> • engaged Real Estate experts to assist in the audit of the property funds; and • ensured that appropriate stale price adjustments have been posted to the financial statements. <p>We have confirmed all valuations are as at 31 March 2020 and there are no stale pricing concerns.</p> <p>UK property funds at 31 March 2020 are £191m, representing 10% of the total assets. The valuation statements include a statement that there is a material valuation uncertainty related to the UK property fund. In line with Audit Wales guidance, an emphasis of matter paragraph will be included in the audit report as the property funds are material.</p> <p>Corrections have been made to add estimation uncertainty disclosures regarding the property funds as a result of COVID-19 and all property funds have been reclassified to Level 3 assets due to redemption restrictions.</p>
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During the year there were no further transfers to the Welsh Pension Partnership's Investment Pool. Carmarthenshire County Council (CCC) is the host authority for the Wales Pension Partnership joint committee (WPP). Gwynedd Pension Fund (GPF) (administered by Gwynedd County Council) had transferred funds to the WPP Global Opportunities and Global Growth sub-funds in January 2019. The audit team based at CCC has provided audit assurance to the audit teams at the other pension funds in Wales. They have:

- obtained, reviewed and drawn conclusions on the control assurance reports for both the fund operator, relevant fund managers and the custodian for the funds;

- provided confirmation of the year end balances in each equity sub fund; and
- reviewed the committee disclosure note that has been provided to all individual administering bodies along with confirmation that the disclosure note is consistent with the Committee's 2019-20 financial statements.

No issues were noted with their testing.

Other Significant Issues arising from the Audit

16 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you including:

- Concerns about the qualitative aspects of accounting practices and financial reporting.
- Any significant difficulties during the audit.
- Significant matters discussed and corresponded upon with management which we need to report to those charged with governance, eg business conditions affecting the entity, significant risks, unusual transactions, factors affecting asset and liability carrying values, selective correction of misstatements, concerns over management contacting other accountants or third parties on accounting or auditing matters.
- Any other matters significant to the oversight of the financial reporting process that we need to report, eg, material misstatements, reporting inconsistencies etc.
- Any identified material weaknesses in internal controls that we have not reported to you already.
- Any other matters specifically required by auditing standards to be communicated to those charged with governance, eg, issues relating to fraud, compliance with laws and regulations, audit of the group, non-disclosure of information such as related parties or significant related party transactions, going concern, subsequent events etc.

There were no issues arising in these areas this year.

Recommendations

- 17 The recommendations arising from our audit are set out in **Appendix 4**. Management has responded to them and we will follow up progress against them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

Appendix 1

Final Letter of Representation

Auditor General for Wales

Wales Audit Office

24 Cathedral Road

Cardiff

CF11 9LJ

[Date]

Representations regarding the 2020 financial statements

This letter is provided in connection with your audit of the financial statements of Gwynedd 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 Code of Practice on Local Authority Accounting in the United Kingdom 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.
- We confirm that the Fund is a registered pension fund. We are not aware of any reason why the tax status of the Fund should change.
- We have not made any reports to The Pensions Regulator nor are we aware of any such reports having been made by any of our advisors. We confirm that we are not aware of any late contributions or breaches that have arisen which we considered did not require reporting. We also confirm that we are not aware of any other matters which have arisen that would require a report to The Pensions Regulator.

- We have drawn to your attention all correspondence and notes of meetings with regulators.
- We confirm that no person charged with governance of the Fund is connected with, or is an associate of Wales Audit Office, which would render Wales Audit Office ineligible to act as auditor to the Fund.
- There have been no changes to the Fund rules during the year and up to the current date.

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 Gwynedd 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.

- The Membership data contained within the annual report is accurate and a true and fair view of the Pension Fund's membership numbers.

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 and assessing the impact of Covid-19 on the Fund, 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, including disclosure of the impact that Covid-19 has had over the Fund financial statements.
- 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. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of these items is set out in Appendix 1.
- We confirm that the financial statements have been prepared on the going concern basis and disclose in accordance with the Code all matters of which we are aware that are relevant to the Fund's ability to continue as a going concern, including principal conditions or events and our plans. We do not intend to wind up the Fund. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Fund's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
- We confirm that:
 - (i) we consider that the Fund has appropriate processes to prevent and identify any cyber breaches other than those that are clearly inconsequential; and

- (ii) we have disclosed to you all cyber breaches of which we are aware that have resulted in more than inconsequential unauthorised access of data, applications, services, networks and/or devices.
- We acknowledge that ‘GMP equalisation’, ‘McCloud’, ‘Goodwin’, and ‘UK property funds’ are generic issues raised by auditors in respect of all LGPS funds’ financial statements for the year ended 31 March 2020, and are not unique to Gwynedd Pension Fund.
- The Net Asset Value (NAV) of property funds are not expected to be adversely affected when suspension of the NAV is lifted and trading recommences, in October for some funds.

Representations by Gwynedd Audit & Governance Committee

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

We acknowledge our responsibility for ensuring that the Fund maintains adequate accounting records.

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 Gwynedd Audit & Governance Committee on [Date].

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:

Signed by:

Dafydd L Edwards

Councillor John Brynmor Hughes

Head of Finance

Chairman

Gwynedd Council

Audit & Governance Committee

Date:

Date:

Appendix 2

Proposed Audit Opinion

The independent auditor's report of the Auditor General for Wales to the members of Gwynedd Council as administering authority for Gwynedd Pension Fund

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Gwynedd Pension Fund for the year ended 31 March 2020 under the Public Audit (Wales) Act 2004. Gwynedd Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 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 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 - UK property funds

I draw attention to Note 4 to the financial statements which describes a material uncertainty regarding the valuation of the UK property funds. My 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.

Report on other requirements

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:

- 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 Gwynedd 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 ... to ...], the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Anthony J Barrett

24 Cathedral Road

For and on behalf of the Auditor General for Wales

Cardiff

[Date]

CF11 9LJ

Appendix 3

Summary of Uncorrected Misstatements

During our audit we identified the following misstatements that have been corrected by management.

Exhibit 3a: summary of uncorrected misstatements

Value of uncorrected misstatement	Nature of the uncorrected misstatement	Reason for no correction
Dr Pensions paid £4m Cr Accruals £4m	GMP equalisation - Adjustments were made as part of the 2019 Valuation and these totalled around £4m additional liabilities. This relates to 0.2% of total liabilities. The estimate is not material and has not yet been split between past and future costs. As a result, we have included the £4m in the uncorrected misstatement schedule as the 'worst case' provision required. We would expect the past amount to be much lower than this total figure.	Not material
Dr Pensions paid £9.625m Cr Accruals £9.625m	McCloud – The actuary confirmed the McCloud adjustment included in this year's IAS26 report was 0.5% of the active liabilities. An amount of 0.5% of the liability (£1,925m) would be £9.625m based on the 31 March 2019 valuation. The estimate is not material and has not yet been split between past and future costs. As a result, we have included the £9.625m in the uncorrected misstatement schedule as the 'worst case' provision required. We would expect the past amount to be much lower than this total figure.	Not material
Dr Pensions paid £3.85m Cr Accruals £3.85m	Goodwin – The actuary has confirmed this is in the early stages but his initial understanding is that it only affects a very small proportion of Fund members. Quotes in external papers have implied impacts of c0.1-0.2% of total liabilities. An amount of 0.2% of the liability would be £3.85m based on the 31 March 2019 valuation. This is a total amount and not based on a	Not material

Value of uncorrected misstatement	Nature of the uncorrected misstatement	Reason for no correction
	<p>past future split. As a result, we have included the £3.85m in the uncorrected misstatement schedule as the 'worst case' provision required. We would expect the past amount to be much lower than this total figure. No disclosure has been made in the financial statements with respect to Goodwin.</p>	
<p>Total: Dr Pensions paid £17.475m Cr Accruals £17.475m</p>		

Summary of Corrected misstatements

During our audit we identified the below misstatements and disclosure deficiencies that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Corrections have been made to add estimation uncertainty disclosures regarding the property funds as a result of COVID-19 and all property funds have been reclassified to Level 3 assets due to redemption restrictions.

Appendix 4

Recommendations

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

Exhibit 4

Matter arising 1 – Journal authorisation	
Findings	We identified that journals are not reviewed by a more senior member of the team before being posted.
Priority	Medium
Recommendation	All journals should be independently reviewed prior to posting.
Benefits of implementing the recommendation	To ensure proper governance over posting correct and valid journals.
Accepted in full by management	Yes
Management response	A process will be introduced to improve authorisation of journals posted
Implementation date	March 2021

Matter arising 2 – Holding Investments at Market Value in the Trial Balance

Findings	Investments are recorded at cost in the trial balance. The fair value is recorded in an excel spreadsheet to compile the financial statements.
Priority	Low
Recommendation	It is recommended that the Fund hold its investments at Fair Value in the ledger, rather than at book cost.
Benefits of implementing the recommendation	Recording investments at fair value in the ledger would remove the reliance on a complex manual excel spreadsheet that reconciles the investments between fair value and book value for the preparation of the year end accounts.
Accepted in full by management	Yes
Management response	We will look at the possibility of recording the investments fair value on the ledger
Implementation date	March 2021

Follow up of recommendations arising from our previous financial audit work

Monthly contributions reconciliation	
Findings	<p>During our review of the controls around the accuracy & completeness of contributions data received from the Fund's Employers, we noted that although the contributions received are recalculated each month, these are based purely on a monthly contribution return completed by the employer, which is not currently checked to any underlying data. The Fund has no comfort that the figures within these returns are accurate or complete.</p> <p>Though the responsibility for this does lie with the Employer, the Fund should be able to obtain a greater degree of comfort over the accuracy and completeness of contributions. Currently there is no way of knowing how many members it relates to, any changes etc.</p>
Recommendation	<p>On enquiry it was confirmed that the fund administering authority's management have introduced a 'compliance checklist', which they require employers' statutory finance officers, or equivalent, to sign, confirming that various processes and checks have taken place (contributions in line with % bandings, starters, leavers, correct pay details etc.) and that information and contributions passed over to the fund are accurate and in line with LGPS regulations. This provides some additional comfort, though still does not give the Fund access to the detailed data. We recommend that the checklist is used in each instance going forwards and if possible, further checks performed to ensure that the underlying data is complete and accurate. We understand management are making the checklist compulsory from next year, where data integrity is not supported by 'i-Connect' on-line interfaces.</p>
Management response	<p>All employers are now on the iconnect system and the accounts team does now reconcile the information received from the employers to the information from iConnect.</p>
Status	Closed

Membership Numbers	
Finding	<p>We identified that the Pension Manager could not supply a membership number reconciliation between 2016-17 and 2017-18.</p> <p>The reconciliation should show movements of members in the financial year and retrospective changes that revised any prior-year figures. This reconciliation would allow us to audit the movement of member numbers, which we have not been able to do.</p>
Recommendation	<p>a) It is recommended that the Pension Manager develops an Altair report that can count the total (and identify individual) retrospective changes to membership data.</p> <p>b) It is also recommended that the Pension Fund Manager performs a reconciliation between prior-year reported membership numbers and revised membership numbers.</p>
Management response	<p>a) This is aspirational and requires third party software developments even if it is possible for it to be delivered in due course.</p> <p>b) This was carried out for the 2019 triannual valuation and we plan to undertake this on an annual basis from 2020/21.</p>
Status	<p>a) Open</p> <p>b) Closed</p>

Suspense Accounts are not Formally Reconciled

Finding	It was identified that the suspense accounts are not currently being formally reconciled on a monthly basis
Recommendation	It is recommended that the Fund's suspense accounts are reviewed on a monthly basis.
Management response	The suspense accounts have been reconciled on a regular basis during 2019/20.
Status	Closed

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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.

Agenda Item 8

MEETING:	PENSIONS COMMITTEE
DATE :	14 OCTOBER 2020
TITLE:	WALES PENSION PARTNERSHIP FIXED INCOME TRANSITION UPDATE
PURPOSE:	TO UPDATE THE COMMITTEE ON THE FIXED INCOME TRANSITION
RECOMMENDATION:	NOTE THE INFORMATION
AUTHOR:	DELYTH JONES-THOMAS, INVESTMENT MANAGER

1. Introduction

During July and September 2020 five Fixed income funds were created by the Wales Pension Partnership, and Gwynedd Pension Fund have invested in two:

- **Multi Asset Credit Fund**
- **Absolute Return Bond Fund**

2. Multi Asset Credit Fund

Our holding of Fidelity Global Equity was transitioned on 27th July 2020. A sum of £166,119,549.08 was invested to the Multi Asset Credit Fund.

3. Absolute Return Bond Fund

It was reported in the last Committee that this was due to launch in July 2020. However, it was discovered that the legacy holdings were ineligible assets for the ACS to hold, and therefore an alternative fund was created with the launch date moving to 1st October 2020. This was explained and discussed in more detail in the September investment panel.

The transition has taken place and our holdings with Insight of £291,238,172.22 has been transferred successfully on 1st October to the Absolute Return Bond Fund.

4. Recommendation

The Committee is asked to note the information.

MEETING:	PENSIONS COMMITTEE
DATE :	14 OCTOBER 2020
TITLE:	BLACK ROCK LOW CARBON FUND
PURPOSE:	To ask the Pensions Committee to agree the movement of its current Black Rock Low Carbon holding to the ACS World Low Carbon Equity Tracker Fund (MSCI World Low Carbon Target ex Fossil Fuels Index).
RECOMMENDATION:	AGREE TO THE NEW INVESTMENT
AUTHOR:	DELYTH JONES-THOMAS, INVESTMENT MANAGER

1. Introduction

The quarterly Investment Panel of the Gwynedd Pension Fund met on 16th September 2020 where a presentation was received by Black Rock on it's upcoming ACS World Low Carbon Equity Tracker Fund (MSCI World Low Carbon Target ex Fossil Fuels Index).

2. Black Rock ACS World Low Carbon Equity Tracker Fund (MSCI World Low Carbon Target ex Fossil Fuels Index)

In September 2020 current Black Rock holdings were transferred to the Black Rock ACS World Low Carbon Equity Tracker Fund (MSCI World Low Carbon Target) following a committee decision in July 2019. Since then, Black Rock has developed a Fund with a further focus on carbon reduction with the following difference from the current low carbon fund we have invested in:

- Includes fossil fuel screens prior to the low carbon optimisation.
- For an increase in tracking error from 0.30% to 0.50%, carbon is reduced by 44%.

This new fund was introduced to the Investment Panel and it was agreed by our advisors that it would be beneficial to move our current holdings to this new fund.

3. Recommendation

The Committee is asked approve the movement of our current holdings in the ACS World Low Carbon Equity Tracker Fund (MSCI World Low Carbon Target) to the:

- ACS World Low Carbon Equity Tracker Fund (MSCI World Low Carbon Target ex Fossil Fuels Index).

in accordance with the discussion at the most recent Investment Panel.

Agenda Item 13



Meeting:	Pension Committee
Date:	14/10/2020
Title:	Pension Administration
Author:	Meirion Jones, Pensions Manager
Purpose:	For information only

Introduction

This report provides a general overview of pension administration over the last 6 months. It contains information on the work that has been accomplished over the period, an update on various projects that has previously been mentioned, changes in the regulations and also lists the challenges that the department faces from day to day.

Working from home

The department's staff have been successfully working from home since 25/03/2020. We were very fortunate that the IT department were able to provide the relevant equipment e.g. laptops or Citrix access to us promptly.

As we receive a high volume of mail and outgoing mail we have a rota for staff to come in to scan incoming mail and print letters that need to be posted. 2 members of staff come in every Tuesday and Thursday to undertake this work, with all staff coming in to help out. On average between 250-300 letters are sent out weekly. We have arranged for the Support department to frank and send these envelopes every Tuesday and Thursday.

We have had to be flexible with some members of the team who have young children who have had to cope with childcare duties and working - the arrangements have worked well.

Two members of staff had been relocated to the Council Benefits department for a period of two months to assist with the payment of Business Grants, but they have now re-joined the team.

What work is being done?

The Pensions Regulator has stated that the service should focus on the following tasks during the crisis:

- Paying existing pensioners
- Processing new pension benefit cases
- Dealing with bereavement cases

In order to carry out this work Pension Service staff are regarded as key staff.

Although the above tasks have been identified as the core work, we have been able to continue to provide a normal service to members with the processing of refunds, estimates, transfer of benefits, consolidation of benefits etc. continuing.

Keeping in touch

Maintaining regular contact with the rest of the team has been important during the crisis. Microsoft Teams has been an invaluable tool during this time. We use it for:

- Weekly meeting with the team to give everyone the opportunity to catch up with each other and discuss any topic that needs to be discussed in relation to work.
- One to one talk with team members.
- 'Chat' facility to ask each other questions.
- Monthly meeting with Dafydd.
- Meetings with members instead of face to face meetings.
- Meetings with scheme employers.

It has also been useful for meeting with other funds such as the Welsh Pension Managers meetings and the Shrewsbury Pensions Officer Group. Conducting the meetings on a virtual basis saves time, travel costs and reduces the Council's carbon footprints. It is hoped that these meetings will continue in this way after the crisis has ended.

We have also created groups on Whatsapp to share information with each other.

Member Self Service

Although we continue to send a large number of documents by post we have also increased the use of uploading letters to members on the members' self-service system.

Use of the system by members has also increased, with a high number of people contacting us to for help in creating a new account.

A new option has also been introduced on the site to allow members to upload documents e.g. their retirement form on the system - this means less scanning for staff and speeding up the processing of members' benefits.

Improving the service

Historically the service has been heavily reliant on paper files in the office. The crisis has forced us to work paperless. This way of working ensures that all documents are securely on the member's record, available to view without having to search the file, and reduce the amount of paper used. From discussion with the team everyone thinks that the new system is working well and there is no desire to return to the old way of working.

We have also had the opportunity to work on automating processes and improving the quality of correspondence sent to members. By automating processes we are able to get work done faster and reduce the time needed to process and verify cases. Improving our correspondence also helps members to better interpret the information to ensure they choose the right options in relation to their benefits. The work is ongoing.

Annual Benefit Statements

An Annual Benefit Statement must be produced for each scheme member by the end of August each year. This statement gives members details of the benefits accrued up to the end of the previous

financial year and forecasts the benefits payable at their Normal Pension Age. The statement also contains pay details and explanatory notes as to how the benefits are calculated.

Since 2018 these statements are available electronically on the Member Self Service section of our website. The 2020 statements were loaded onto the system for active and deferred members on 03/08/2020.

1,068 members have written in to confirm they wish to continue to receive a paper copy of their statements. These statements were sent out by an external company towards the end of August 2020.

We have also managed to upload statements online for members of the Councillor scheme for the first time this year.

Pension Saving Statements

It is a requirement under HM Revenue and Customs (HMRC) regulations to issue a Pension Savings Statement to members if the total amount contributed into their pension scheme during a Pension Input Period (PIP) is more than the Annual Allowance (AA) for the tax year in which the pension input period ends.

The AA is set by HMRC, and represents the maximum amount of pension contributions that you are allowed to receive tax relief on, each tax year.

The AA for the tax year ending 5 April 2020 was **£40,000** (gross).

The statements are required to be sent by 6th October each year. For the tax year 2019/20, the statements were sent on 19 September 2020.

i-Connect

Work has been ongoing to encourage employers to use the i-Connect system.

i-Connect ensures that members' records are updated monthly, rather than once a year as at present. The system also automates a number of procedures within the department and thus release staff to address other duties within the department.

I am pleased to announce that the i-Connect system is now being used for updating 99.9% of our active members' records each month.

Work to be done

There are a number of tasks and projects that need attention over the coming months. These include:

- Website: We hope to have the opportunity to update and expand the website in the coming months.
- Continue to develop process automation and improve our communications.
- Scan the paper files in the office to make it paperless.
- McCloud: We have identified that with the help of Hymans Roberts, we will have to update or recalculate the benefits of approximately 11,500 records from the McCloud case. This work will be a huge undertaking for the service, as well as providing the usual service to members.

- £ 95k exit payment and changes to compensation regulations: There is a big change in the terms of members who are made redundant by their employer. The details are not yet clear - but it is likely to create additional work for the Fund to calculate all the options available to members.
- Reduce the number of 'undecided leavers' records, which are members who have left the scheme but their record has not been closed.