



Complete Agenda

Democratic Service
Swyddfa'r Cyngor
CAERNARFON
Gwynedd
LL55 1SH

Meeting

PENSIONS COMMITTEE

Date and Time

2.30 pm, MONDAY, 27TH JUNE, 2022

Location

Virtual Meeting

Contact Point

Lowri Haf Evans

01286 679878

lowrihafevans@gwynedd.llyw.cymru

(DISTRIBUTED 20/06/22)

PENSIONS COMMITTEE

MEMBERSHIP (7)

Plaid Cymru (4)

Councillors

Iwan Huws
Ioan Thomas

Medwyn Hughes

Elin Hywel

Independent (2)

Councillors

John Pughe Roberts

John Brynmor Hughes

Individual Member (1)

Councillor Stephen Churchman

Co-opted Members (2)

Councillor Robin Wyn Williams Isle of Angelsey 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 Chair for 2022 - 2023

2. ELECT VICE CHAIR

To elect Vice chair for 2022 -2023

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 - 10

The Chairman shall propose that the minutes of the meeting of this committee held on 17th March 2022 to be signed as a true record

7. GWYNEDD PENSION FUND AUDIT PLAN 2022

11 - 21

To consider the report

8. GWYNEDD PENSION FUND'S DRAFT STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2022

22 - 66

To receive and note the draft Statement of Accounts

9. WALES PENSION PARTNERSHIP BUSINESS PLAN

67 - 83

To consider and approve the business plan

10. TREASURY MANAGEMENT 2021/22

84 - 88

To consider and receive the report as information

11. REPRESENTATION POLICY

89 - 95

To consider the report and approve the new policy

12. PENSION ADMINISTRATION STRATEGY

96 - 116

To consider the report and approve the new Pension Administration Strategy

13. SECTION 13 REPORT

117 - 133

To consider the report, note and provide any comments on the Section 13 exercise and the paper produced by Hymans Robertson.

PENSIONS COMMITTEE 17-03-22

Present:

Councillors: Stephen Churchman, John Brynmor Hughes, Peredur Jenkins (Chair), John Pughe Roberts and Ioan Thomas.

Officers:

Dafydd Edwards (Fund Director), Delyth Jones Thomas (Investment Manager), Meirion Jones (Pensions Manager) and Lowri Haf Evans (Democracy Services Officer).

Others invited:

Osian Richards (Pension Board Member – observer)

1. APOLOGIES

Apologies were received from Councillors Aled Wyn Jones, Goronwy Edwards (Conwy County Borough Council) and Robin Williams (Isle of Anglesey Council)

2. DECLARATION OF PERSONAL INTEREST

None to note

3. URGENT ITEMS

Osian Richards (Members Representative, Gwynedd Pension Fund Pension Board), was congratulated on his appointment as member representative on the Wales Pension Partnership's Joint Governance Committee. This arrangement would be formalised at the next Joint Governance Committee meeting on 24 March 2022.

4. MINUTES

The Chair accepted the minutes of the meeting held on 17 January 2022 as a true record.

5. TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2022/23

A report was submitted by the Investment Manager noting, in accordance with Welsh Government's Statutory Guidance on Local Government Investments, that the Council was required to prepare an Annual Investment Strategy as part of its treasury management role. As good practice, it was considered that the Gwynedd Pension Fund (the "Fund"), should adopt Gwynedd Council's Treasury Management Strategy Statement (TMSS) for 2022/2023, as revised for the purpose of the Pension Fund. Gwynedd Council's TMSS for 2022/23 was approved by the full Council on 3 March 2022.

It was explained that currently, all the Fund's surplus cash was pooled with the cash balances of Gwynedd Council and invested with counterparties in accordance with Gwynedd Council's Treasury Management Strategy Statement. At the end of the financial year, Gwynedd Council paid interest to the Pension Fund based on the Fund's

daily balances over the year. It was noted that in line with legal advice, it was beneficial to approve this practice on an annual basis, and to seek returns within secure boundaries and reduce risk by pooling money with the Council's funds.

It was highlighted that the CIPFA code of practice and Welsh Government guidance made it mandatory for the Council to invest its money prudently and consider security and liquidity before seeking the highest rates of return or the highest yield. It was reiterated that every effort was being made to strike a balance with these factors and that voluntary measures to highlight sensitivity to the credit protection and liquidity risks had been adopted - an update on the management indicators would be submitted to the Committee every six months. Attention was drawn to those counter-parties that had been approved for investment (local government, local authorisation, banks, money market funds and pooled funds), as well as the time-scales and investment restrictions.

The main advantages of the exercise was attracting higher interest, minimising bank costs and avoiding duplication of work within the Council. It was confirmed that keeping the Fund safe and protecting the money was the priority and not to take risks.

It was proposed and seconded to accept the recommendations

RESOLVED:

- **To accept and note the information**
- **To adopt the Treasury Management Strategy Statement for 2022/23 as adapted for the purpose of the Pension Fund.**
- **To request that the Council (although not a separate body) to allow the surplus cash balances of the Pension Fund to continue to be pooled with the Council's general cash flow from 1 April 2022 onwards.**

6. RESPONSIBLE INVESTMENT POLICY

The Investment Manager submitted a report, requesting the Committee to approve a Responsible Investment Policy for the Gwynedd Pension Fund. It was reported that Responsible Investment had developed into an important and popular discussion topic over the past year and that the Gwynedd Pension Fund had taken positive steps in the field, including the release of responsible investment statements in April and July 2021, which had now been formalised within the policy.

It was noted that the policy outlined that the aim of the Fund was to secure strong investment gains over the long-term and protect the interests of stakeholders, whilst acknowledging that governance, environmental and social matters could represent a substantial financial risk to stakeholders and influence the profits and reputation of the Fund. It was reiterated that the policy also included information about legal guidance, investment beliefs, engagement and disclosure and reporting and described those principles and procedures that the fund followed in the field of responsible investment.

Reference was made to the Fund's net zero commitment and highlighted the consideration of committing to a net target by 2050, but to continuously assess the possibility of reaching the aim 5, 10, or 15 years earlier. It was highlighted that there was no wish to set a target without a plan on how to achieve it, but it was noted that the target of 2050 coincided with the target of Russell Investments, the Wales Pension Partnership's Investment Management Solutions Provider. Attention was drawn to the framework developed to support the ambition that encompassed opportunities, engagement, monitoring and metrics.

The Fund's Director reiterated that although no target had been set previously that there was a commitment to be net zero and reasonable steps taken to seek to achieve this had been actioned, but that there was now an expectation to set a target and formalise the position.

The policy had been submitted to the Pension Board for observations on 7 March 2022. It was noted that their proposals had been incorporated in the policy.

Thanks were expressed for the report.

Members were given an opportunity to ask questions.

In response to a question regarding the implications of the Sanctions Measure from the Westminster Government following the Russian attacks in Ukraine, it appeared that the Westminster Government wished to restrict funds from acting politically. Although some decisions had been challenged in the past, it appeared that the Government had an intention to set a policy; however, it was considered that this could vary, subject to the government that was in power at the time. He highlighted that the 'fiduciary duty' currently managed the restrictions and in accordance with the Pension Board's suggestion, a reference to this had been included in the Policy.

In the context of Russia and Ukraine, it was highlighted that the Committee held the same view, the powers and confidence to influence the portfolio by sharing concern about the situation with Scheme members, releasing a statement and by noting that there was no risk of substantial financial harm to the Fund from Russian investments (less than 1%). In relation to other issues, such as weapons, there was no common view held amongst the majority of the Fund's members, and identifying the size of investments was challenging. It was accepted that this was difficult, and there was a need to be comfortable with the situation before proceeding, since the fiduciary duty applied here.

In response to comments about setting a net zero target and of the possibility of reaching the target by 2050, the Chair highlighted that Welsh Government had made a statement that the public sector in Wales should be carbon neutral by 2030. At a meeting of the Gwynedd Council Cabinet on 3 March 2022, the Climate and Nature Emergency Plan 2022-2030 was approved, adopted and implemented. This plan would outline the actions to be taken by the Council to reach the aim of being a net zero carbon Council by 2030. In order to reconcile this ambition with the Responsible Investment Policy, it was suggested that the timetable be adapted so that there is an ambition to reach the aim of being net zero by 2030.

The Investment Manager highlighted that the Wales Pension Partnership had commissioned Robeco to engage with the fund's asset managers in relation to voting activity on climate-related issues, and to engage with the companies in which the WPP invested, to influence and improve their activities and behaviours on climate-related matters. It was reiterated that further measures were to be adopted, as well as 'TCFD' (Taskforce on Climate-related Financial Disclosures) requirements. Reference was made to the appendix to the policy - 'Monitoring Gwynedd Pension Fund Asset Managers', which was a live document that would keep record of the developments in the responsible investment field that all asset managers had delivered.

It was proposed and seconded to approve the Policy, subject to amending the timetable so that the ambition was to reach the aim of being net zero by 2030, if possible.

RESOLVED

- **To accept and note the information**

- **To approve the Responsible Investment Policy subject to amending a clause under the heading 'Reduce the Carbon Emissions of the Fund and the Future Objectives'**

"...the Committee has committed to set an aim for the Fund to be net zero by 2050, supported by a commitment to assess the feasibility of the Fund reaching net zero 5, 10 or 15 years earlier..."

to

"...the Committee has committed to set an aim for the Fund to be net zero by 2050, supported by a commitment to assess the feasibility of the Fund reaching net zero 5, 10 or 20 years earlier..."

The Chair noted that questions from the public had been submitted to the Committee and responses were provided to those questions from the Fund's Director:

1. Bearing in mind the volatile nature of fossil fuel investments in light of the Russian war, the recent IPCC report, and the views of experts that engaging with shareholders leads to taking rather than action, will the committee now commit to divest from all assets relating to fossil fuels in the shortest possible period of time? I am calling for divestment within 2 years.

It was noted that an ambitious Responsible Investment Policy had now been adopted and that there was substantial evidence of the steps that the Fund has already taken to act. As the Fund's assets are invested globally, and across a number of sectors, reducing the Fund's carbon emissions will be more challenging than it would be for a single organisation. Therefore, it will not be possible to commit to respond sooner due to the fiduciary duty.

2. Considering the substantial amount of evidence that shows that engagement is not an effective tool to ensure that companies withdraw from fossil fuel, particularly within the required time-scales, will the Gwynedd Pension Fund instead focus its efforts on divestment?

We underlined by referring to examples in the appendix to the Responsible Investment Policy that monitors the progress of Gwynedd Pension Fund assets that divestment is already being implemented, where possible, with due attention given to the fiduciary duty and other legal conditions.

The views of the Committee and officers that engagement is an essential tool were confirmed, and it was elaborated that the Wales Pension Partnership had commissioned Robeco to engage with managers and the companies with whom we invest to influence and improve their activities and conduct on climate-related matters, as well as attempt to influence those companies and encourage them to move from fossil fuels to renewable energy.

3. Could you provide an update on: (a) how much money has the Gwynedd Pension Fund currently invested in fossil fuel related assets and (b) the development of the fund's responsible investment policy?

(a) We confirmed that the specific 'TCFD' reporting requirements for LGPS funds will be introduced over the coming year, and in the meantime, there is no acknowledged method in place for regular reporting.

(b) It was elaborated that an ambitious Responsible Investment Policy had now been adopted.

4. Does the Committee acknowledge that the war in Ukraine, the uncertainty regarding the supplies of oil and gas and the new campaign to develop renewable energy is highlighting the uncertain nature of fossil fuel investments?

It has been noted that it is not the war alone that has highlighted this uncertainty; the Committee has already considered the uncertain nature of fossil fuel investments, and that relevant steps have already been taken, as outlined in the Responsible Investment Policy and the appendix that monitors progress.

5. Would you consider a strategy of listing the most polluting companies from your investment portfolio and joining the NZAOA (United Nations Assembly - Net Zero Asset Owner Alliance)?

That the Gwynedd Fund was receiving advice and acting in accordance with that advice. It was noted that there was no intention to join the NZAOA at present, but that there was a willingness to look into their features and share information with the Wales Pension Partnership, should that be beneficial.

The public's interest in the subject was appreciated and they were encouraged to submit their questions earlier so that officers and members had an opportunity to prepare full responses.

7. SKILLS AND KNOWLEDGE POLICY AND 2022/23 TRAINING PLAN

A report was submitted by the Investment Manager in response to the recommendations of the Good Governance Review for authorities to ensure that the Fund's officers, as well as the members of the Pensions Committee, had a sufficient level of knowledge to be able to undertake their respective roles effectively. It was noted, as part of preparing the new policy, that a draft copy of the policy had been shared with Hymans Robertson in order to receive feedback.

Reference was also made to the Training Plan that had been drawn up for 2022/23 and to the importance of having an induction process in place for potential changes to the Pensions Committee and Pension Board following the elections in May 2022. Attention was drawn to the training record and Members were asked to ensure that they recorded attendance at the virtual training sessions they attended, with the Investment Manager.

Thanks were expressed for the report.

During the ensuing discussion, the following observations were made by members:

- That the policy was to be welcomed.
- That it was essential to ensure that the correct resources were available to Members to do the work.
- The professional structure to the training was welcomed.

In response to a question regarding the need for members to complete a fundamentals course before they could vote in committees, and whether this statement was guidance or a rule, it was noted that it had to be ensured that members had sufficient knowledge to make meaningful decisions, although they had a mandate to represent the Council on the Committee. The expectation to learn the procedure was highlighted, but it was noted that the training could not be forced on anyone.

DECISION

To approve the Knowledge and Skills Policy and the 2022/23 Training Plan

8. WALES PENSION PARTNERSHIP UPDATE

A report was submitted by the Investment Manager, providing an update on the activities of the Wales Pension Partnership and she reported that the collaboration continued to go from strength to strength and by December 2021, 83% of Gwynedd's Fund had been pooled with the WPP - 56% through the main funds and 27% through passive investments.

Attention was drawn to the performance of the funds which had been volatile recently due to very challenging circumstances, and it was noted that the WPP would monitor their performance in detail. It was reported that the transfer of emerging markets from Fidelity to the WPP in October 2021 had been very successful, with 6 managers within the fund, including 5% that had been earmarked for Bin Yan, the China expert. It was reiterated that a 'de-carbonisation overlay' had been placed on this fund, which reduced the carbon footprint by 25%.

It was reported that the next steps in the Partnership's work was to seek asset pooling options in the private markets category. It was noted that a group had been established to lead on the work that would be supported by Hymans Robertson. It was noted that private credit and infrastructure was the initial focus of the group, with a recent purchasing process taking place, which will recommend suitable managers for the Joint Governance Committee to appoint. The group will also seek to purchase a private equity manager.

In the context of a member representative on the Joint Governance Committee, it was reported that the appointment process had taken place, with a recommendation made, as noted previously, that Osian Richards, a Member of the Gwynedd Pension Fund Pension Board, was appointed as the representative.

It was confirmed on 10 March 2022 that the Wales Pension Partnership had reached the expected reporting standard in 2021 and consequently, it was listed as a UK Stewardship Code signatory. It was reiterated that this was a significant feat and reflected the Partnership's strong governance and stewardship.

They were thanked for the information.

RESOLVED

To accept and note the information

The Chair, Councillor Peredur Jenkins, took the opportunity to express his sincerest thanks to all relevant staff for their support and to his fellow members on the Committee and the Pension Board for their positive collaboration and discussions. Everyone was wished well in the future.

Councillor Peredur Jenkins was thanked for his work and for his support to the Pensions Committee over the past 20 years. He was wished a happy retirement.

The meeting commenced at 14:00 and concluded at 15:00.

MEETING: **PENSIONS COMMITTEE**
DATE: **27 JUNE 2022**
TITLE: **GWYNEDD PENSION FUND AUDIT PLAN 2022**
PURPOSE: **To accept the plan**
RECOMMENDATION: **ACCEPT THE PLAN**
AUTHOR: **DELYTH JONES-THOMAS, INVESTMENT MANAGER**

1. INTRODUCTION

The audit for the Gwynedd Pension Fund financial statements for year ending 31 March 2022 will be completed by Audit Wales. Please see the Audit Plan in Appendix 1.

2. AUDIT PLAN

The plan details the work to be performed by the auditors in order to fulfill their statutory duty by highlighting the main risks.

3. RECOMMENDATION

The Plan is accepted.

2022 Audit Plan – Gwynedd Pension Fund

Audit year: 2021-22

Date issued: June 2022

Document reference: 2994A2022

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

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

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

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2022 Audit Plan

Summary

- 1 This document sets out the work I plan to undertake during 2022 to discharge my statutory responsibilities as your external auditor and to fulfil my obligations under the Code of Audit Practice to examine and certify whether the Gwynedd Pension Fund (the Pension Fund) accounting statements are 'true and fair'.
- 2 The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it.
- 3 There have been no limitations imposed on me in planning the scope of this audit.

Impact of COVID-19

- 4 The COVID-19 pandemic has had an unprecedented impact on the United Kingdom and the work of public sector organisations.
- 5 While Wales is currently at Coronavirus Alert Level 0, Audit Wales will continue to monitor the position and will discuss the implications of any changes in the position with your officers.

Audit of pension fund accounts

- 6 The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows us to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the Pension Fund accounts as a whole.
- 7 I do not seek to obtain absolute assurance on the truth and fairness of the financial statements and related notes but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Pension Committee prior to completion of the audit.
- 8 Any misstatements below a trivial level (set at 5% of materiality) I judge as not requiring consideration by those charged with governance and therefore will not report them.
- 9 I will also report by exception on a number of matters which are set out in more detail in our [Statement of Responsibilities](#), along with further information about my work.

Financial audit risks

- 10 The following table sets out the significant risks I have identified for the audit of the Pension Fund accounts.

Exhibit 1: financial audit risks

This table summarises the key financial audit risks identified at the planning stage of the audit.

Audit risk	Proposed audit response
Significant risks	
<p>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>We will:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business.
Other areas of audit attention	
<p>Risks related to the financial statements:</p> <ul style="list-style-type: none"> • as part of its portfolio, the Pension Fund has substantial holdings in unquoted investments. They are accounted for at fair value determined by valuations provided by fund managers. • external investment managers are appointed to manage the investment portfolio. Their own systems and records will generate account entries made to the Pension Fund account and net assets statement. • the Pension fund has made further transfers of assets to the Welsh Pension Partnership during 2021-22. • the Local Government Pension Scheme at a scheme level has committed to the disinvestment of Russian Investments. From discussions with the fund, it was confirmed that the fund has 	<p>We will:</p> <ul style="list-style-type: none"> • assess whether the information provided by fund managers and their auditors support the year-end valuation. • obtain direct confirmation from the fund managers of year-end investment balances and consider whether investment managers' internal control reports indicate specific risks to these balances. • review the transition process to ensure the completeness of transfers. We will obtain direct confirmation from the audit team of the Welsh Pension Partnership (WPP) for the values and transactions involved. • we will review the corresponding disinvestment to ensure the completeness of transfers. We

<p>investments as part of the WPP investments and that WPP were in the process of disinvestment. The valuation and impact of this will be reflected at year-end valuations. It is likely for this to be reflected in changes in market value if the investments were sold at a loss. The overall level of investment in Russian entities is below materiality.</p>	<p>will obtain confirmation from the auditors of WPP for the values and transactions involved.</p>
<p>Impact of COVID-19 Although COVID-19 restrictions have now been removed, there have been ongoing pressures on staff resources and of remote working that may impact on the preparation, audit, and publication of accounts. There is a risk that the quality of the accounts and supporting working papers, eg around estimates and valuations, may be compromised leading to an increased incidence of errors. Quality monitoring arrangements may be compromised due to timing issues and/or resource availability.</p>	<p>We will discuss your closedown process and quality monitoring arrangements with the accounts preparation team and make arrangements to monitor the accounts preparation process. We will help to identify areas where there may be gaps in arrangements.</p>

Statutory audit functions

- 11 In addition to the audit of the accounts, I have statutory responsibilities to receive questions and objections to the accounts from local electors. These responsibilities are set out in the Public Audit (Wales) Act 2004:
- Section 30 Inspection of documents and questions at audit; and
 - Section 31 Right to make objections at audit.
- 12 As this work is reactive, I have not included an estimated fee in **Exhibit 2** below. If I do receive questions or objections, I will discuss potential audit fees at the time.

Fee, audit team and timetable

- 13 My fees and planned timescales for completion of the audit are based on the following assumptions:
- the financial statements are provided in accordance with a timescale to be agreed, taking into account the impact of COVID-19, to the quality expected and have been subject to a robust quality assurance review;
 - information provided to support the financial statements is in accordance with the agreed audit deliverables document;

- appropriate facilities are provided to enable my audit team to deliver the audit in an efficient manner;
- all appropriate officials will be available during the audit;
- you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and
- Internal Audit’s planned programme of work is complete, and management has responded to issues that may have affected the financial statements.

Fee

- 14 As set out in our Fee Scheme 2022-23, our fee rates for 2022-23 have increased by 3.7%, as a result of the need to continually invest in audit quality and in response to increasing cost pressures.
- 15 The estimated fee for 2022 is set out in **Exhibit 2**. This represents a 3.8% increase compared to your actual 2021 fee.

Exhibit 2: audit fee

This table sets out the proposed audit fee for 2022, by area of audit work, alongside the actual audit fee for last year.

Audit area	Proposed fee (£) ¹	Actual fee last year (£)
Audit of pension fund accounts ²	35,515	34,200

- 16 Planning will be ongoing, and changes to my programme of audit work, and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing the relevant Pension Fund Management.
- 17 Further information on my [fee scales and fee setting](#) can be found on our website.

Audit team

- 18 The main members of my team, together with their contact details, are summarised in **Exhibit 3**.

¹ Notes: The fees shown in this document are exclusive of VAT, which is not charged to you.

² Payable November 2021 to October 2022.

Exhibit 3: my audit team

This table lists the members of the local audit team and their contact details.

Name	Role	Contact number	E-mail address
Matthew Edwards	Engagement Lead	02920 320663	matthew.edwards@audit.wales
Yvonne Thomas	Audit Manager	02920 320500	yvonne.thomas@audit.wales
Ben Hughes	Audit Lead	02920 829376	ben.hughes@audit.wales

Timetable

19 The key milestones for the work set out in this plan are shown in **Exhibit 4**. As highlighted earlier, there may be a need to revise the timetable in light of developments with COVID-19.

Exhibit 4: audit timetable

Planned output	Work undertaken	Report finalised
2022 Audit Plan	April 2022	June 2022
Audit of pension fund accounts: <ul style="list-style-type: none">• Audit of Financial Statements Report• Opinion on Financial Statements	October 2022	November 2022

20 We can confirm that team members are all independent of you and your officers.



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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

27 JUNE 2022

TITLE

**Gwynedd Pension Fund's Draft Statement of Accounts
for the year ended 31 March 2022**

PURPOSE

To receive and note –
• Draft Statement of Accounts

RECOMMENDATION

Receive the information

AUTHOR

Dafydd L Edwards, Fund Directors

1. INTRODUCTION

This report introduces the statutory Statement of Accounts for the 2021/22 financial year, which provides details of the Pension Fund's financial activities during the year which ended on 31 March 2022.

The document in Appendix A is the draft Statements of Accounts in the statutory format.

2. AUDIT BY AUDIT WALES

The draft accounts here are currently subject to audit by Audit Wales. It is possible that some changes will be necessary before a final version is submitted for approval

3. RECOMMENDATION

The Pensions Committee is asked to receive and note the Pension Fund Statement of Accounts (subject to audit) for 2021/22.

Gwynedd Pension Fund

STATEMENT OF ACCOUNTS 2021/22

NARRATIVE REPORT

Introduction

Gwynedd Pension Fund's accounts and notes for the year 2021/22 are presented here on pages 5 to 43.

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

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 employer 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 were made from 1 April 2020 onwards. The next valuation is as at 31 March 2022 with any changes to employers' contributions from 1 April 2023 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.

27th June 2022

Councillor ***

Pensions 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 2022 and the Pension Fund's income and expenditure for the year then ended.



20th June 2022

Dewi Morgan CPFA

Head of Finance, Gwynedd Council

GWYNEDD PENSION FUND ACCOUNTS

THE FUND ACCOUNT

31 March 2021 £'000	Notes	31 March 2022 £'000
Dealings with members, employers and others directly involved in the Fund		
78,252	Contributions	7 82,971
4	Other Income	8 4
3,356	Transfers in from other pension funds	9 2,664
81,612		85,639
(62,378)	Benefits	10 (66,979)
(3,052)	Payments to and on account of leavers	11 (3,683)
(65,430)		(70,662)
16,182	Net additions/ (withdrawals) from dealings with members	14,977
(22,669)	Management Expenses	12 (16,525)
(6,487)	Net additions/ (withdrawals) including fund management expenses	(1,548)
Returns on investments		
30,768	Investment income	13 26,170
565,511	Profit and losses on disposal of investments and changes in the market value of investments	14 223,010
596,279	Net returns on investments	249,180
589,792	Net Increase/ (Decrease) in the net assets available for benefits during the year	247,632
1,938,337	Opening net assets of the scheme	2,528,129
2,528,129	Closing net assets of the scheme	2,775,761

The notes on pages 7 to 43 form part of these Financial Statements

NET ASSETS STATEMENT

31 March 2021 £'000		Notes	31 March 2022 £'000
2,515,169	Investment assets	14	2,761,271
146	Cash deposits	14	303
(126)	Investment liabilities	14	(285)
2,515,189	Total net investments		2,761,289
16,153	Current assets	20	17,828
(3,213)	Current liabilities	21	(3,356)
2,528,129	Net assets of the fund available to fund benefits at the end of the reporting period		2,775,761

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 financial 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 19.

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.

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 2016.

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. Admission 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 Authority
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	North and Mid Wales Trunk Road Agency
North Wales Economic Ambition Board	
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
Llanfairfechan Town Council	
Admission Bodies	
Adult Learning Wales	North Wales Society for the Blind
Adferiad Recovery (formerly Cais)	Community and Voluntary Support Conwy
Holyhead Joint Burial Committee	Careers Wales North West
Cwmni Cynnal	Mantell Gwynedd
Cwmni'r Fran Wen	Medrwn Môn
Menter Môn	
Community Admission Bodies	
Cartrefi Conwy	Adra
Byw'n Iach	
Transferee Admission Bodies	
ABM Catering	Caterlink (until 31/07/21)
Kingdom Services Group	Chartwells (from 01/08/21)
A E & A T Lewis	

NOTE I – DESCRIPTION OF FUND (continued)

Membership details are set out below:

	31 March 2021	31 March 2022
Number of employers	46	46
Number of employees in scheme		
County Council	14,518	14,691
Other employers	3,777	3,966
Total	18,295	18,657
Number of pensioners		
County Council	8,902	9,281
Other employers	1,878	2,017
Total	10,780	11,298
Deferred pensioners		
County Council	10,473	10,512
Other employers	1,958	2,028
Total	12,431	12,540
Unclaimed benefits		
County Council	1,864	2,142
Other employers	230	283
Total	2,094	2,425
Undecided Leavers		
County Council	5,280	5,455
Other employers	759	737
Total	6,039	6,192
Total number of members in pension scheme	49,639	51,112

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 2.75% to 12.5% of pensionable pay for the financial year ending 31 March 2022. Employer contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. Currently, employer contribution rates range from 7.7% to 36.1% of pensionable pay.

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.

NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2021/22 financial year and its position at year-end as at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts have been prepared on a going concern basis.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2021/22.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits that fall due after the end of the financial year nor do they take into account 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 19 of these accounts.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – revenue recognition

a) Contribution Income

Normal contributions are accounted for on an accrual basis as follows:

- Employee contributions rates are set in accordance with LGPS regulations, using common percentage rates for all schemes that rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommend by the fund actuary for the period to which they relate.

Employer 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 in and out relate to members who have joined or left the fund.

Individual transfers in/ out are accounted for when received or paid. Transfers in 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 (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.

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.

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, providing that payment has been approved.

e) Management expenses

The fund discloses its management expenses in line with CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the fund on an accrual basis as follows:

Administrative expenses

All staff costs of the pensions administration team are charged direct to the Fund. Council recharges for management, accommodation and other overhead costs are also accounted for as administrative expenses of the fund.

Oversight and governance costs

All costs associated with oversight and governance are separately identified, apportioned to this activity and charged as expenses to the fund.

Investment management expenses

Investment fees are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off returns by investment managers, these expenses are grossed up to increase the change in value of investments.

Fees charges by external investment managers and custodians are set out 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.

Transaction costs are associated with the acquisition or disposal of fund assets and are disclosed in the notes to the accounts.

f) 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets statement

g) Financial assets

All investment 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. Any gains or losses on investment sales 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 at fair value in accordance with the requirement of the Code and IFRS 13 (see note 14). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/ Investment Association, 2016).

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 and includes amounts held by the fund's external managers. All cash balances 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.

j) Financial liabilities

A financial liability is recognised in the net asset statement on the date the fund becomes legally responsible for that liability. The fund recognises financial liabilities relating to investment trading at fair value and any gains and losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments.

Other financial liabilities classed as amortised cost are carried in the net assets statement at the value of the outstanding principal at 31 March each year. Any interest due not yet paid is accounted for on an accruals basis and included in administration costs.

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 IAS 19 and relevant actuarial standards.

As permitted under the Code, 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 19).

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, Utmost Life 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(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed for information only in Note 22.

m) Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by future events. A contingent liability arises where an event prior to the year end has created a possible financial obligation whose existence will only be confirmed or otherwise by future events. Contingent liabilities can also arise when it is not possible at the Balance Sheet to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

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 2022 was £226.1 million (£211.6 million at 31 March 2021).

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 18. 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 reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations. However, actual outcomes could be different from assumptions and estimates made.

The items in the net assets statement 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
Actuarial present value of promised retirement benefits (Note 19)	Estimation of the net liability to pay pension depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and return on fund assets. Hymans Robertson is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. However, the assumptions interact in complex ways.
Private equity and infrastructure	Private equity and infrastructure investments are valued at fair value in accordance with British Venture Capital Association guidelines (December 2018). 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 £226.1 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 RECEIVED

By category

2020/21		2021/22
£'000		£'000
18,671	Employees' contributions	19,703
	Employers' contributions:	
59,581	• Normal contributions	63,233
0	• Deficit recovery contributions	35
59,581	Total employers' contributions	63,268
78,252	Total contributions receivable	82,971

By type of employer

2020/21		2021/22
£'000		£'000
25,328	Gwynedd Council	27,650
47,917	Other scheduled bodies	50,205
1,749	Admission bodies	1,716
2,712	Community admission bodies	2,892
140	Transferee admission bodies	161
352	Resolution bodies	313
54	Closed funds*	34
78,252		82,971

* Closed funds – These are contributions received from Ynys Môn Citizens Advice Bureau and Conwy Citizens Advice Bureau which were admitted bodies but are now closed funds.

NOTE 8 – OTHER INCOME

2020/21		2021/22
£'000		£'000
2	Interest on deferred contributions	2
2	Income from divorce calculations	2
4		4

NOTE 9 – TRANSFERS IN FROM OTHER PENSION FUNDS

2020/21		2021/22
£'000		£'000
3,356	Individual transfers	2,664
3,356		2,664

NOTE 10 - BENEFITS PAID

By category

2020/21		2021/22
£'000		£'000
50,411	Pensions	52,087
10,807	Commutation and lump sum retirement benefits	13,123
1,160	Lump sum death benefits	1,769
62,378		66,979

By type of employer

2020/21*		2021/22
£'000		£'000
18,773	Gwynedd Council	20,183
28,234	Other scheduled bodies	31,868
1,506	Admission bodies	1,651
1,133	Community admission bodies	1,217
50	Transferee admission bodies	104
174	Resolution bodies	109
12,508	Closed funds	11,847
62,378		66,979

2020/21 figures have been reanalysed to correct the employer categories

NOTE 11 - PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2020/21		2021/22
£'000		£'000
92	Refunds to members leaving service	138
2,960	Individual transfers	3,545
3,052		3,683

NOTE 12 - MANAGEMENT EXPENSES

2020/21		2021/22
£'000		£'000
21,128	Investment management expenses	14,788
1,268	Administrative costs	1,373
273	Oversight and governance costs	364
22,669		16,525

NOTE 12a – INVESTMENT MANAGEMENT EXPENSES

2021/22	Management Fees £'000	Transaction Costs £'000	Total £'000
Pooled Funds			
Fixed Income	297	0	297
Equities	2,420	693	3,113
Other Investments			
Pooled Property	1,744	0	1,744
Private Equity	6,445	0	6,445
Infrastructure	2,937	0	2,937
	13,843	693	14,536
Custody Fees			252
Total			14,788

2020/21	Management fees £'000	Transaction costs £'000	Total £'000
Pooled Funds			
Fixed Income	865	0	865
Equities	2,733	442	3,175
Other Investments			
Pooled Property	1,565	0	1,565
Private Equity	12,274	0	12,274
Infrastructure	3,044	0	3,044
	20,481	442	20,923
Custody Fees			205
Total			21,128

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled investment vehicles. There are no performance-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 in Note 14a.

The WPP Global Opportunities, Multi Asset Credit, Absolute Return Bond and Emerging Market funds are investments which are appointed via a manager 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 14a within the Change in Market value- for transparency, the fees in 2021/22 were £1,881,000 (£1,846,000 in 2020/21).

NOTE 12b- ADMINISTRATIVE COSTS

2020/21		2021/22
£'000		£'000
576	Direct employee costs	652
316	Other direct costs	344
376	Support services, including IT	377
1,268		1,373

Administrative costs include amounts charged to the Pension Fund by Gwynedd Council for staff costs, support services and accommodation.

NOTE 12c- OVERSIGHT AND GOVERNANCE COSTS

2020/21		2021/22
£'000		£'000
88	Actuarial fees	117
44	Investment consultancy fees	49
13	Performance monitoring service	9
34	External audit fees	36
6	Pensions Committee and Local Pension Board	18
88	Wales Pensions Partnership	135
273		364

NOTE 12d- WALES PENSION PARTNERSHIP

The Investment Management Expenses in Note 12a 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 NAV.

The oversight and governance costs in Note 12c 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 following fees are included in Note 12 in relation to the Wales Pension Partnership and further details on the WPP can be found in the Annual Report.

	2020/21	2021/22
	£'000	£'000
Investment Management Expenses		
Fund Manager fees	1,955	2,286
Transaction costs	442	693
Custody fees	179	227
	2,576	3,206
Oversight and governance costs		
Running Costs	88	135
Total	2,664	3,341

NOTE 13 – INVESTMENT INCOME

2020/21		2021/22
£'000		£'000
1,579	Fixed Income	4,430
20,587	Equities	12,141
1,108	Private Equity	2,090
888	Infrastructure	280
6,507	Pooled property investments	7,213
99	Interest on cash deposits	16
30,768	Total before taxes	26,170

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 exchange transactions and relevant costs.

NOTE 14 – INVESTMENTS

31 March		31 March
2021		2022
£'000		£'000
Investment assets		
Pooled Funds		
484,315	Fixed income	551,777
1,624,630	Equities	1,730,845
Other Investments		
194,581	Pooled property investments	252,521
165,423	Private equity	158,711
46,220	Infrastructure	67,417
2,515,169		2,761,271
146	Cash deposits	303
2,515,315	Total investment assets	2,761,574
Investment liabilities		
(126)	Amounts payable for purchases	(285)
(126)	Total investment liabilities	(285)
2,515,189	Net investment assets	2,761,289

NOTE 14a – RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2021/22	Market value at 1 April 2021	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2022
	£'000	£'000	£'000	£'000	£'000
Pooled investments	2,108,945	151,612	(116,647)	138,712	2,282,622
Pooled property investments	194,581	19,038	0	38,902	252,521
Private equity / infrastructure	211,643	38,945	(56,756)	32,296	226,128
	<u>2,515,169</u>	<u>209,595</u>	<u>(173,403)</u>	<u>209,910</u>	<u>2,761,271</u>
Cash deposits	146				303
Amounts payable for purchases of investments	(126)				(285)
Fees within pooled vehicles				13,100	
Net investment assets	2,515,189			223,010	2,761,289

2020/21	Market value at 1 April 2020	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2021
	£'000	£'000	£'000	£'000	£'000
Pooled investments	1,580,029	759,879	(727,541)	496,578	2,108,945
Pooled property investments	191,256	3,592	(281)	14	194,581
Private equity / infrastructure	157,230	29,249	(24,283)	49,447	211,643
	<u>1,928,515</u>	<u>792,720</u>	<u>(752,105)</u>	<u>546,039</u>	<u>2,515,169</u>
Cash deposits	783				146
Amounts payable for purchases of investments	0				(126)
Fees within pooled vehicles				19,472	
Net investment assets	1,929,298			565,511	2,515,189

NOTE 14b – ANALYSIS OF INVESTMENTS

Investments analysed by fund manager

Market Value at 31 March 2021			Market Value at 31 March 2022		
£'000	%		£'000	%	
1,360,124	54.1	Wales Pension Partnership	1,496,425	54.2	
735,481	29.2	BlackRock	851,675	30.9	
211,643	8.4	Partners Group	226,128	8.2	
47,627	1.9	UBS	75,739	2.7	
61,338	2.4	Lothbury	72,139	2.6	
31,904	1.3	Threadneedle	39,450	1.4	
20	0.0	Veritas	18	0.0	
67,178	2.7	Fidelity	0	0.0	
2,515,315	100.0		2,761,574	100.0	

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

Market Value at 31 March 2021			Market Value at 31 March 2022		
£'000	%		£'000	%	
442,964	17.5	WPP Global Opportunities Fund	454,098	16.4	
432,845	17.1	WPP Global Growth Fund	430,749	15.5	
307,181	12.2	WPP Absolute Return Bond	353,857	12.7	
297,967	11.8	Black Rock ACS World Low Carbon Fund	346,072	12.5	
211,625	8.4	Black Rock Aquila Life UK Equity Index Fund	239,314	8.6	
172,052	6.8	Black Rock Aquila Life GI Dev Fundamental Fund	200,811	7.2	
177,134	7.0	WPP Multi Asset Credit Fund	197,920	7.1	

NOTE 14c – STOCK LENDING

The Fund's investment strategy permits stock lending subject to specific approval. The income earned by the fund through stock lending was £126,800. Currently the Fund has total quoted equities of £35.8m on loan. These equities continue to be recognised in the Fund's financial statements. No liabilities are associated with the loaned assets.

NOTE 15 – FAIR VALUE- BASIS OF VALUATION

All investment assets are valued using fair value techniques based on the characteristics of each instrument, where possible using market- based information. There has been no change in the valuation techniques used during the year.

Assets and liabilities have been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1 - where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities, comprising quoted equities, quoted bonds and unit trusts.

Level 2 - where quoted market prices are not available, or where valuation techniques are used to determine fair value based on observable data.

Level 3 - where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

NOTE 15 – FAIR VALUE- BASIS OF VALUATION (continued)

Description of Asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the Valuations provided
Cash and cash equivalents	Level 1	Carrying value is deemed to be fair value because of the short- term nature of these financial instruments	Not required	Not required
Pooled investments- equity funds	Level 2	The ‘NAV’ (net asset value) is calculated based on the market value of the underlying assets	Evaluated price feeds	Not required
Pooled investments- fixed income	Level 2	The ‘NAV’ is calculated based on the market value of the underlying fixed income Securities	Evaluated price feeds	Not required
Pooled property funds	Level 2	Closing bid price where bid and offer prices are published; closing single price where single price is published	‘NAV’- based set on a forward pricing basis	Not required
Private equities	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018 and the IPEV Board’s Special Valuation Guidance (March 2020)	<ul style="list-style-type: none"> • EBITDA multiple • Revenue multiple • Discount for lack of marketability • Control premium 	Valuations could be affected by changes to expected cashflows or by differences between audited and unaudited accounts
Infrastructure	Level 3	Valued using discounted cashflow techniques to generate a net present value	Discount rate and cashflow used in the models	Rate of inflation, interest, tax and foreign exchange

Sensitivity of assets valued at level 3

The values reported in the Level 3 valuations represent the most accurate estimation of the portfolio values as at 31 March 2022. Any subjectivity related to the investment value is incorporated into the valuation, and the sensitivity analysis can be seen in Note 17.

Transfers between levels 1 and 2

There were no transfers between levels 1 and 2 investments during 2021/22.

NOTE 15a – FAIR VALUE HIERARCHY

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.

Values at 31 March 2022	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss				
Fixed income	0	551,777	0	551,777
Equities	0	1,730,845	0	1,730,845
Pooled property investments	0	252,521	0	252,521
Private equity	0	0	158,711	158,711
Infrastructure	0	0	67,417	67,417
Cash deposits	303	0	0	303
	303	2,535,143	226,128	2,761,574
Financial liabilities at fair value through profit and loss				
Payables for investment purchases	(285)	0	0	(285)
Total	18	2,535,143	226,128	2,761,289

NOTE 15a – FAIR VALUE HIERARCHY (CONTINUED)

Values at 31 March 2021	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss				
Fixed income	0	484,315	0	484,315
Equities	0	1,624,630	0	1,624,630
Pooled property investments	0	194,581	0	194,581
Private equity	0	0	165,423	165,423
Infrastructure	0	0	46,220	46,220
Cash deposits	146	0	0	146
	146	2,303,526	211,643	2,515,315
Financial liabilities at fair value through profit and loss				
Payables for investment purchases	(126)	0	0	(126)
Total	20	2,303,526	211,643	2,515,189

NOTE 15b – RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 April 2021 £'000	Transfers out of Level 3 £'000	Purchases during the year £'000	Sales during the year £'000	Unrealised gains/ (losses) £'000	Realised (gains)/ losses £'000	Market Value 31 March 2022 £'000
Property Unit Trusts	0	0	0	0	0	0	0
Private Equity	165,423	0	23,050	(22,550)	23,275	(30,487)	158,711
Infrastructure	46,220	0	15,895	(3,488)	9,021	(231)	67,417
Total Level 3	211,643	0	38,945	(26,038)	32,296	(30,718)	226,128

	Market Value 1 April 2020 £'000	Transfers out of Level 3 £'000	Purchases during the year £'000	Sales during the year £'000	Unrealised gains/ (losses) £'000	Realised (gains)/ losses £'000	Market Value 31 March 2021 £'000
Property Unit Trusts	191,256	(191,256)	0	0	0	0	0
Private Equity	112,661	0	18,796	(7,115)	45,538	(4,457)	165,423
Infrastructure	44,569	0	10,453	(7,952)	3,909	(4,759)	46,220
Total Level 3	348,486	(191,256)	29,249	(15,067)	49,447	(9,216)	211,643

The transfer from level 3 in 2020/21 is the movement of Property Unit Trusts as the material uncertainty clause was removed from property valuations.

NOTE 16 - 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 2021			As at 31 March 2022		
Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
£'000	£'000	£'000	£'000	£'000	£'000
			Financial assets		
2,108,945			2,282,622		
194,581			252,521		
165,423			158,711		
46,220			67,417		
	12,282			14,481	
	4,017			3,650	
2,515,169	16,299	0	2,761,271	18,131	0
			Financial liabilities		
		(3,339)			(3,641)
0	0	(3,339)	0	0	(3,641)
2,515,169	16,299	(3,339)	2,761,271	18,131	(3,641)

NOTE 16a – NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2021		31 March 2022	
Fair value		Fair value	
£'000		£'000	
		Financial assets	
546,039	Fair value through profit and loss	209,909	
0	Loans and receivables	0	
546,039	Total financial assets	209,909	
		Financial liabilities	
0	Fair value through profit and loss	0	
0	Financial liabilities at cost	0	
0	Total financial liabilities	0	
546,039	Net financial assets	209,909	

NOTE 17 – 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). 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 (pricerisk, currency risk and interest rate risk) and credit 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 Fund 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. Risk management policies are established to identify and analyse the risks faced by the Pension's Fund operations, then reviewed regularly to reflect changes in activity and market conditions.

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 from 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 investment return.

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 Fund 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 by factors affecting all such instruments in the market.

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

NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

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 Fund has determined that the following movements in market price risk are reasonably possible for the 2020/21 and 2021/22 reporting period.

Asset type	Potential market movement (+/-)	
	31 March 2021	31 March 2022
	%	%
UK Equities	16.7	19.9
Global Equities	17.4	20.1
Emerging Markets Equities	22.1	27.0
Private Equity	28.5	31.2
Absolute Return Bond	2.1	2.8
Infrastructure	21.0	14.6
Property	14.2	15.0
Diversified Credit	6.2	7.4
Cash	0.3	0.3
Total Fund	11.7	14.3

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 17 – 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 2022 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
UK Equities	239,314	19.9	286,937	191,690
Global Equities	1,431,729	20.1	1,719,508	1,143,952
Emerging Markets Equities	59,802	27.0	75,948	43,655
Private Equity*	158,711	31.2	208,228	109,193
Absolute Return Bonds	353,857	2.8	363,765	343,949
Infrastructure*	67,417	14.6	77,260	57,574
Property	252,521	15.0	290,399	214,643
Diversified Credit	197,920	7.4	212,566	183,274
Cash	14,481	0.3	14,525	14,438
Debtors and Creditors	9	0.0	9	9
Total assets available to pay benefits	2,775,761		3,249,145	2,302,377
*Level 3 assets	226,128		285,488	166,767

Asset type	Value as at 31 March 2021 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
UK Equities	211,625	16.7	246,966	176,283
Global Equities	1,345,827	17.4	1,580,001	1,111,653
Emerging Markets Equities	67,178	22.1	82,025	52,332
Private Equity*	165,423	28.5	212,568	118,277
Absolute Return Bonds	307,181	2.1	313,632	300,730
Infrastructure*	46,220	21.0	55,926	36,514
Property	194,581	14.2	222,211	166,950
Diversified Credit	177,134	6.2	188,116	166,152
Cash	12,282	0.3	12,318	12,245
Debtors and Creditors	678	0.0	678	678
Total assets available to pay benefits	2,528,129		2,914,441	2,141,814
*Level 3 assets	211,643		268,494	154,791

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.

NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The Fund's direct exposure to interest rate movements as at 31 March 2021 and 31 March 2022 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 2021	As at 31 March 2022
	£'000	£'000
Cash and cash equivalents	12,136	14,178
Cash balances	146	303
Pooled Fixed Income	484,315	551,777
Total	496,597	566,258

Interest rate risk sensitivity analysis

The Fund 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 2022	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	14,178	142	(142)
Cash balances	303	3	(3)
Pooled Fixed Income *	551,777	5,518	(5,518)
Total change in assets available	566,258	5,663	(5,663)

* 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 2021	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	12,136	121	(121)
Cash balances	146	1	(1)
Pooled Fixed Income *	484,315	4,843	(4,843)
Total change in assets available	496,597	4,965	(4,965)

* 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 0.10% amounting to interest of £14,183 for the year.

NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

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.

The Fund has made commitments to private equity and infrastructure in foreign currency (€363.2 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 24. 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.

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.

The 1 year expected standard deviation for an individual currency as at 31 March 2022 is 9.5%. The equivalent rate for the year ended 31 March 2021 was 9.8%. This analysis assumes that all other variables, in particular interest rates, remain constant.

NOTE 17 – 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 2022 and at the end of the previous financial year:

Currency exposure - by asset type	Carrying amount as at 31 March 2022	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Global Equities	1,431,729	1,567,744	1,295,716
Emerging Markets Equities	59,802	65,483	54,120
Private Equity	158,711	173,788	143,633
Absolute Return Bonds	353,857	387,473	320,240
Infrastructure	67,417	73,822	61,013
Diversified Credit	197,920	216,722	179,118
Total change in assets available	2,269,436	2,485,032	2,053,840

Currency exposure - by asset type	Carrying amount as at 31 March 2021	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Global Equities	1,345,827	1,477,718	1,213,936
Emerging Markets Equities	67,178	73,762	60,595
Private Equity	165,423	181,634	149,211
Absolute Return Bonds	307,181	337,285	277,077
Infrastructure	46,220	50,750	41,690
Diversified Credit	177,134	194,493	159,775
Property	0	0	0
Total change in assets available	2,108,963	2,315,642	1,902,284

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 17 – 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%
Wales Pension Partnership Emerging Markets	2.5%
Wales Pension Partnership Global Growth	14.0%
Wales Pension Partnership Global Opportunities	14.0%
Wales Pension Partnership Multi Asset Credit	7.5%
Wales Pension Partnership Absolute Return Bond	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 2022 was £14.3m (£12.5m at 31 March 2021).

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.

NOTE 17 – 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 25 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 Council 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 Actuary establishes 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 Council 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 Council'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 17 – 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 2022 the value of illiquid assets was £479m, which represented 17.2% of the total Fund assets (31 March 2021: £406m, which represented 16.1% 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 2022 are due within one year as was the case at 31 March 2021.

Refinancing risk

The key risk is that the Fund will be bound to replenish a significant proportion of its 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 18 – FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme (Administration) Regulations 2013, 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 and the next valuation is due to take place as at 31 March 2022.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement and was 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 (this will also minimise the costs to be borne by Council Tax payers).
- 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.

NOTE 18 – FUNDING ARRANGEMENTS (continued)

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 17 years. 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 measure 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 2019 valuation report.

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 (CPI)	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:

NOTE 18 – FUNDING ARRANGEMENTS (continued)

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

Copies of the 2019 valuation report and the Funding Strategy Statement are available on the Pension Fund's website www.gwyneddpensionfund.wales

Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but over most of 2020/21 and 2021/22 they recovered strongly. However, due to the war in Ukraine, March 2022 markets were particularly volatile, which affects values as at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be better than that reported at the previous valuation as at 31 March 2019.

It is important to note that the formal triennial funding valuation exercise is at 31 March 2022 and this may show a different picture when the finalised position is disclosed in next year's annual report. In particular, changes in Fund membership, changes in anticipated real investment returns, and changes in demographic assumptions will affect the valuation results. The Funding Strategy Statements will also be reviewed as part of the triennial funding valuation exercise.

NOTE 19 - 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 18) 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 2021 and 2022 are shown below:

	31 March 2021	31 March 2022
	£m	£m
Active members	1,939	1,929
Deferred members	631	583
Pensioners	882	818
Total	3,452	3,330

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 18) because IAS19 stipulates a discount rate rather than a rate that reflects market rates.

NOTE 19 - 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 and are different as at 31 March 2021 and 2022. The actuary estimates that the impact of the change in financial assumptions to 31 March 2022 is to decrease the actuarial present value by £281m. It is estimated that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £18m.

	31 March 2021	31 March 2022
Assumption	%	%
Pension increase rate	2.85	3.20
Salary increase rate	3.15	3.50
Discount rate	2.00	2.70

The life expectancy for the longevity assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Male Years	Female Years
Current pensioners	21.3	23.7
Future pensioners (aged 45 at the 2019 valuation)	22.4	25.7

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 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 2022	Approximate increase to liabilities	Approximate monetary amount
	%	£m
0.1% p.a. increase in the pension increase rate	2	63
0.1% p.a. increase in the salary increase rate	0	8
0.1% p.a. decrease in the real discount rate	2	72
1 year increase in member life expectancy	4	133

NOTE 20 – CURRENT ASSETS

31 March 2021 £'000		31 March 2022 £'000
421	Contributions due – employees	483
1,402	Contributions due – employers	1,597
2,194	Sundry debtors	1,570
4,017	Total debtors	3,650
12,136	Cash	14,178
16,153	Total	17,828

NOTE 21 – CURRENT LIABILITIES

31 March 2021 £'000		31 March 2022 £'000
1,671	Sundry creditors	1,697
1,542	Benefits payable	1,659
3,213	Total	3,356

NOTE 22 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

The market value of the funds is stated below:

	Market value at 31 March 2021 £'000	Market value at 31 March 2022 £'000
Clerical Medical	4,372	4,670
Utmost Life	193	182
Standard Life	5	5
Total	4,570	4,857

AVC contributions were paid directly to the following manager:

	2020/21 £'000	2021/22 £'000
Clerical Medical	597	645
Total	597	645

NOTE 23 - 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 £1,318,514 (£1,231,146 in 2020/21) 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 £27.87m to the Fund in 2021/22 (£25.33m in 2020/21). At the end of the year, the Council owed £0.32m to the Fund which was primarily in respect of interest paid on the Pension Fund's balances and contributions for March 2022 and the Fund owed £1.31m to the Council which was primarily in respect of recharges to the Council for the administrative costs.

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 2021/22, the Fund received interest of £14,183 (£88,037 in 2020/21) from Gwynedd Council.

Governance

There were two members of the Pensions Committee who were in receipt of pension benefits from the Gwynedd Pension Fund during 2021/22 (committee members P. Jenkins and J.B. Hughes). In addition, committee members S.W. Churchman, R.W. Williams, J.B. Hughes, A.W. Jones, I. Thomas, G. Edwards and S. Glyn are active members of the Pension Fund.

Two members of the Pension Board were in receipt of pension benefits from the Gwynedd Pension Fund during 2021/22 (board members H.E. Jones and S. Warnes). In addition, Board members A.LI. Evans, O. Richards, H. Trainor and S.E. Parry are active members of the Pension Fund.

Key Management Personnel

The key management personnel of the fund is the Fund Director.

The remuneration payable to key management personnel attributable to the fund is set out below:

31/03/2021 £'000		31/03/2022 £'000
8	Short-term benefits	7
2	Post-employment benefits	1
<hr/>		<hr/>
10		8

NOTE 24 - COMMITMENTS UNDER INVESTMENT CONTRACTS

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

	Total commitments	Commitment at 31 March 2021	Commitment at 31 March 2022
	€'000	€'000	€'000
P.G. Direct 2006	19,224	776	0
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	7,019	7,019
P.G. Direct 2012	12,000	1,181	1,181
P.G. Global Value 2014	12,000	1,531	1,531
P.G. Direct Equity 2016	50,000	2,826	2,826
P.G. Global Value 2017	42,000	23,120	17,870
P.G. Global Infrastructure 2018	28,000	21,516	14,379
P.G. Direct Equity 2019	48,000	30,964	18,432
PG Direct Infrastructure 2020	32,000	29,602	24,800
Total Euros	363,224	126,068	95,571
	\$'000	\$'000	\$'000
P.G. Emerging Markets 2011	7,000	1,082	1,082
P.G. Secondary 2015	38,000	17,640	15,740
P.G. Direct Infrastructure 2015	43,600	13,780	9,598
Total Dollars	88,600	32,502	26,420

'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 25 – 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 26 – CONTINGENT LIABILITIES

There are no contingent liabilities identified.

NOTE 27 – IMPAIRMENT LOSSES

There are no impairment losses identified.

MEETING: **PENSIONS COMMITTEE**

DATE: **27 JUNE 2022**

TITLE: **WALES PENSION PARTNERSHIP BUSINESS PLAN**

PURPOSE: **To approve the Business Plan**

RECOMMENDATION: **APPROVE BUSINESS PLAN**

AUTHOR: **DELYTH JONES-THOMAS, INVESTMENT MANAGER**

1. INTRODUCTION

The Wales Pension Partnership has updated its Business Plan and is seeking approval from the individual committees within the partnership.

The Business Plan was introduced to the Joint Governance Committee for approval on March 23rd.

2. BUSINESS PLAN

The Wales Pension Partnership business plan details how the partnership is going to achieve its goals. The business plan is constantly monitored and is formally reviewed and agreed every year. The purpose of the business plan is to:

- Explain the background and governance structure of the WPP
- Outline the priorities and objectives over the next three years
- Outline the financial budget for the relevant Business Plan period
- Summarise the WPP's Investments & Performance Objectives

It lays out the plan from a marketing, financial and operational viewpoint, outlining the priorities for the partnership during 2022-2025 and ensuring that resources are allocated to meet its objectives.

The Business Plan is attached for your review in Appendix 1.

3. RECOMMENDATION

To approve the Business Plan.



Wales Pension Partnership Business Plan 2022-2025



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Introduction

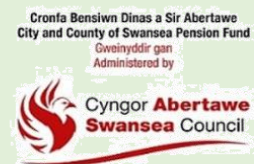
This is the business plan for the Wales Pension Partnership ('WPP'), the business plan details the WPP's priorities and areas of focus for 2022/23, 2023/24 and 2024/25. The business plan is constantly monitored and will be formally reviewed and agreed every year. The purpose of the business plan is to:

- Explain the background and governance structure of the WPP
- Outline the priorities and objectives of the WPP over the next three years
- Outline the financial budget for the relevant Business Plan period
- Summarise the WPP's Investments & Performance Objectives

About the Wales Pension Partnership

Established in 2017, the WPP is a collaboration of the eight LGPS funds (Constituent Authorities) covering the whole of Wales and is one of eight national Local Government Pension pools. We have a long, successful history of collaboration, including examples that pre-date the Government's pooling initiative. We are proud of our unique identity as a Pool – our Constituent Authorities represent and span the entirety of Wales. Being democratically accountable means, we provide the best of strong public sector governance and transparency.

Our operating model is designed to be flexible and deliver value for money. We appointed an external fund Operator and make use of external advisers to bring best of breed expertise to support the running of the Pool, this includes Hymans Robertson who have been appointed as the WPP's Oversight Advisor. The Operator is Link Fund Solutions and they have partnered with Russell Investments to deliver effective investment management solutions with the aim of achieving strong net of fee performance for all the Constituent Authorities. We have a shared vision and agreement on the means and pace at which this vision will be achieved. The eight LGPS Funds (Constituent Authorities) of the Wales Pension Partnership are:



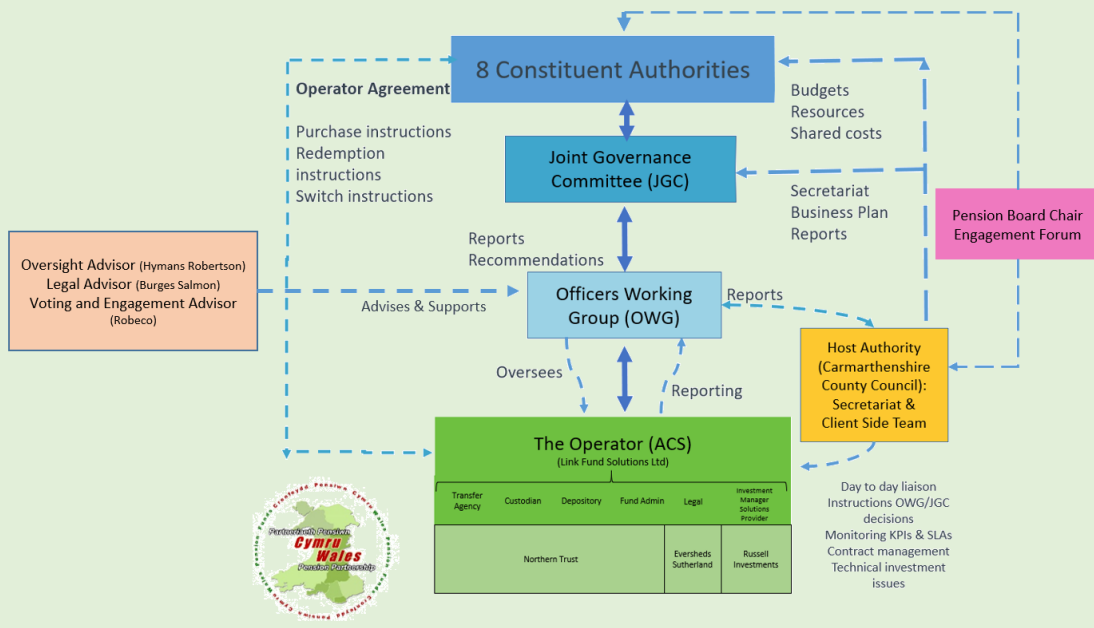
Governance

The WPP is responsible for ensuring that its business is conducted in accordance with regulation and guidance. We must also ensure that: public money is safeguarded and properly accounted for, used economically, efficiently and effectively to ensure value for money. We also strive for continuous improvement and to conform with industry best practice.

The WPP details how it deals with all aspects of Governance through its Inter Authority Agreement (IAA), which defines the standards, roles and responsibilities of the Constituent Authorities, its Members, Committees and Officers. The IAA includes a Scheme of Delegation outlining the decision-making process, taking into account the relevant legislation. In line with its belief that good governance should lead to superior outcomes for stakeholders, the WPP has put in place a robust governance structure, which has been designed to:



The diagram below shows WPP's governance structure:



The Constituent Authorities sit at the top of the WPP's governance structure. They retain control of all activity carried out by the WPP and remain responsible for approving this Business Plan, which outlines the WPP's budget and workplan, as well as its beliefs and objectives. The Constituent Authorities are heavily involved in all aspects of the WPP's governance structure, while the WPP's Joint Governance Committee and Officers Working Group are comprised respectively of elected councillor and officer representatives from the Constituent Authorities.

The WPP believes in being open and transparent as well as regularly engaging with its key stakeholders. As such the WPP ensures the meetings of the Joint Governance Committee are accessible to the public via a live webcast stream. Meeting papers are also made publicly available. Local Pension Board engagement days are also held regularly as a means of fostering stakeholder engagement. The WPP recognises the importance of all of its stakeholders to reflect this the WPP has put in place an Engagement Protocol Framework, this is carried out via the following engagement mechanisms:

Engagement mechanisms and Frequency:

- Strategic Relationship Review meeting Bi-Annual
- JGC Engagement Quarterly
- Manager Performance Meetings/ Calls Quarterly
- Training Events Quarterly
- OWG Engagement Quarterly
- Bi-weekly meetings Every 2 weeks
- Annual Shareholder Day Annual
- Pension Fund Committees Annual
- Manager Engagement Days Annual
- Member Communications Annual
- Pension Board Engagement Every 6 months
- Engagement via the website & LinkedIn Continuous
- Constituent Authority Annual Requirements & Ambitions Questionnaire Annual

Risk Management

The Wales Pension Partnership ('WPP') recognises that it faces numerous risks which, if left unmanaged, can limit the WPP's ability to meet its objectives and to act in the best interest of its stakeholders and beneficiaries. However, the WPP also understands that some risks cannot be fully mitigated and that in these instances' risks need to be embraced through active and effective management.

Risk management is a critical element of WPP's commitment to good governance, the WPP has developed a structured, extensive and robust risk strategy. This strategy will be embedded into the WPP's governance framework to ensure better decision-making, improved outcomes for stakeholders and greater efficiency.

The WPP's risk strategy seeks to identify and measure key risks and ensure that suitable controls and governance procedures are in place to manage these risks. The WPP believes that risks are fluid in nature and that the severity and probability of risks can change rapidly and without warning. To reflect this belief, the WPP's Risk Policy has been developed in such a way that risks can be anticipated and dealt with in a swift, effective manner to minimise potential loss or harm to the WPP and its stakeholders.

To deliver on its objectives, the WPP needs to carry out activities or seize opportunities that subject it to risk. The extent to which the WPP is able to effectively balance risk and return will depend on the success of its Risk Policy. It is critical that prior to making decisions the WPP understands the associated risks and considers the means by which these risks could be managed.

The greatest risk to the WPP's continued operation is its ability to deliver on its primary objectives. The WPP's Business Plan is an additional means through which the WPP will give special recognition to risks that pose a material threat to the delivery of its objectives and the actions required to manage these risks.

During the course of this business plan the WPP will seek to develop mechanisms, frameworks and process for managing the following key risks:



Objectives

The WPP is proud to represent the eight Constituent Authorities and recognises its duty to ensure the needs and requirements of all stakeholders are met. The WPP, through consultation with all eight Constituent Authorities, has formulated a list of primary objectives these can be summarised as follows:

- To provide pooling arrangements which allow individual funds to implement their own investment strategies (where practical)
- To achieve material cost savings for participating funds while improving or maintaining investment performance after fees.
- To put in place robust governance arrangements to oversee the Pool's activities.
- To work closely with other pools in order to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments
- To deliver an investment framework that achieves the best outcomes for its key stakeholders; the Constituent Authorities. The Constituent Authorities will be able to use this framework to deliver the best outcomes for their Scheme Members & Employers

The eight Constituent Authorities recognise that their strength derives from their shared beliefs and their ability to work together to deliver on their unified objectives for the benefit of all WPP stakeholders.

Beliefs

The WPP's Beliefs reflect the collaborative nature and shared values of the Constituent Authorities, they are as follows:

- The WPP's role is to facilitate and provide an investment pooling platform through which the interests of the Constituent Authorities can be implemented
- Good governance should lead to superior outcomes for the WPP's stakeholders
- Internal collaboration between the Host and Constituent Authorities is critical to achieving the WPP's objectives. External collaboration may also be beneficial in delivering cost savings and better outcomes for stakeholders
- Responsible Investment and effective Climate Risk mitigation strategies, alongside consideration and evidential management of broader Environmental, Social and Governance issues, should result in better outcomes for the WPP's stakeholders
- Effective internal and external communication is vital to achieving the WPP's objectives
- External suppliers can be a cost-effective means of enhancing the WPP's resources, capabilities and expertise
- Fee and cost transparency will aid decision making and improve stakeholder outcomes
- Continuous learning, innovation and development will help the WPP and its Constituent Authorities to evolve
- flexible approach to the WPP pool structure and implementation methods will enable the WPP pool to adapt in future and continue to meet the needs of its stakeholders.

The WPP's beliefs are the foundation for WPP's governance framework and have been used to guide all of the WPP's activities and decision making, including its objectives and policies.

Policies

The WPP believes that good governance should lead to superior outcomes for the WPP’s stakeholders. In recognition of this belief, the WPP, in consultation with the Constituent Authorities, has developed a robust governance structure and framework and a set of governing policies. In all instances the WPP’s policies and procedures have been developed to either complement or supplement the existing procedures and policies of the Constituent Authorities. The WPP understands the importance of formulating and codifying its policies and procedures. This process allows the WPP and the Constituent Authorities, to:



The WPP’s key policies, registers and plans are listed below and can be found on the WPP website.



The WPP’s policies are reviewed on a regular basis and the WPP will continually assess whether any additional policies, registers or plans are required. The WPP workplan includes a number of additional governance documents that will be developed, these will be made available on the WPP website once completed. The policies play a vital role in the WPP’s governance arrangements and have been formulated with the sole purpose of providing a codified framework which will ensure that the WPP achieves its objectives in an effective and transparent means.

Work Plan

The tables below shows key priorities and objectives that the WPP aims to complete over the next three years. The workplan has been broken down into a number of key sections which are all vital to the continued success of the WPP

- **Governance** - The WPP believes that good governance leads to better outcomes for its stakeholders, as such it will further develop its governance framework by developing additional policies, registers, plans and carry out ongoing reviews of its existing governance documents and structure.
- **Ongoing Sub-Fund development** – To date the WPP has pooled 73% of its assets and a number of other sub funds are in the process of being developed. The WPP will continue to consult with the Constituent Authorities to ensure that all suitable assets are pooled.
- **Operator Services** - The Operator, alongside the third parties that it employs on behalf of the WPP, are critical to the ongoing activities of the WPP, therefore service delivery of the Operator and third-party suppliers are crucial. The current operator contract comes to an end in December 2024.
- **Investments and Reporting** - The WPP recognises the importance of ensuring that existing investment solutions remain optimal and aligned to Constituent Authority requirements, while also delivering the investment return expectations of the Constituent Authorities. The WPP will continue to deliver on its reporting requirements and will develop further reporting, as and when required.
- **Communication and Training** - The WPP wants to ensure that internal stakeholders and external parties are aware of the WPP's progress and publishes numerous report and updates to ensure that it proactively communicates its progress to stakeholders. These can all be found on the WPP website.
- **Resources, Budget and Fees** - The WPP recognises that insufficient resources poses a significant risk to its ability to deliver an investment framework that achieves the best outcomes for its key stakeholders, the WPP carries out a number of reviews to guarantee that it has suitable resources to deliver on this commitment.

Work to be completed	2022 - 2023	2023 - 2024	2024 - 2025
Governance			
Development of a WPP Whistleblowing Policy	✓		
Development of a WPP Business Continuity Plan (including Cyber)	✓		
Development of a WPP Complaints Policy	✓	✓	
Development of a WPP Breach and Errors Policy	✓	✓	
Ongoing review of Inter Authority Agreement	✓	✓	✓
Annual/biennial review of WPP's policies and plans	✓	✓	✓
Quarterly reviews of the Risk Register	✓	✓	✓
Ongoing Sub-Fund development			
Appoint Private Market Allocators	✓	✓	
Launch of Private Debt & Infrastructure Sub-Funds	✓		
Launch of Private Equity Sub-Fund	✓		

Launch Sustainable Equities Sub-Fund	✓		
Formulate the WPP's Property requirements and optimal means of implementation ahead of sub-Fund launch	✓	✓	
Review and develop a mechanism to pool any suitable non-pooled assets		✓	✓
Launch of other Private Market sub-funds (TBC)		✓	✓
Consultation with CAs on need for further sub-funds	✓	✓	✓
Consideration of Local Investment opportunities	✓	✓	✓
Operator Services			
Operator contract / procurement process	✓	✓	✓
New Operator Contract			✓
Operator Oversight	✓	✓	✓
Investments and Reporting			
Finalise Voting & Engagement Reporting Requirements	✓		
Formulate WPP Engagement Priorities and Implementation Framework	✓	✓	
Review Sub-Fund mandates to ensure compatibility with WPP's Responsible Investment and Climate Risk Beliefs	✓	✓	✓
Task Force on Climate-related Financial Disclosures (TCFD) reporting	✓	✓	✓
Stewardship Code reporting	✓	✓	✓
Consider additional reporting that demonstrates WPP's commitment to Responsible Investment	✓	✓	✓
On-going Investment Manager performance reporting, scrutiny and challenge	✓	✓	✓
Annual review of WPP's Cost Transparency Requirements	✓	✓	✓
Annual performance review of WPP Sub Funds (Equity and Fixed Income)	✓	✓	✓
On-going engagement with Constituent Authorities regarding minimum ESG / RI standards and their climate ambitions	✓	✓	✓
Communication and Training			
Formulation of WPP's Annual Responsible Investment Progress Report	✓	✓	✓
Formulation of the WPP's Annual Training Plan	✓	✓	✓
Formulation of the WPP's Annual Update	✓	✓	✓
Formulation of the WPP's Annual Report	✓	✓	✓
Resources, Budget and Fees			
Annual review of resources and capacity	✓	✓	✓
Formulation of Annual WPP Budget	✓	✓	✓
Review and Monitoring of Fees (including Link & Russell)	✓	✓	✓

Training Plan

It is best practice for WPP personnel to have appropriate knowledge and understanding of:

- the regulations and markets relating to pensions;
- the pooling of Local Authority Pension Schemes; and
- relevant investment opportunities.

The WPP's training plan is designed to supplement existing Constituent Authority training plans. Local level training needs will continue to be addressed by Constituent Authorities while the WPP training plan will offer training that is relevant to the WPP's pooling activities.

WPP personnel should obtain a degree of knowledge and understanding that ensures they are able to carry out their duties associated with the WPP. WPP personnel should also be aware of the WPP's framework, beliefs, policies, governance matrix, the decision-making process and decision logging process.

To aid WPP personnel, the Host Authority will arrange quarterly training sessions which will cover major areas such as investments, administration, regulation requirements, government guidance and market developments. The WPP's training events will primarily focus on meeting the training needs of members of the OWG and JGC, however Constituent Authorities are encouraged to invite Pension Committee Members, as well as Pension Board Representatives if they believe that the training would be beneficial to these individuals.

We have set out below a list of training topics which the Host Authority will arrange training for during the 2022/2023 financial year. WPP's training topics are based on current WPP topical priorities and from an analysis of the WPP training requirements questionnaire/ assessment responses, completed by members of the Joint Governance Committee ('JGC') and Officers Working Group ('OWG'). Potentially there could be a number of member changes on the individual Pension Committees following the council elections in May 2022 and this has also been a factor in setting this year's training topics.

Product Knowledge

- o Private Market Asset Classes & the role of the Allocator
- o Active Sustainable Equities

Pool Knowledge

- o Governance and Administration
- o Roles and Responsibilities

Responsible Investment

- o What RI means for the WPP
- o Stewardship Code and TFCD Reporting

Market Understanding

- o Progress of other LGPS pools
- o Collaboration Opportunities

Budget

The table below outlines the WPP's budget for the next three years.

	2022-23	2023-24	2024-25
	£'000	£'000	£'000
Host Authority *	191	196	200
External Advisors *	1,206	1,168	1,130
TOTAL to be recharged	1,397	1,364	1,330
Operator / Allocator Services **	33,319	36,651	40,316
TOTAL to be deducted from the NAV	33,319	36,651	40,316

**Host Authority and External Advisor costs are to be funded equally by all eight of the WPP's Constituent Authorities and these will be recharged on an annual basis.*

***Operator / Allocator Services costs are based on each Constituent Authority's percentage share of WPP assets and are deducted directly from the Net Asset Value (NAV) of the Constituent Authority's assets.*

Investments & Performance

The WPP's Constituent Authorities have total assets of circa £21.6bn (as at 31 March 2021). The Constituent Authorities' passive investments are effectively within the Pool but are held by the respective WPP authorities in the form of insurance policies.

The Officers Working Group receives quarterly, six monthly and annual performance reports, the group reviews and challenges the performance of Investment Managers on behalf of the WPP. The WPP hosts annual manager engagement days, which are used to challenge managers and to facilitate engagement with Constituent Authority Pension Committee and Board Members and the WPP's Investment Managers. The Constituent Authorities also carry out their own analysis of WPP's investment performance at local level, this will include manager attendance at Pension Committees. Below we outline the WPP's existing Sub-Funds.

Equity Sub-Funds



* Portfolio Values as at launch date

Sub Fund	Performance Benchmark	Participating Funds	Underlying Investment Managers	Launch Date
Global Growth	MSCI ACWI ND	RCT, Dyfed, Gwynedd, Cardiff and Powys	Baillie Gifford, Veritas and Pzena	Feb 19
Global Opportunities	MSCI ACWI ND	Swansea, Torfaen, Gwynedd, RCT, Cardiff and Clwyd	Morgan Stanley, Numeric, Sanders, Jacobs Levy, SW Mitchell, NWQ, Nissay and Oaktree	Feb 19
UK Opportunities	FTSE All Share	Cardiff and Torfaen	Majedie, Lazard, Baillie Gifford, Ninety-One, J O Hambro and Liontrust	Sept 19
Emerging Markets	MSCI Emerging Markets	Cardiff, Clwyd, Gwynedd and Torfaen	Artisan, Bin Yuan, Barrow Hanley, Axiom, Numeric and Oaktree	Oct 21

Fixed Income Sub-Funds



* Portfolio Values as at launch date

Sub Fund	Performance Benchmark	Participating Funds	Underlying Investment Managers	Launch Date
Global Credit	Bloomberg Barclays Global Aggregate Credit Index (GBP Hedged)	Cardiff, Dyfed, Powys and Torfaen	Western, Metlife, Fidelity and T Rowe Price	July 20
Global Government	FTSE World Government Bond Index (GBP Hedged)	Cardiff and Torfaen	Bluebay and Colchester	July 20
Multi-Asset Credit	ICE BofA SONIA + 4% p.a.	Cardiff, Clwyd, Gwynedd, Powys, and Swansea	ICG, Man GLG, BlueBay, Barings and Voya	July 20
Absolute Return Bond Fund	ICE BofA SONIA + 2% p.a.	Gwynedd, Powys and Swansea	Wellington, Putnam, Aegon and Insight	Sept 20
UK Credit Fund	ICE BofA ML Eur-Stg plus 0.65%	RCT	Fidelity	July 20

Contact Details

If you require further information about anything in or related to this business plan, please contact the Wales Pension Partnership:

Postal Address - Wales Pension Partnership

Carmarthenshire County Council

Treasury & Pension Investments Section

County Hall

Carmarthen

SA31 1JP

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Telephone - (01267) 224136

Further information on the WPP and ongoing updates on the WPP's progress can be found on the website and LinkedIn page.

The website can be found here:

<https://www.walespensionpartnership.org/>



Agenda Item 10

MEETING:	PENSIONS COMMITTEE
DATE:	27 JUNE 2022
TITLE:	TREASURY MANAGEMENT 2021/22
PURPOSE:	CIPFA's Code of Practice requires that a report on the results of the Council's actual treasury management is produced.
RECOMMENDATION:	RECEIVE THE REPORT FOR INFORMATION
AUTHOR:	DELYTH JONES-THOMAS, INVESTMENT MANAGER

Executive Summary

During the 2021/22 financial year the Council's borrowing remained within the limits originally set and total interest received on deposits was £556,000 which was above the budgeted level of £433,000. There were no defaults by institutions in which the Council had deposited money.

1. Introduction

The Council's Treasury Management Strategy for 2021/22 was approved at Full Council on 4th March 2021.

It was decided at the Pensions Committee, 25 March 2021 to allow the surplus funds of the Pension Fund to be pooled and co-invested with the Council's overall cash flow for the financial year 2021/22.

The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Treasury Management Strategy.

This report compares the actual performance against the strategy for the financial year 2021/22 and fulfils 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.

2. Treasury Investment Activity

CIPFA published a revised Treasury Management in the Public Services Code of Practices and Cross- Sectoral Guidance Notes on 20th December 2021. These define treasury management investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

The Council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2021/22 the Council's investment balances have ranged between £62.9 million and £147.9 million.

Treasury Investment Position

	31.3.21 Balance £m	2021/22 Movement £m	31.3.22 Balance £m	31.3.22 Rate %	31.3.22 WAM* days
Banks & building societies (unsecured)	8.6	14.5	23.1	0.64	24.2
Local Authorities	20.0	10.0	30.0	0.52	69.2
Money Market Funds	26.0	(9.0)	17.0	0.54	1.0
Debt Management Office	0.0	18.0	18.0	0.55	16.8
Pooled Funds	8.9	0.9	9.8	4.44	365+
Total investments	63.5	34.4	97.9		

*Weighted average maturity

Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Ultra low short- dates cash rates, which were a feature since March 2020 when Bank rate was cut to 0.1%, prevails for much of the 12 month reporting period which resulted in the return on Money Market Funds being close to zero even after some managers have temporarily waived or lowered their fees. However, higher returns followed the increases in Bank Rate in December, February and March. At 31st March 2022, the 1- day return on the Council's MMFs ranged between 0.51%-0.58%.

Similarly, deposit rates with the Debt Management Office initially remained very low with rates ranging from 0% to 0.1%, but following the base rate increases, rates increased to between 0.55% and 0.85% depending on the deposit maturity. The average return on the Council's DMO deposits was 0.55%.

£9.8m of the Council's investments are held in externally managed strategic pooled equity and property funds where short term liquidity are lesser considerations, and the objectives instead are regular revenue income and long- term price stability.

These funds generated an income return of 4.4% and an unrealised capital gain of £0.9m in this financial year.

In the nine months to December improved market sentiment was reflected in equity, and property and multi- asset fund valuations and, in turn, in the capital values of the Council’s property and equity income funds in the Council’s portfolio. The prospect of higher inflation and rising bond yields did however result in muted bond fund performance. In the January-March quarter the two dominant themes were tighter UK and US monetary policy and higher interest rates, and the military invasion of Ukraine by Russia in February, the latter triggering significant volatility and uncertainty in financial markets.

In light of Russia’s invasion, Arlingclose contacted the fund managers of MMFs and strategic funds and confirmed no direct exposure to Russian or Belarusian assets has been identified. Indirect exposures were immaterial. It should be noted that any assets held by banks and financial institutions (e.g. from loans to companies with links to those countries) within MMFs and other pooled funds cannot be identified easily or with any certainty as that level of granular details is unlikely to be available to the fund managers or Arlingclose in the short-term, if at all.

Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued stability in meeting the Council’s medium to long term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years but with the confidence that over a three-to five year period total returns will exceed cash interest.

Investment Benchmarking

	Credit Score	Credit Rating	Bail-in Exposure	WAM* (days)	Income Rate of Return
31.03.2021	4.73	A+	63%	25	0.77%
31.03.2022	4.82	A+	54%	31	0.62%
Similar LAs	4.59	A+	46%	52	0.19%
All LAs	4.64	A+	66%	16	0.66%

*Weighted average maturity

3. Compliance Report

The section 151 officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in the following table:

Investment Limits

	2021/22 Maximum	31.3.22 Actual	2021/22 Limit	Complied
The UK Government	£59.8m	£18m	Unlimited	✓
Local authorities & other government entities	£5m	£5m	£10m	✓
Secured investments	£0m	£0m	£10m	✓
Banks (unsecured)	£5m	£5m	£5m	✓
Building societies (unsecured)	£0m	£0m	£5m	✓
Registered providers (unsecured)	£0m	£0m	£5m	✓
Money Market Funds	£7m	£7m	£10m	✓
Strategic pooled funds	£5m	£5m	£10m	✓
Real estate investment trusts	£0m	£0m	£10m	✓
Other investments	£0m	£0m	£5m	✓

4. Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators:

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the time-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment and taking the arithmetic average, weighted by the length of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.3.22 Actual	2021/22 Target	Complied
Portfolio average credit score	4.82	A score of 6 or lower	✓

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	31.3.22 Actual	2021/22 Target	Complied
Total cash available within 3 months	£78m	£10m	✓

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on interest rate exposures expressed as the proportion of net principal borrowed was:

	31.3.22 Actual	2021/22 Limit	Complied
Upper limit on one year revenue impact of a 1% rise in interest rates	£389,866	£635,000	✓
Upper limit on one year revenue impact of a 1% fall in interest rates	£0	£24,000	✓

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2021/22	2022/23	2023/24
Actual principal invested beyond year end	£10m	£0	£0
Limit on principal invested beyond year end	£20m	£20m	£20m
Complied	✓	✓	✓



Meeting:	Pension Committee
Date:	27/06/2022
Title:	Representation Policy
Purpose:	To approve the new policy
Author:	Meirion Jones, Pensions Manager
Recommendation:	Approve the new policy

Introduction

1. In response to the Good Governance Review the fund has been reviewing it's governance arrangements, with reference to the recommendations laid out in the review.
2. With regards to representation, the recommendation from the Good Governance report was that:
"Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its Committees, explaining its approach to voting rights for each party."

Background

3. The Local Government Act 1972 allows local authorities wide discretion over Committee appointments and delegations and so the issue of representation on the Pensions Committee remains one for local democracy.
4. Many Pension Committees now have employer and scheme member representatives. However, practice varies whether these members have voting rights.
5. While administering authorities should retain a majority vote on decision making committees in order to reflect their statutory duties, best practice would suggest that some form of wider employer and scheme member representation on the Pension Committee is desirable.

6. This new policy confirms the Fund's decision in respect of the Committee appointments and delegation as well as the constitution of the Pension Board.

Gwynedd's Policy

7. A copy of Gwynedd Pension Fund's proposed Strategy can be seen in **appendix A**.
8. This policy was presented to the Pension Board at their meeting on 4/4/2022 and it was highlighted that the policy confirmed the Fund's position in relation to the Committee's appointments and delegation rights, as well as the composition of the Pension Board. A few changes to the policy were suggested, and these changes are reflected in the policy shown below.
9. We would appreciate the Committee's approval to adopt this policy.



Representation Policy

Background

In accordance with best practice the Fund has established a policy on representation of scheme members and non-administering authority employers on its Governing Bodies (Pensions Committee and the Local Pensions Board) detailing its approach to representation and voting rights for each party.

Pensions Committee

Role of the Pensions Committee

Gwynedd Council's Pensions Committee have delegated responsibility to undertake the role of the Scheme Manager in accordance with Section 4 of the Public Service Pensions Act 2013.

The Committee is responsible for:

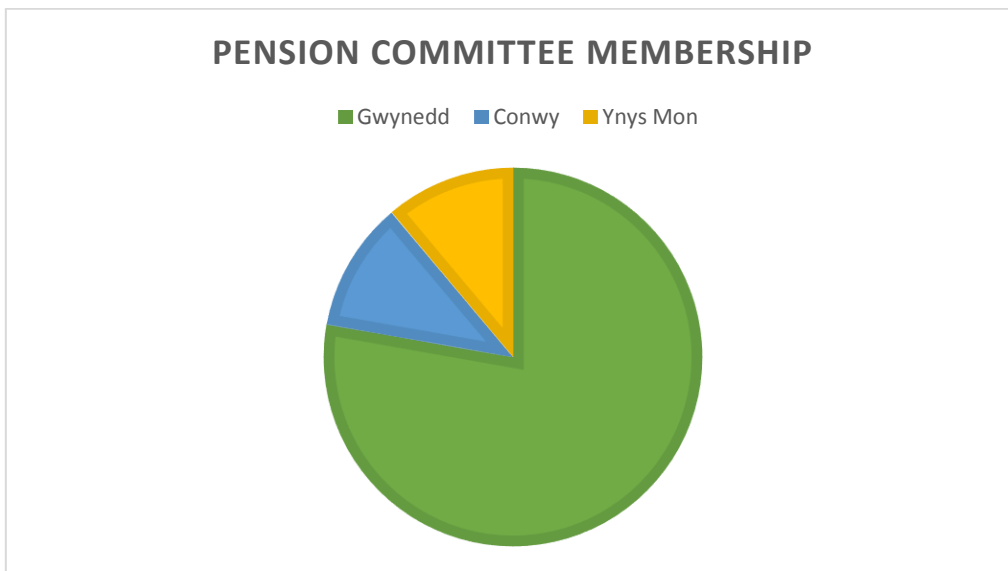
- exercising all of the functions that are required as an Administering Authority for the Local Government Pension Scheme under the Public Service Pensions Act 2013.
- adhering to the principles required by Statutory Guidance.
- adhering to The Pensions Regulators (tPR) Code of Practice.
- performing the duties set out in the Terms of Reference for the Pensions Committee as detailed in the Administering Authority's Constitution.

Members of the Pensions Committee are accountable for all the Fund's activities and are responsible for ensuring that the Fund is managed in the best interest of all its employer's, member's and beneficiaries.

Membership of the Committee

The membership of the Pensions Committee consists of:

- Seven Gwynedd Council elected members who are allocated on the basis of political balance between the various groups of elected members on the Full Council;
- One elected members from each of the other two unitary authorities within the Fund (Anglesey County Council and Conwy County Borough Council).



Elected members sit as full members of the Committee with debating and voting rights on all matters presented.

Currently there is no representation from admitted bodies or scheme members in order to retain a relatively small committee which can review the fund's performance in an effective manner. As the pension promise is defined by legislation for scheme members, the actions of the Committee have not hitherto been considered to impinge upon their interests and thus no representation has been afforded. All employers are afforded the opportunity to influence decisions through a series of informal employer meetings.

The Chair of the Pension Committee sits on the Wales Pension Partnership's Joint Governance Committee (JGC). The Wales Pension Partnership Joint Governance Committee oversees the pooling of the investments of the eight Local Government Pension Scheme funds in Wales. The JGC meets a minimum of 4 times a year and comprises of one elected member from each Constituent Authority.

Quorum

The quorum for the Pensions Committee requests that at least one third of the number of voting members of the committee are present. This is to ensure that the committee remains politically balanced with best endeavours to ensure that sufficient members are present at each meeting to ensure appropriate representation.

Pensions Board

Role of the Local Pension Board

The role of the local Pension Board as defined by sections 5 (1) and (2) of the Public Service Pensions Act 2013, is to:

- Assist Gwynedd Administering Authority as Scheme Manager -
 - to secure compliance with the Local Government Pension Scheme ("LGPS") regulations and any other legislation relating to the governance and administration of the LGPS.
 - to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator.
 - in such other matters as the LGPS regulations may specify.
- Secure the effective and efficient governance and administration of the LGPS for the Gwynedd Pension Fund.

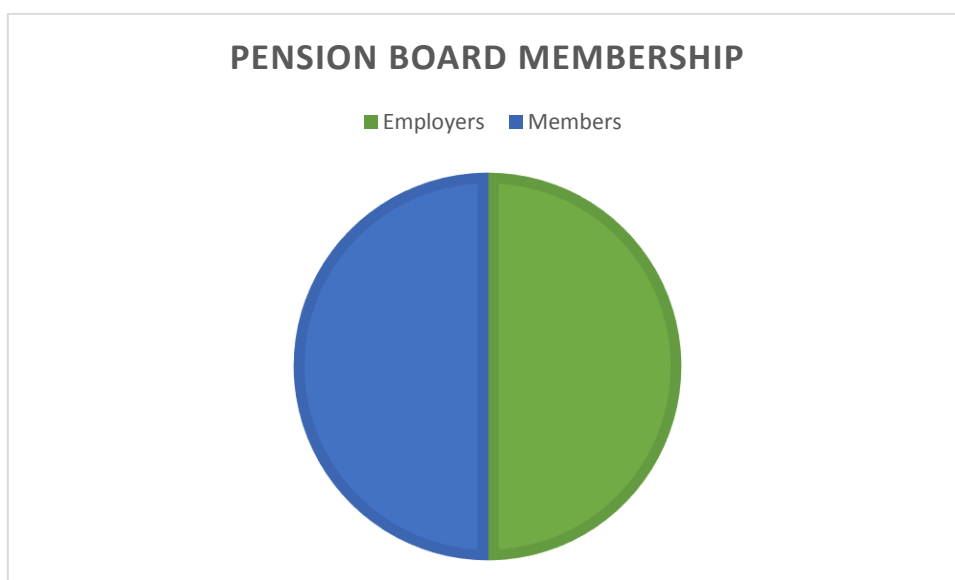
The Pension Board will ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator. The Pension Board will also help ensure that the Gwynedd Pension Fund is Managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator. The Scheme Regulations and the Scheme Manager will determine the remit of the Board.

The Board is constituted under the Public Service Pension Act 2013 and the Local Government Pension Scheme(Amendment) (Governance) Regulations 2014 and is therefore not subject to the requirements of Section 101 of the Local Government Act 1972. The Board has no remit as a decisions making body, but may make suitable recommendations.

Membership of the Board

Equal representation between scheme employers and scheme members is required. Subject to Regulation 107(5) of the Local Government Pension Scheme Regulations 2013 the Pension Board consist of 6 members and is constituted as follows:

- 3 employer representatives (one of whom represents the Administering Authority);
- 3 scheme member representatives.



Members are appointed with the aim so far as reasonably practical of securing that the Board is representative of employer and member groups within the fund.

Employers and employees will be asked to nominate representatives for the Pension Board. The Administering Authority will convene a panel to select the members of the Pension Board. The Appointment Panel will consist of the Section 151 Officer, Monitoring Officer and Cabinet Member for Finance. The selection of individual Board members within each category will depend on the overall balance of experience and skills within the group.

Appointment to the board is usually for a period of four years and there will be no limit on the number of times a member of the Board can be re-appointed.

The Administering Authority will appoint the Chair and the Vice Chair of the Pension Board from amongst the members of the Board. The roles will be split with one being an employer representative and one being a member representative and this will be alternated on a two year cycle.

It is the role of the Chair to ensure that all members of the Board show due respect for process, that all views are fully heard and considered and to determine when consensus has been met.

Each Board member should endeavour to attend all Board meetings during the year. No substitutes is permitted.

In the event of persistent non-attendance by any Board member at Board meetings or training, then the tenure of that membership will be reviewed by the other Board members in liaison with the Scheme Manager, and the Scheme Manager can decide to terminate the membership. The Scheme Manager has discretion to terminate the membership of any Board member in the event that it considers it necessary or appropriate to do so.

As a non-decision making body the Board has no authority to establish working parties or sub-groups.

Quorum

A meeting of the Board will be quorate if 3 Board Members are present, including the Chair or Vice Chair and the quorum must include at least, one employer representative and one member representative.

Each member shall have one vote, but if required the Chair will have the casting vote.

Agenda Item 12



Meeting:	Pensions Committee
Date:	27/06/2022
Title:	Pension Administration Strategy
Purpose:	To seek approval of the Committee to adopt the new Pension Administration Strategy
Author:	Meirion Jones, Pensions Manager
Reccommendation:	To approve the new strategy

Introduction

1. In response to the Good Governance Review the fund has been reviewing it's governance arrangements, with reference to the recommendations laid out in the review.
2. Currently the scheme does not have an Administration Strategy. The recommendation from the Good Governance report was that:

"Each administering authority must publish an administration strategy."

3. Until now it has been a matter of fund discretion as to whether it put a strategy in place. While the LGPS Regulations themselves set out what must be included within any such Strategy, should a fund choose to have one, the depth and quality of the information contained within the documents can vary significantly.
4. In addition to the production of an Administration Strategy, is the need to ensure it is published and accessible and delivers on the requirements of the Regulations.

What are the key objectives of the administration strategy?

5. The key objectives of this strategy are to ensure that:
 - The Fund and Employers are aware of and understand their respective roles and responsibilities under the LGPS Regulations and in the delivery of administrative functions
 - The Fund operates in accordance with LGPS regulations and is aligned with The Pension Regulator in demonstrating compliance and scheme governance.
 - Communication processes are in place to enable both the Fund and Employers to proactively and responsively engage with each other and other partners.
 - Accurate records are maintained for the purpose of calculating pensions entitlements and Employer liabilities, ensuring all information and data is communicated accurately, timely and in a secure and compliant manner

- The Fund and scheme employers have appropriate skills and that guidance/training is in place to deliver a high quality service and effectively contribute to the changing pensions agenda
- Standards are set and monitored for the delivery of specified activities in accordance with Regulations.

What needs to be included in the administration strategy?

6. The regulations set out that the following items should be included in the administration strategy:
 - procedures for liaison and communication between the administering authority and Scheme employers
 - the establishment of levels of performance which the administering authority and its Scheme employers are expected to achieve in carrying out their Scheme functions,
 - the setting of performance targets,
 - the making of agreements about levels of performance and associated matters, or such other means as the administering authority considers appropriate;
 - procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;
 - procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;
 - such other matters arising from its pension administration strategy as it considers appropriate; and
 - such other matters as appear to the administering authority after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

Gwynedd Pension Fund's Administration Strategy

7. A copy of Gwynedd's proposed Strategy can be seen in **appendix A**.
8. As part of preparing for the good governance project, a draft copy of the strategy was shared with Hymans Robertson in order to receive feedback.
9. They confirmed that in line with the Good Governance recommendation, the Administration Strategy touches on the following areas:
 - Service standards/SLAs
 - Engagement and communication
 - Customer (member and employer) satisfaction
 - Employer performance
10. They were of the view that the Administration Strategy meets all current requirements and those additional requirements resulting from the Good Governance

review.

Administration Strategy – Full compliance



11. This strategy was presented to the Pension Board at their meeting on 7/3/2022. During the discussion members noted the following comments:
 - the content of the document was orderly
 - The function / task and performance target tables were very clear and detailed
12. A few changes to the policy were suggested, and these changes are reflected in the policy shown below.
13. The fund's employers were then sent a copy of the strategy and given 4 weeks to submit their feedback / comments on the content of the strategy. Apart from one question from a small employer, no comments or feedback were received from the employers, so we assume that the employers are happy with the content of the document.
14. We would therefore appreciate the Committee's approval to adopt this policy.

Appendix A

Pensions Administration Strategy

1. Introduction

This is the Pension Administration Strategy (PAS) of Gwynedd Pension Fund (the Fund) in relation to the Local Government Pension Scheme (LGPS), which is administered by Gwynedd Council (the Administering Authority).

The LGPS is a statutory scheme and governed by regulations. The current regulations relating to administration are The Local Government Pension Scheme Regulations 2013 (as amended). The following link to the Local Government Association's (LGA) "LGPS Regulations and Guidance" website provides an up to date version of the LGPS Regulations 2013, including changes made subsequently through amending statutory instruments:

lgpsregs.org/schemeregs/lgpsregs2013.php

The Administering Authority and the Fund's employers are required to comply with any relevant overriding legislation and follow any regulatory guidance or Code of Practice issued by The Pensions Regulator in discharging their roles and responsibilities under these regulations with regard to data quality, completeness and timeliness.

2. Regulatory requirements

The legal context for this Strategy is Regulation 59 of The Local Government Pension Scheme Regulations 2013, which allows Administering Authorities the opportunity to prepare a Pension Administration Strategy.

These regulatory requirements are detailed below:

59. -(1) An **administering authority** may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ("its pension administration strategy") and, where it does so, paragraphs (3) to (7) apply.

(2) The matters are-

- (a) procedures for liaison and communication with Scheme employers in relation to which it is the **administering authority** ("its Scheme employers");
- (b) the establishment of levels of performance which the **administering authority** and its Scheme employers are expected to achieve in carrying out their Scheme functions by-
 - (i) the setting of performance targets,
 - (ii) the making of agreements about levels of performance and associated matters, or
 - (iii) such other means as the **administering authority** considers appropriate;
- (c) procedures which aim to secure that the **administering authority** and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;
- (d) procedures for improving the communication by the **administering authority** and its Scheme employers to each other of information relating to those functions;
- (e) the circumstances in which the **administering authority** may consider giving written notice to any of its Scheme employers under **regulation 70 (additional costs arising from Scheme employer's level of performance)** on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);
- (f) the publication by the **administering authority** of annual reports dealing with-
 - (i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and
 - (i) such other matters arising from its pension administration strategy as it considers appropriate; and
- (g) such other matters as appear to the **administering authority** after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

(3) An **administering authority** must-

- (a) keep its pension administration strategy under review; and
- (b) make such revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.

(4) In preparing or reviewing and making revisions to its pension administration strategy, an **administering authority** must consult its Scheme employers and such other persons as it considers appropriate.

(5) An **administering authority** must publish-

- (a) its pension administration strategy; and
- (b) where revisions are made to it, the strategy as revised.

6) Where an **administering authority** publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its Scheme employers and to the Secretary of State as soon as is reasonably practicable.

(7) An **administering authority** and its Scheme employers must have regard to the pension administration strategy when carrying out their functions under these Regulations.

(8) In this regulation references to the functions of an **administering authority** include, where applicable, its functions as a Scheme employer.

This strategy sets out the standards of performance and best practice that the Administering Authority and the Fund's employers should aim to meet when carrying out their scheme functions. It is reviewed annually and will be revised to reflect changes to:

- LGPS regulations
- Policies determined by the Administering Authority
- Administrative practices executed by the Fund and its employers in fulfilling its functions

It also includes a schedule of additional administration costs in accordance with Regulation 70 of the LGPS Regulations 2013, which provides scope for pension funds to recover costs where additional costs are being incurred due to an employer's level of performance. Levels of performance achieved by both the Fund and scheme employers are reported;

- as part of a Pension Administration Report at the Administering Authority's Pensions and Investments Committee
- at Gwynedd's Pension Board meetings
- in the Fund's Annual Report

70.-(1) This regulation applies where, in the opinion of an administering authority, it has incurred additional costs which should be recovered from a **Scheme employer** because of that employer's level of performance in carrying out its functions under these Regulations.

(2) The **administering authority** may give written notice to **the Scheme** employer stating-

- (a) the administering authority's reasons for forming the opinion mentioned in paragraph (1);
- (b) the amount the authority has determined **the Scheme** employer should pay under **regulation 69(1)(d) (payments by Scheme employers to administering authorities)** in respect of those costs and the basis on which the specified amount is calculated; and
- (c) where the **administering authority** has prepared a pension administration strategy under **regulation 59**, the provisions of the strategy which are relevant to the decision to give the notice and to the matters in sub-paragraphs (a) or (b).

This strategy is published on the Fund's website (www.gwynedd-pensionfund.wales) This is following its formal approval by the Pensions Committee and Pension Board in their role as the Administering

Authority of the Fund. A copy will also be submitted to the Secretary of State as required in Regulation 59.

3. Aims of the Strategy

The aims of this Pension Administration Strategy are to:

- Support the provision of a high-quality pension service to Fund members delivered through efficient working practices
- Clearly set out the respective roles and responsibilities of the Administering Authority and scheme employers
- Ensure that the Fund operates in accordance with LGPS regulations and Codes of Practice issued by The Pensions Regulator
- Set out the quality and performance standards expected of the Administering Authority and its scheme employers in relation to each other
- Promote good working relationships and improve efficiency between the Administering Authority and its scheme employers for the benefit of Fund members
- Provide a framework to enable administration costs relating to significant employer underperformance to be met directly by the employer responsible, rather than shared across all the employers in the Fund

The efficient delivery of the benefits of the scheme is dependent upon effective administrative procedures being in place between the Administering Authority and scheme employers, principally the timely exchange of accurate information in relation to scheme members.

This strategy sets out the expected levels of performance of the Administering Authority and the scheme employers and provides details about the monitoring of performance levels.

The strategy is implemented from 1 January 2022 following consultation with the Fund's employers and will be kept under review and updated as required to reflect changes in scheme regulations and Fund working practices.

Gwynedd Pension Board, in its role of assisting the administering authority to ensure the effective and efficient administration and governance of the Scheme, will also monitor the operation of this strategy.

4. Record Keeping

Record keeping is an essential part of running a scheme such as the LGPS. Funds and their employers have a legal obligation to collate and maintain certain data which is key to managing the scheme.

Gwynedd Pension Fund must keep accurate, up-to-date and long-term records, within the parameters of data protection legislation to ensure it can govern and administer the Fund efficiently for all scheme members.

Employers provide the data needed by the Fund and must ensure that they are meeting their legal obligations to the scheme.

The Fund has a legal duty to provide its members with accurate and timely information about their benefits, which cannot be issued without data from employers.

5. Development of the Fund's administration

i-Connect

Since 2019, the Fund has been working towards the full implementation of i-Connect. This is an additional module of the Aquila Heywood pension administration platform. The i-Connect module allows the Fund's scheme employers to automate the transfer of member data from their payroll systems to the Fund's pension administration system (Altair) on a monthly basis.

By onboarding the Fund's scheme employers onto i-Connect, this efficient solution will:

- reduce the need for manual inputting of pension related data
- allow ongoing data validation and a more timely resolution of queries
- reduce the workload of year-end reconciliation and reporting
- ensure the maintenance of a stable and accurate membership database
- receive data in line with statutory rules thus avoiding the risk of enforcement action and financial penalties by The Pensions Regulator for breaching legislative time limits and other requirements

Maintaining up to date member records ensures the accurate calculation of employers' pension contribution rates and the provision of a better service for fund members.

This strategy applies a deadline of 31 December 2021 for all the scheme employers to have commenced the implementation of i-Connect and the monthly transfer of its data submissions.

Member Self Service: My Pension Online

The Fund has introduced a secure, online portal to allow active, deferred and pensioner members to view their pension information, to undertake a number of data amendments and to carry out benefit projections on-line.

This online service is known as "My Pension Online", and it is expected that that this online portal will become the Fund's default method of communication with members.

The Fund will promote this service to scheme members and reflect it in the Fund's Communication Strategy. Employers will be expected to assist in the promotion of the "My Pension Online" service and encourage their employees who contribute to the LGPS to register for the service.

6. Roles and responsibilities

The aims of this strategy will be achieved by:

- clearly defining the respective roles of scheme employers and the Administering Authority
- setting clear and achievable standards of service levels for the functions carried out by scheme employers and the Administering Authority
- setting out clear procedural guidance for the secure and effective exchange of information between scheme employers and the Administering Authority
- monitoring service delivery, identifying poor performance and establishing a platform for the provision of support to improve performance where required

7. Employer roles and responsibilities

The primary responsibilities for the employer are to:

- **Communicate** the LGPS to eligible staff
- **Apply** the scheme via the collection and payment of the correct levels of pension contributions
- **Report** information and data to the Pension Fund as set out in this strategy

The delivery of an efficient and cost-effective administration is dependent upon a successful joint working partnership between the Pension Fund and key individuals within or representing the scheme employer.

To support and develop the joint working partnership with the Fund, each employer is asked to designate a primary contact to liaise with the Fund about their employer responsibilities in the administration of the scheme.

The employer responsibilities are to ensure that the standards and levels of service set out in this Administration Strategy are delivered and regulatory responsibility is complied with. This section outlines a brief summary of key employer's responsibilities, along with a more detailed listing of the responsibilities of each participating scheme employer in the Fund and the performance standards employers are expected to achieve to enable the Fund to deliver an efficient service.

Summary of key employer responsibilities

- Ensure that the standards and levels of service set out in this Administration Strategy are delivered and regulatory responsibility is complied with. In brief summary, the main elements are:
 - Monthly payment and reporting of pension contributions
 - Monthly submission of i-Connect data transmissions
 - Accurate submission of a Year-End Return where required
 - Notification of new starter / joiner information
 - Changes to personal details
 - Changes to employment details
 - Unpaid absence details
 - Leaver notifications
 - Provision of evidence supporting employer's pension-related decisions (For example ill-health retirements, flexible retirement, redundancy, the early release of benefits to deferred members on compassionate or ill-health grounds)
- Channel communications to appropriate staff within the employer (For example, Human Resources, Payroll teams, Director of Finance)
- Arrange distribution of LGPS related communications to scheme members, as and when required.
- Assist and liaise with the Fund on promotional activities, including encouraging registration for the "My Pension Online" service.
- Inform the Fund of any outsourcings of service which involve the transfer via TUPE of LGPS eligible staff as soon as possible to ensure that appropriate pensions information can be included in tender documentation, and employees' eligibility for, and membership of the LGPS is protected.
- Inform the Fund of changes to service delivery arrangements (for example changing payroll provider)
- Liaise with, and assist the Administering Authority in the identification, explanation, reporting and resolution of statutory breaches, as required by the Pensions Regulator's Code of Practice for public service pension schemes (code of practice 14)

Employer responsibilities – Roles, Functions and Performance Targets

The following tables set out in more details each employer's roles in respect of the administration of the scheme.

The performance standards expected are expressed as targets expected in normal circumstances. On an exceptional basis, it is accepted that it may not be possible to achieve the target indicated and a pragmatic approach will be adopted. This is subject to employers using their best endeavours to meet expected standards wherever possible.

The Employer Role and Responsibility

Function/Task	Performance Target
Employer Contacts	
Designate and confirm nominated representative(s) (Payroll, HR, Finance) to act on behalf of the employer in respect of administering the LGPS.	Within 1 month of becoming a scheme employer or within 1 month of a change in nominated representative(s). Details to be submitted via email to pensions@gwynedd.llyw.cymru
Appoint a person (the adjudicator) to consider disputes under stage 1 of the pension internal dispute resolution process (IDRP) and provide full up to date contact details to the Fund	Notify the Fund within 30 days of becoming a scheme employer or following the resignation of the current adjudicator
Appoint an Independent Registered Medical Practitioner(s) (IRMP) qualified in occupational health medicine, or arrange with a third party, and seek approval of the appointment from the Fund, for the consideration of all ill-health retirement applications from active and deferred members.	Within 1 month of becoming a scheme employer or within 1 month of a change in IRMP(s).
Employer Discretions Policy	
Formulate and publish policies in relation to all areas where the employer may exercise a discretion within the LGPS (including providing a copy of the policy document to the Fund).	Policies to be kept under review and a revised statement published within 1 month of any changes and no later than 6 months after being informed by the Fund of any relevant change in regulations
New Starters	
To ensure that pensions information is included as part of any new employment induction process, including in contracts of employment and appointment letters including signposting to LGPS guide on the Fund's website: www.gwyneddpensionfund.wales	As part of standard contract/appointment templates
Ensure that the correct contribution percentage and banding for member's LGPS contributions is applied to their payroll record and notify the member of initial contribution rate and any subsequent changes. The notification must also notify the employee of the right to appeal, including the processes and timescales involved.	From date of commencement or joining the scheme.
Notify the Fund of new scheme joiners via the monthly i-Connect submission	Within 1 month of member's entry into the scheme via contractual enrolment, auto-

	enrolment, re-enrolment date or election to join.
Where the member has more than one employment with the same Employer, each membership shall be maintained and reported upon separately (via i-Connect)	From date of commencement or joining the LGPS or starting or ceasing additional employments.
Advise the Fund of any opt outs that take place within first three months (when contributions are refunded through payroll)	As part of next i-Connect submission following receipt of the opting out notification
Appeals	
The Employer's Adjudicator to notify the Fund of the receipt of a Stage 1 appeal	Within 2 week of receipt of the appeal.
The Employer's Adjudicator to notify the Fund of the decision in respect of a Stage 1 appeal	Within 1 week of the decision.
The Employer's Adjudicator to provide the Fund with all documentation considered in the determination of the Stage 1 appeal for consideration in the adjudication of the appeal at Stage 2	Within 1 week of the receipt of the request from the Fund.
Changes in Circumstances	
Provide the Fund with the following member information: <ul style="list-style-type: none"> • new joiners • changes in member's circumstances which may impact pension benefits (eg, movement in and out of the 50/50 scheme, marital or civil partnership status, maternity, paternity, career break, etc.) • correction of date of birth / NI Number • employee and employer contributions and earnings • hours • Unpaid absence not covered by Assumed Pensionable Pay (APP) 	To ensure that the Fund is informed of any relevant changes in the circumstances of members via i-Connect within four weeks of the event
Ensure members are notified of the option to pay Additional Pension Contributions following applicable unpaid absences.	Within 2 weeks of the return to work
Ensure the correct application of Assumed Pensionable Pay (APP) during periods of reduced or nil pay in accordance with the LGA's HR and Payroll Guides. Information available at https://www.lgpsregs.org/employer-resources/index.php	Review of eligibility for APP immediately upon a member moving to reduced / nil pay.
In view of potential changes to the LGPS due to the "McCloud judgement", we ask Employers to keep service records for all members (including leavers) from 1 April 2014: The service details should include: <ul style="list-style-type: none"> • Marital Status • Contractual Hours • Variable Hours • Remuneration changes • Contribution Rate • Employee Number and/or Post Number 	As part of Employer data retention policy

<ul style="list-style-type: none"> Absence: Maternity, Paternity and Adoption and Unpaid leave of absence and Industrial Action <p>Each employer must ensure that this information is available to the Fund, if required.</p>	
Contributions	
Remit employer and employee contributions to the Pension Fund Bank Accounts – monitored by the Fund	By 19th of the following month following deduction
Implement changes to employer contribution rates as the instructed by the Fund from the date specified by the Fund’s actuary	In line with the Rates Adjustment Certificate issued by the Fund’s actuary, following each triennial valuation or other relevant event as notified in writing
Arrange for the deduction of AVCs and payment over to the AVC provider(s) and then schedule to be sent to the AVC provider	Payment by 19th of the following month following deduction
Make additional fund payments in relation to early payment of benefits from flexible retirement, redundancy or business efficiency retirement or where a member receives benefits early with Employer’s consent and a funding strain cost arises	Within 30 days of receipt of invoice from the Fund
Monthly i-Connect Returns	
To provide a monthly return in accordance with the Fund’s specification that reconciles the employee, employer and any additional contributions paid to the Fund.	Via the i-Connect submission no later than the 19th of the month following that in which the contributions were deducted.
To ensure optimum accuracy of monthly i-Connect files received.	Less than 5% of the active member count as at 1 April to error on import into the pension administration system
The rectification of an accurate monthly data file where it has been necessary to return the file due to data inaccuracies	Within 15 days of receipt of file
Members Leaving Employment – Early leavers	
To notify the Fund of the member's leaving date and reason for cessation of membership and all other relevant information via the Leavers Form. To ensure that all i-Connect submissions are up to date.	<p>Within 20 days of leaving date. The leaver event is also to be reported via the iConnect submission by the 19th of the following month.</p> <p>The i-Connect submission must clearly state the reason for leaving.</p>
Death in Service and Terminal Illness	
To inform the Fund immediately of the death of a member via the Leavers Form, or when a member is suffering from a potentially terminal illness and to provide details of the next of kin.	Within 1 working day of contact from next of kin.
Actual Retirement	
To submit the appropriate leavers form to the Fund.	At least one month before retirement where possible but in all cases no later than 15 working days after retirement date.
Ill Health Retirement	
To determine based on medical evidence and the advice of one of the Administering Authorities approved Independent Medical	Submit the appropriate form to the Fund at least one month before retirement where

Registered Practitioners (IMRP) whether an ill health award is to be made and determine which tier 1, 2 or 3	possible but in all cases no later than 15 working days after retirement date.
To keep a record of all Tier 3 ill health retirements, particularly in regard to the 18 month review of their scope for gainful employment and any subsequent appointment with an IMRP for a further medical certificate. To inform the Fund if and when the pension should cease.	As soon as a decision is made.
Contracting out of services and functions	
Notify the Fund of the contracting out of services which will involve a TUPE transfer of staff to another organisation	Inform the Fund within five working days of the decision to contract out a service or function.
Ensure that bidders have access to relevant guidance including but not limited to the PLSA guidance "Navigating entry into the LGPS: For Local Government Contractors" available from the Pensions and Lifetime Savings Association website: www.plsa.co.uk	At the point of decision to contract out.
Notify the Fund of lead strategic and operational officers in respect of outsourcing of service provision where a prospective contractor may request to join the Fund as a result of re-organisation or TUPE transfer.	At determination of successful tender.
Work with Fund Officers to arrange for the Admission Agreement to be completed before the commencement date of the contract.	A minimum of 2 months in advance of the date of contract.
Notify the Fund of changes / extension / cessation of arrangements with a contractor.	As soon as decision is agreed.
Assist the Fund in ensuring that the terms of the contractor's admission as a scheme employer (Admission Agreement) are complied with.	Notify the Pension Fund if the terms of the Admission Agreement have been breached.
Change of payroll provider	
To confirm the decision to change to a new payroll provider along with the contact details of the new provider.	As soon as possible and no later than 6 weeks prior to the transfer of duties and functions
Ensure that a new payroll contract requires the provider to supply data via i-Connect. Ensure that all i-Connect submissions up to the transfer of responsibilities are made by the outgoing provider in accordance with the PAS. Ensure that the new supplier provides payroll references (specific to post) to the Fund	As soon as possible but no later than 20 working days before the first i-Connect submission.
Communication	
Ensure content approved by the Fund is included in all contract / appointment / adjustment communications for LGPS-eligible positions including direction to gwyneddpensionfund.wales	Review LGPS content annually or within 2 weeks of receipt of information about adjustment to Fund approved wording.
Distribute any information provided by the Fund to scheme members / potential scheme members. Refer new or prospective scheme	Within 2 weeks of its receipt.

members to the Fund's website: gwyneddpcensionfund.wales	Within 2 weeks of commencement of employment or change in contractual conditions.
Respond to queries from the Fund	Within 10 working days from receipt of enquiry unless stated otherwise.
Miscellaneous	
Payments in respect of FRS102 and IAS19 work carried out on behalf of Employers by the Fund and the Fund Actuary.	Immediate payment upon receipt of invoice from the Fund.
Payments in respect of all other work carried out on behalf of the Employer by the Fund's Actuary and connected data quality assurance undertaken by the Fund.	Immediate payment upon receipt of invoice from the Fund.
Prompt payment of invoices issued by the Fund for specific services provided.	Immediate payment upon receipt of invoice from the Fund.
Respond to non-standard enquiries from the Fund.	Within 10 working days from receipt of enquiry unless stated otherwise.
Make payment of additional costs to the Fund associated with non-compliance with performance standards of the scheme employer.	Immediate payment upon receipt of invoice from the Fund.
Respond to enquiries from the Fund relating to Breaches of the Law.	Within 1 week of the request.

8. The Pension Fund's Roles and Responsibilities

What is the Pension Fund's main responsibilities?

The Pension Fund's main responsibility is to calculate and pay benefits in line with LGPS regulations. Other key responsibilities include:

- keeping accurate pension records and data
- providing annual benefit statements to all contributing and deferred members
- providing P60s to pensioner members
- providing pension savings statements to those members who exceed the annual allowance limit
- preparing and publishing a discretions policy and keeping it up to date
- appointing a nominated adjudicator for stage 1 and stage 2 appeals made under the IDR

To do these successfully, the Administering Authority expects to:

- provide employers with a point of contact through its Employer Support team and Employer Helpline service
- keep employers informed of any matters that might affect them through its communication methods and strategy
- provide or facilitate training to all new employers or those authorised officers that are new to the LGPS or GMPF
- maintain a section of the GMPF website that contains information to support employers
- hold an annual update meeting where employers can find out about GMPF's performance and learn about work being undertaken
- issue regular surveys and hold feedback sessions to get employer views and make improvements
- let employers know if there are any proposed scheme changes, administration challenges or anything similar that they may need to be aware of
- carry out certain tasks on an employers' behalf where it is reasonable and acceptable to do so
- audit employers from time to time, carrying out spot checks and asking for evidence to support effective pension administration

Who manages the Gwynedd Pension Fund and how?

Gwynedd Pension Fund's Committee is responsible for ensuring the Fund complies with its statutory responsibilities. It also sets expectations regarding administration performance. The Local Pensions Board carries out a scrutiny role and reviews compliance with the rules.

When assessing administration performance, the committee will consider:

- performance against statutory targets and key service delivery indicators
- the cost of administration
- benchmarking reports to assess the Fund's performance compared to that of other pension funds
- ability to recruit to key posts
- the numbers of complaints and formal disputes received and their outcomes
- audit outcomes
- ability to deliver projects on time and to budget
- feedback received from stakeholders through surveys, the website and other channels
- feedback received from staff

The key performance indicators used to help measure service delivery

The LGPS regulations and other overriding pension legislation contain statutory targets that the Fund must meet. Additionally, the Fund's Committee has set some performance standards based on the level of service that it expects to be delivered to members.

Details of these standards and our performance against them are published in the annual report.

How is the performance monitored?

The Fund's Committee will monitor the Fund's performance and that of its employers in the following ways:

- Through regular reports to the Pension Committee, relevant Working Groups and the Local Pensions Board
- Through reporting and general day to day monitoring by the Fund's managers and officers
- Through reports provided to employers highlighting performance levels
- By using the Internal Audit team to review processes and controls
- By comparing performance against other LGPS pension funds, benchmarking key data and workloads
- By following escalation procedures where there is non-compliance
- By reviewing the Fund's breaches of the law log each quarter
- By holding focus groups and forums when appropriate

The Fund will monitor employer performance across the following key areas:

- The submission of monthly data returns
- The payment of contributions and other payments due
- The number of queries, along with the rate and quality of responses
- The number of complaints received and IDRPs upheld against the employer
- Whether or not the Fund have received a copy of the employer's current discretions policy
- Whether or not an employer has failed to notify the Fund of key changes or events within a reasonable timeframe

This table sets out the Administering Authority's roles and responsibilities:

Function/Task	Performance Target
Governance	
Regularly review the PAS and consult with all scheme employers	Triennially review the PAS and in addition review it following any material changes in service delivery or regulations relating to the PAS and consult with all Employers on any changes
The Funds will review their respective Funding Strategy Statements at each valuation (or material event), following consultation with Employers and their Fund Actuary	Publish by 31 March following the valuation date, or as required
Review the respective Fund's Communications Policy	Annually review and publish within 30 days of any revision to the policy being agreed by the respective Pension Fund Committees
Review the Fund's Governance and Compliance Statement	Annually review and publish within 30 days of any revision to the policy being agreed by the respective Pension Fund Committees

The Fund should formulate and publish policies in relation to all areas where the Administering Authority may exercise a discretion within the LGPS	Annually review and publish within 30 days of any revision to the policy being agreed by the respective Pension Fund Committees
Notify the Employer of issues relating to the Employer's unsatisfactory performance	If no response to Gwynedd Pension Fund's request for action is received within 10 days; second request marked "escalation" to be issued; if no response within 10 days matter referred for cost recovery
Notify the Employer in writing of decision to recover additional costs associated with the Employer's unsatisfactory performance	After 10 working days of second request for action and continued failure to improve performance as requested
Member Information/Data Quality and General Administration	
Provide support for Employers through a dedicated page on website; quarterly newsletter; forums; quarterly meetings; quarterly training sessions and ad hoc bulletins and alerts	Information given quarterly to nominated representative
Notify Employers and members of changes to LGPS regulations	Within 90 days of regulatory change
Produce Annual Benefit Statements (ABS) to active and deferred Scheme Members as at 31 March each year	By 31 August following end of year (Statutory deadline)
Produce and issue Pension Saving Statements (PSS) to members who have exceeded their annual allowance	By 6 October following end of year (subject to receipt of all relevant information from the Employer) (Statutory deadline)
Key Performance Indicators	
To accurately create member records on the pensions administration system following notification from an employer of a new entrant to the LGPS.	Within 30 days of the i-Connect notification
Gwynedd Pension Fund will contact all new members, providing them with an activation key for 'Member Self Service' and respond to member requests for an activation key.	Within 30 days of the i-Connect notification of a new starter / member's request
Initial letter/acknowledgement of death of active/deferred/pensioner member	Within 10 days of notification
Deaths – Letter notifying amount of dependant's benefit	Within 10 days of completed forms and documents
Retirements – Letter notifying estimate of retirement benefits	Within 10 days of request (where practicable the Gwynedd Pension Fund will deliver immediate retirement estimates to members via Member Self Service)
Retirements – Letter notifying actual retirement benefits	Within 10 days of (the latest of) the member's retirement date or the Gwynedd Pension Fund receiving all completed forms/documents
Retirements – process and pay lump sum retirement grant	Within 10 days of (the latest of) either receipt completed forms and documents or the retirement date
Deferment – Calculate and notify deferred benefits	Within 10 days of date of Employer Notification
Transfer out – Letter detailing transfer out quote	Within 10 days of completed request form
Transfer in – Letter detailing transfer in quote	Within 10 days of receiving transfer details from sending scheme

Refund – Process and pay a refund	Within 10 days of (latest of) either completed forms/documents or payable date
Divorce quote – Letter detailing cash equivalent value and other benefits	Within 3 months of request
Divorce Settlement – Letter detailing implementation of cash equivalent value and application of pension sharing order	Within 3 months of receipt of pension sharing order
Provide an acknowledgement and answer to scheme members/Employers/personal representatives/dependents and other authorised persons	Answer non-complex enquiries within 5 working days from receipt and for complex enquiries: acknowledge within 5 working days of receipt and reply substantively within 10 working days.

The timescales for completing the tasks above are measured from the date the Gwynedd Pension Fund is in receipt of all the relevant information required to complete the task and is expressed in “working days”.

Meeting:	Pensions Committee
Date:	27/06/2022
Title:	Section 13 Report
Author:	Dafydd L Edwards – Pension Fund Director
Recommendation:	For information only

What is Section 13?

1. Section 13 of the Public Services Pensions Act 2013 requires a report to be published on the valuation of the 91 English and Welsh Local Government Pension Scheme (LGPS) funds every 3 years.
2. The Department of Levelling Up Housing and Communities (“DLUHC”) have appointed the Government Actuary’s Department (GAD) to carry out this exercise.
3. The Section 13 valuation carried out by GAD is based on the formal actuarial valuations of the 91 English and Welsh LGPS funds, as carried out by their Fund actuary.
4. The Section 13 valuation adopts standard assumptions for all LGPS funds, with the aim of providing a level playing field so that funds can be compared on a like for like basis.
5. Hymans Robertson submitted data and information regarding the 2019 valuation on the Fund’s behalf to GAD and they used this data, along with data from the other LGPS Funds to carry out their analysis.
6. GAD published their report on the 2019 valuations on 16 December 2021. Gwynedd Pension Fund has met all the criteria of the Section 13 Valuation, without any amber or red flags raised.
7. The full report can be found at:

<https://www.gov.uk/government/publications/local-government-pension-scheme-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2019>

What does the Section 13 report cover?

8. This GAD analysis is very analytical and presents various metrics in a “like-for-like” fashion so that reasonable comparisons can be made between LGPS funds. Section 13 requires GAD to ascertain whether each local fund valuation has achieved the following aims:
 - The valuation ***complies*** with the LGPS regulations.

In assessing compliance, GAD has focussed on Regulation 62 covering mainly the valuation report and employer contribution rate setting and has not considered other elements of the valuation process, including the compliance of the Funding Strategy.

- The valuation has been carried out in a way which is **not inconsistent** with other local fund valuations.
 - The valuation has set employer rates that ensure the **solvency** and the **long-term cost efficiency** of the fund.
9. For solvency GAD focuses on whether the assets held, together with employers' contributions are sufficient to target 100% funding over an appropriate period.
 10. For long-term cost efficiency GAD also considers issues of inter-generational fairness in employer contribution rates, ensuring that employers pay a fair amount to cover benefits earned during the current period of participation.

Gwynedd Pension Fund's results

11. The valuation was considered compliant with the relevant Regulations.
12. To assess **solvency** and **long-term cost efficiency** GAD designed a number of metrics and raised flags against these metrics against specific funds to highlight areas where risk may be present, or further investigation is required, using a red/amber/green/white rating approach:

Red = Material issue

Amber = Potential material issue

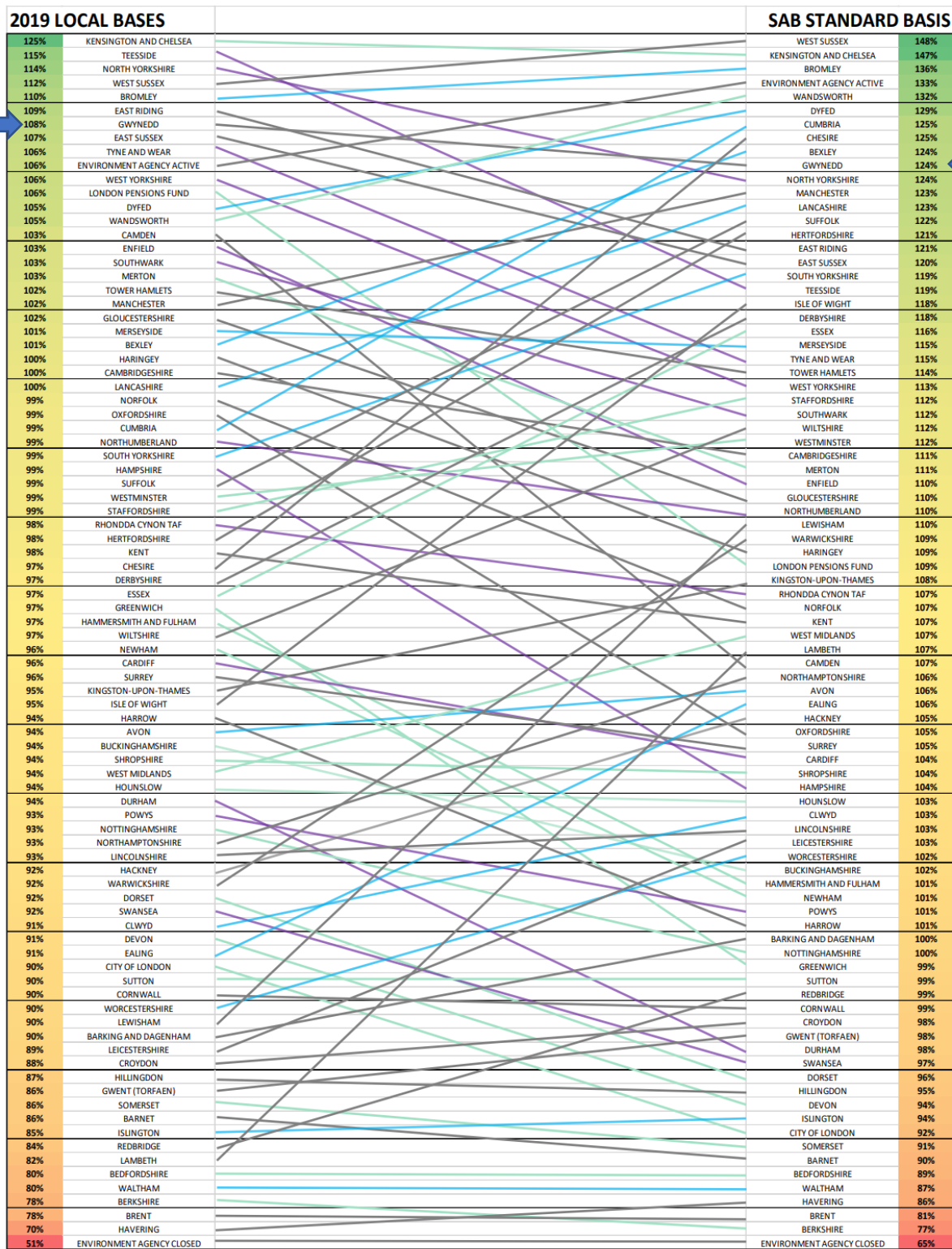
White = Advisory highlighting a general issue

Green = No material issues

13. Gwynedd Pension Fund received all green flags for both Solvency and Long-Term Cost Efficiency

Funding Level on SAB Standardised Basis

14. The Funds are shown here ranked by funding level at the last valuation, firstly on the Fund's own basis and then using the SAB standard basis. The SAB standard basis facilitates like-for-like comparison but is not suitable for funding purposes.
15. Based on the fund's own basis the fund is ranked 7th with a funding level of 108%. Based on SAB Standard's basis the fund is ranked 10th with a funding level of 124%. The following table shows the results for all the funds.



Presentation by Hymans Robertson

16. Hymans Robertson, Gwynedd’s Fund Actuary, have prepared the independent update for the Committee on the Section 13 exercise and the Gwynedd Fund’s results, which is submitted here as an appendix.

17. The update will be presented by Malcolm Stanley, an actuary at Hymans Robertson.

Conclusion

18. GAD are content that the Gwynedd Fund has a reasonable funding plan in place and there are no concerns identified in the report that require action by the Committee.

Recommendation

19. The Pensions Committee are asked to note and provide any comments on the Section 13 exercise and the paper produced by Hymans Robertson.

Gwynedd Pension Fund

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Update for Committee
Section 13 report

Richard Warden FFA

30 May 2022

For and on behalf of Hymans Robertson LLP



What is Section 13?

Under Section 13 of the Public Service Pensions Act the Department of Levelling Up Housing and Communities (“DLUHC”) appointed the Government Actuary’s Department (GAD) to carry out a review of the LGPS local funding valuations. We previously submitted data and information regarding the 2019 valuation on the Fund’s behalf to GAD and they used this data, along with data from the other LGPS Funds to carry out their analysis.

GAD published their report on the **2019 valuations** on **16 December 2021**.

The full report can be found at

<https://www.gov.uk/government/publications/local-government-pension-scheme-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2019>

What does the Section 13 report cover?

This GAD analysis is very analytical and presents various metrics in a “like-for-like” fashion so that reasonable comparisons can be made between LGPS funds. Section 13 requires GAD to ascertain whether each local fund valuation has achieved the following aims:

- The valuation **complies** with the LGPS regulations.

In assessing compliance, GAD has focussed on Regulation 62 covering mainly the valuation report and employer contribution rate setting and has not considered other elements of the valuation process, including the compliance of the Funding Strategy.

- The valuation has been carried out in a way which is **not inconsistent** with other local fund valuations.
- The valuation has set employer rates that ensure the **solvency** and the **long-term cost efficiency** of the fund.

For solvency GAD focuses on whether the assets held, together with employers’ contributions are sufficient to target 100% funding over an appropriate period.

For long-term cost efficiency GAD also considers issues of inter-generational fairness in employer contribution rates, ensuring that employers pay a fair amount to cover benefits earned during the current period of participation.

Section 13 General Results

What did GAD report for all LGPS Funds to consider?

Compliance

The valuations were considered compliant with the relevant Regulations.

Consistency

GAD **welcomed the inclusion of a dashboard** in 2019 valuation reports which aided stakeholders' ability to compare valuations results with other Funds and would like to see this developed further.

GAD noted concern that there is **inconsistency in the way that Academy conversions are carried out in different funds** and have made a formal recommendation that the Scheme Advisory Board in England and Wales should consider whether a consistent approach needs to be adopted for conversions to academies. **This only affects English funds.**

GAD raised several issues which they believe should be considered consistently in funding strategy discussions in 2022 including **McCloud and Climate risk.**

Hymans Robertson comments

“We are surprised that Section 13 has focused on academies as an employer group in particular, and on the conversion process, which is not a valuation issue. More consistency in the conversion process for academies could have been achieved by issuing guidance when academy schools first came into being. Any attempt to create a standard approach now would necessitate either substantial reworking of existing academy positions or significant inconsistencies between the approach taken to different academies within individual LGPS Funds.

To the extent that consistency on the other issues raised is desirable, funds will rely on central guidance to achieve this. Such guidance has now been issued on McCloud liabilities for the 2022 valuations.”

What did GAD report for all LGPS Funds to consider?

Flags

To assess solvency and long term cost efficiency GAD designed a number of metrics and raised flags against these metrics against specific funds to highlight areas where risk may be present, or further investigation is required, using a red/amber/green/white rating approach.

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Red = Material issue



Amber = Potential material issue



White = Advisory highlighting a general issue



Green = No material issues

Gwynedd Pension Fund received all **green** flags for both Solvency and Long-Term Cost Efficiency

Solvency

On solvency GAD reported:

- In aggregate the funding position of the LGPS has improved since 31 March 2016; and the scheme appears to be in a strong financial position.
- Total **assets** have **grown** in market value from **£217bn to £291bn**
- Total **liabilities** disclosed in the 2019 local valuation reports amounted to **£296bn.**
- The aggregate funding level of the LGPS on prudent local bases has improved from **85%** (in 2016) to **98%** (at 2019) due in large part to strong asset returns over the 3 year period to 31 March 2019.
- Funding also improved due to the continuation of substantial financial contributions from most LGPS employers
- The size of funds has grown significantly over the three years to 31 March 2019 relative to the size of employers. This could be a risk if, for example, there was to be a severe shock to return seeking asset classes.

Given the strong position, **no flags** were raised in the LGPS for solvency concerns.

What did GAD report for all LGPS Funds to consider?

Long-term Cost Efficiency

In assessing long-term cost efficiency, GAD focussed mainly on Funds' contribution levels, deficit recovery plans and on ensuring that Funds maintained a deficit recovery plan from one valuation to the next.

GAD raised amber flags against 4 funds. For 2 funds, GAD were concerned that the overall contribution rate was too low and, for a further 2 funds, GAD were concerned that employer contribution rates were decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery is being extended further into the future (increasing the burden on future taxpayers).

GAD made 2 formal recommendations in this area requesting more focus on reconciling deficit recovery plans with previous valuations in the valuation reports.

Hymans Robertson comments

"We are very supportive of the goal of inter-generational fairness but are not convinced that GAD's recommendations are really needed or would add value, particularly given well-funded or surplus positions many funds will report in 2022.

We believe that focus on long-term stable contributions over time rather than direct links between contributions and the valuation date balance sheet better addresses inter-generational fairness issues.

Also, we would remind GAD that there is no single "deficit recovery" for the fund, it is in effect the sum of all the employers' funding strategies."

Section 13 Your Fund Results

Solvency

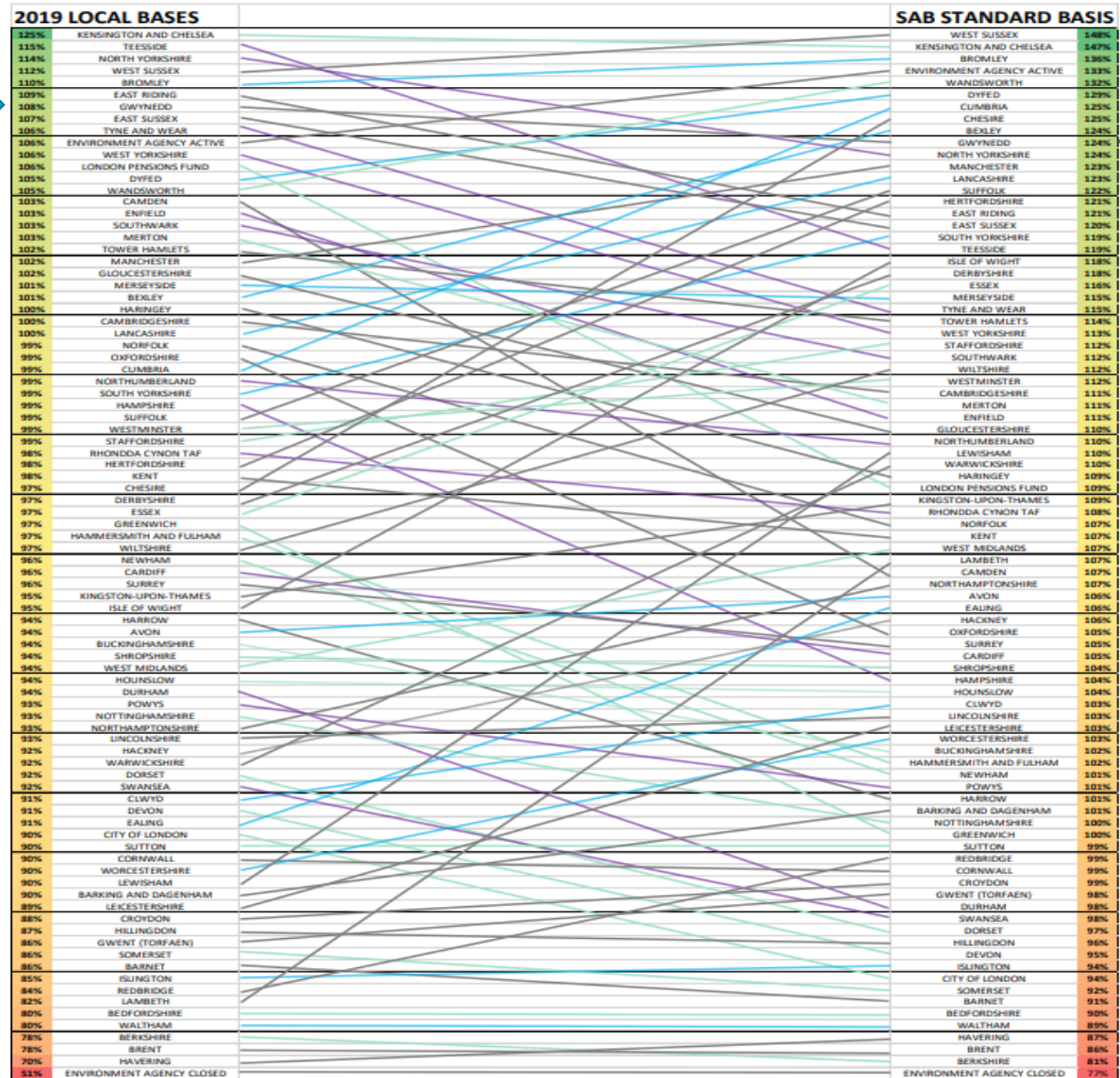
Funding Level on SAB Standardised Basis

The Funds are shown here ranked by funding level at the last valuation, firstly on the Fund's own basis and then using the SAB standard basis. The SAB standard basis facilitates like-for-like comparison but is not suitable for funding purposes.

7th
108%

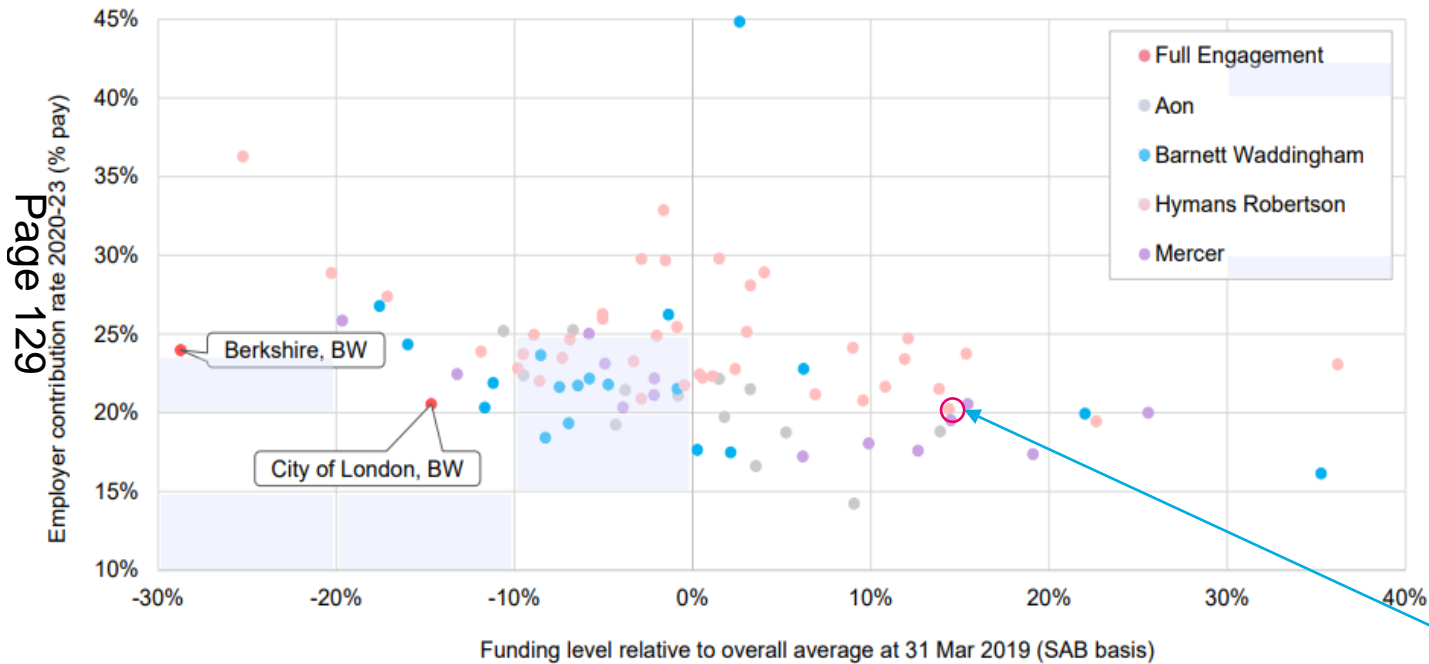


10th
124%



Long-term cost efficiency

SAB relative funding level against Employer contribution rate



Comparing Contributions and Funding Level

This chart shows the contributions paid by each Fund against their relative funding level. Each dot represents a fund.

- Everything else being equal you would expect lower funding levels (left hand side) to correspond to higher contribution rates.
- GAD has raised amber flags against the two funds indicated as it considers that the contribution rate is not sufficient given the funding level. It engaged with several others in that area.
- This analysis is limited as it doesn't allow for different investment strategies or lump sum payments made outside of the regular contributions certified.
- Gwynedd Pension Fund is indicated.

Summary metrics for Gwynedd Pension Fund

Funding Level

The funding level calculated using the SAB “best estimate” basis. This facilitates like for like comparison but is not suitable for funding purposes

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Maturity Rank

This compares liabilities to payroll. The more mature the fund, the higher this number and the more susceptible the contribution rate may be to falls in funding level.

Metric	Gwynedd	Rank out of 87 Funds
Funding Level	124%	10th
Maturity	6.8	81st
Required return	2.9%	24th
Return scope	1.7%	17th

Required Return

The required investment return rate to achieve full funding in 20 years’ time on the standardised best estimate basis

Return Scope

The required investment return rate as calculated in required return, compared with the fund’s expected best estimate future returns assuming current asset mix is maintained. The more positive the return scope is, the more prudent the funding plan is.

Section 13 Welsh Results

Summary metrics for all Welsh funds

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	Metric (with rank out of 87 funds)			
Fund Name	Funding Level	Maturity	Required Return	Return Scope
Gwynedd	124% (10 th)	6.8 (81 st)	2.9% (24 th)	1.7% (17 th)
Cardiff and Vale of Glamorgan	104% (53 rd)	7.2 (65 th)	3.6% (67 th)	0.7% (67 th)
Swansea	97% (75 th)	7.3 (59 th)	3.7% (72 nd)	0.9% (53 rd)
Clwyd	103% (57 th)	7.3 (61 st)	3.0% (35 th)	0.9% (55 th)
Dyfed	129% (6 th)	6.8 (76 th)	2.9% (26 th)	1.6% (19 th)
Greater Gwent (Torfaen)	98% (73 rd)	7.4 (56 th)	3.8% (75 th)	0.8% (63 rd)
Powys	101% (64 th)	8.1 (23 rd)	3.2% (42 nd)	0.8% (64 th)
Rhondda Cynon Taf	107% (41 st)	7.9 (32 nd)	3.5% (62 nd)	0.8% (62 nd)
Averages	108%	7.4	3.3%	1.0%

Reliances and Limitations

This paper is addressed to Cyngor Gwynedd as Administering Authority to the Gwynedd Pension Fund. It has been prepared in our capacity as actuaries to the Fund and is solely for the purpose of providing a summary of the Section 13 review of the 2019 valuations as published by the Government Actuary's Department (GAD). It has not been prepared for any other purpose and should not be used for any other purpose.

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