

# **Gwynedd Pension Fund**

## **STATEMENT OF ACCOUNTS 2020/21**

# **NARRATIVE REPORT**

## **Introduction**

Gwynedd Pension Fund's accounts and notes for the year 2020/21 are presented here on pages 5 to 44.

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 Covid-19 pandemic has impacted global financial and property markets. As a result of the volatility in market conditions, year-end valuation reports provided to the Gwynedd Pension Fund on 31st March 2020 included a statement that there is a material valuation uncertainty related to the UK property funds managed on behalf of the Fund. No material uncertainties in property valuations are being reported as at 31 March 2021.

The Statement of Accounts and further information is available on Gwynedd Pension Fund's website [www.gwyneddpensionfund.wales](http://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.

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.



17<sup>th</sup> November 2021

**Councillor Stephen Churchman Pensions  
Committee Vice-Chairman**

### 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 2021 and the Pension Fund's income and expenditure for the year then ended.



9<sup>th</sup> November 2021

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

## GWYNEDD PENSION FUND ACCOUNTS 2020/21

### THE FUND ACCOUNT

31 March 2020 £'000	Notes	31 March 2021 £'000
<b>Dealings with members, employers and others directly involved in the Fund</b>		
74,416	Contributions	78,252
5	Other Income	4
4,887	Transfers in from other pension funds	3,356
<b>79,308</b>		<b>81,612</b>
(62,328)	Benefits	(62,378)
(4,669)	Payments to and on account of leavers	(3,052)
<b>(66,997)</b>		<b>(65,430)</b>
<b>12,311</b>	<b>Net additions/ (withdrawals) from dealings with members</b>	<b>16,182</b>
(13,121)	Management Expenses	(22,669)
<b>(810)</b>	<b>Net additions/ (withdrawals) including fund management expenses</b>	<b>(6,487)</b>
<b>Returns on investments</b>		
9,318	Investment income	30,768
(151,518)	Profit and losses on disposal of investments and changes in the market value of investments	565,511
<b>(142,200)</b>	<b>Net returns on investments</b>	<b>596,279</b>
<b>(143,010)</b>	<b>Net Increase/ (Decrease) in the net assets available for benefits during the year</b>	<b>589,792</b>
<b>2,081,347</b>	<b>Opening net assets of the scheme</b>	<b>1,938,337</b>
<b>1,938,337</b>	<b>Closing net assets of the scheme</b>	<b>2,528,129</b>

The notes on pages 7 to 44 form part of these Financial Statements

## NET ASSETS STATEMENT

31 March 2020 £'000		Notes	31 March 2021 £'000
1,928,515	Investment assets	14	2,515,169
783	Cash deposits	14	146
0	Investment liabilities	14	(126)
<b>1,929,298</b>	<b>Total net investments</b>		<b>2,515,189</b>
11,929	Current assets	20	16,153
(2,890)	Current liabilities	21	(3,213)
<b>1,938,337</b>	<b>Net assets of the fund available to fund benefits at the end of the reporting period</b>		<b>2,528,129</b>

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. The Council is the reporting entity for this Pension Fund. The following description of the Fund is a summary only. For more detail, reference should be made to the Gwynedd Pension Fund Annual Report 2020/21 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

### **a) General**

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

- the Local Government Pension Scheme Regulations 2013 (as amended);
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended);
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 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. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

## NOTE 1 – DESCRIPTION OF FUND (continued)

The following bodies are active employers within the Pension Fund:

<b>Scheduled Bodies</b>	
Gwynedd Council	Snowdonia National Park Authority
Conwy County Borough Council	Bryn Elian 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	
<b>Resolution Bodies</b>	
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	
<b>Admission Bodies</b>	
Adult Learning Wales (formerly Coleg Harlech WEA)	North Wales Society for the Blind
CAIS	Community and Voluntary Support Conwy
Conwy Citizens Advice Bureau (until 30/04/20)	Careers Wales North West
Holyhead Joint Burial Committee	Mantell Gwynedd
Cwmni Cynnal	Medrwn Môn
Cwmni'r Fran Wen	Menter Môn
<b>Community Admission Bodies</b>	
Cartrefi Conwy	Adra (formerly Cartrefi Cymunedol Gwynedd (CCG))
Byw'n Iach	
<b>Transferee Admission Bodies</b>	
ABM Catering	Caterlink
Kingdom Services Group	A E & A T Lewis



## NOTE I – DESCRIPTION OF FUND (continued)

Membership details are set out below:

	31 March 2020	31 March 2021
Number of employers	47	46
<b>Number of employees in scheme</b>		
County Council	14,656	14,518
Other employers	3,926	3,777
<b>Total</b>	<b>18,582</b>	<b>18,295</b>
<b>Number of pensioners</b>		
County Council	8,562	8,902
Other employers	1,767	1,878
<b>Total</b>	<b>10,329</b>	<b>10,780</b>
<b>Deferred pensioners</b>		
County Council	10,637	10,473
Other employers	1,968	1,958
<b>Total</b>	<b>12,605</b>	<b>12,431</b>
<b>Unclaimed benefits</b>		
County Council	1,833	1,864
Other employers	230	230
<b>Total</b>	<b>2,063</b>	<b>2,094</b>
<b>Undecided Leavers</b>		
County Council	3,847	5,280
Other employers	531	759
<b>Total</b>	<b>4,378</b>	<b>6,039</b>
<b>Total number of members in pension scheme</b>	<b>47,957</b>	<b>49,639</b>

### 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 2021. 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 33.3% 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
<b>Pension</b>	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
<b>Lump sum</b>	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
<b>Pension</b>	Each year worked is worth 1/49 x career average revalued earnings (CARE)
<b>Lump Sum</b>	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

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

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

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

## NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2020/21 financial year and its position at year-end as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 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 2020/21.

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 2021 was £211.6 million (£157.2 million at 31 March 2020).

### **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 IAS 19. 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) and the Special Guidance issued March 2020 concerning the impact of COVID 19 on valuations. 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 £211.6 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 RECEIVABLE

### By category

2019/20		2020/21
£'000		£'000
17,914	Employees' contributions	18,671
	Employers' contributions:	
56,376	• Normal contributions	59,581
126	• Deficit recovery contributions	0
<b>56,502</b>	<b>Total employers' contributions</b>	<b>59,581</b>
<b>74,416</b>	<b>Total contributions receivable</b>	<b>78,252</b>

### By type of employer

2019/20		2020/21
£'000		£'000
27,055	Gwynedd Council	25,328
42,075	Other scheduled bodies	47,917
2,076	Admission bodies	1,749
2,623	Community admission bodies	2,712
221	Transferee admission bodies	140
312	Resolution bodies	352
54	Closed fund*	54
<b>74,416</b>		<b>78,252</b>

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

## NOTE 8 – OTHER INCOME

2019/20		2020/21
£'000		£'000
2	Interest on deferred contributions	2
3	Income from divorce calculations	2
<b>5</b>		<b>4</b>

## NOTE 9 – TRANSFERS IN FROM OTHER PENSION FUNDS

2019/20		2020/21
£'000		£'000
4,887	Individual transfers	3,356
<b>4,887</b>		<b>3,356</b>



## NOTE 10 - BENEFITS PAYABLE

### By category

2019/20		2020/21
£'000		£'000
48,356	Pensions	50,411
12,343	Commutation and lump sum retirement benefits	10,807
1,629	Lump sum death benefits	1,160
<b>62,328</b>		<b>62,378</b>

### By type of employer

2019/20		2020/21
£'000		£'000
17,714	Gwynedd Council	18,773
31,958	Other scheduled bodies	31,703
1,520	Admission bodies	1,502
1,472	Community admission body	1,133
223	Transferee admission body	108
119	Resolution body	174
9,322	Closed fund	8,985
<b>62,328</b>		<b>62,378</b>

## NOTE 11 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2019/20		2020/21
£'000		£'000
161	Refunds to members leaving service	92
1	Payments for members joining state scheme	0
4,507	Individual transfers	2,960
<b>4,669</b>		<b>3,052</b>

## NOTE 12 – MANAGEMENT EXPENSES

2019/20		2020/21
Restated £'000		£'000
11,434	Investment management expenses	21,128
1,307	Administrative costs	1,268
380	Oversight and governance costs	273
<b>13,121</b>		<b>22,669</b>

Management expenses have been reanalysed for 2019/20 to be consistent with 2020/21

## NOTE 12a – Investment Management Expenses

2020/21	Management fees £'000	Transaction costs £'000	Total £'000
<b>Pooled Funds</b>			
Fixed Income	865	0	865
Equities	2,733	442	3,175
<b>Other Investments</b>			
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
<b>Custody Fees</b>			205
<b>Total</b>			21,128

2019/20	Management Fees £'000	Transaction Costs £'000	Total £'000
<b>Pooled Funds</b>			
Fixed Income	1,297	0	1,297
Equities	3,462	924	4,386
<b>Other Investments</b>			
Pooled Property	1,551	0	1,551
Private Equity	2,511	0	2,511
Infrastructure	1,572	0	1,572
	10,393	924	11,317
<b>Custody Fees</b>			117
<b>Total</b>			11,434

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 and Absolute Return Bond 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 2020/21 were £1,846,000 (£820,000 in 2019/20).

Transition costs have been incurred as a result of moving investments from Insight and Fidelity into WPP. These costs were £71,000 and are included in the Net Asset Value (NAV).

## NOTE 12b- Administrative Costs

2019/20		2020/21
£'000		£'000
563	Direct employee costs	576
377	Other direct costs	316
367	Support services, including IT	376
<b>1,307</b>		<b>1,268</b>

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

2019/20		2020/21
£'000		£'000
150	Actuarial fees	88
47	Investment consultancy fees	44
13	Performance monitoring service	13
34	External audit fees	34
66	Pensions Committee and Local Pension Board	6
70	Wales Pensions Partnership	88
<b>380</b>		<b>273</b>

## 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.

	2019/20	2020/21
	£'000	£'000
<b>Investment Management Expenses</b>		
Fund Manager fees	1,656	1,955
Transaction costs	924	442
Custody fees	102	179
	<b>2,682</b>	<b>2,576</b>
<b>Oversight and governance costs</b>		
Running Costs	70	88

<b>Total</b>	<b>2,752</b>	<b>2,664</b>
--------------	--------------	--------------

## NOTE 13 – INVESTMENT INCOME

2019/20		2020/21
£'000		£'000
0	Fixed Income	1,579
1,463	Equities	20,587
529	Private Equity	1,108
101	Infrastructure	888
6,929	Pooled property investments	6,507
296	Interest on cash deposits	99
<b>9,318</b>	<b>Total before taxes</b>	<b>30,768</b>

During 2020/21 Link Asset Services paid distributions in respect of the income earned since inception on all Wales Pension Partnership sub-funds in which the fund invests. This was automatically reinvested into the pooled funds to increase the market value of the holdings.

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 2020		31 March 2021
Restated £'000		£'000
	<b>Investment assets</b>	
	<b>Pooled Funds</b>	
280,279	Fixed income	484,315
1,299,750	Equities	1,624,630
	<b>Other Investments</b>	
191,256	Pooled property investments	194,581
112,661	Private equity	165,423
44,569	Infrastructure	46,220
<b>1,928,515</b>		<b>2,515,169</b>
783	Cash deposits	146
<b>1,929,298</b>	<b>Total investment assets</b>	<b>2,515,315</b>
	<b>Investment liabilities</b>	
(0)	Amounts payable for purchases	(126)
<b>(0)</b>	<b>Total investment liabilities</b>	<b>(126)</b>
<b>1,929,298</b>	<b>Net investment assets</b>	<b>2,515,189</b>

Asset type analysis has been expanded for 31 March 2020 to be consistent with 31 March 2021

## Note 14a – Reconciliation of Movements in Investments and Derivatives

<b>2020/21</b>	<b>Market value at 1 April 2020</b>	<b>Purchases during the year</b>	<b>Sales during the year</b>	<b>Change in market value during the year</b>	<b>Market value at 31 March 2021</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
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
Amount receivable from sales of investments	0				0
Amounts payable for purchases of investments	0				(126)
Fees within pooled vehicles				19,472	
<b>Net investment assets</b>	<b>1,929,298</b>			<b>565,511</b>	<b>2,515,189</b>

<b>2019/20 Restated</b>	<b>Market value at 1 April 2019</b>	<b>Purchases during the year</b>	<b>Sales during the year</b>	<b>Change in market value during the year</b>	<b>Market value at 31 March 2020</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Pooled investments	1,729,681	10,545	(9,540)	(150,657)	1,580,029
Pooled property investments	179,301	20,644	(777)	(7,912)	191,256
Private equity / infrastructure	145,613	26,464	(13,054)	(1,793)	157,230
	<u>2,054,595</u>	<u>57,653</u>	<u>(23,371)</u>	<u>(160,362)</u>	<u>1,928,515</u>
Cash deposits	538				783
Amount receivable from sales of investments	0				0
Amounts payable for purchases of investments	(123)				0
Fees within pooled vehicles				8,844	
<b>Net investment assets</b>	<b>2,055,010</b>			<b>(151,518)</b>	<b>1,929,298</b>

Asset type analysis has been expanded for 31 March 2020 to be consistent with 31 March 2021

## NOTE 14b – Analysis of Investments

### Investments analysed by fund manager

Market Value at 31 March 2020			Market Value at 31 March 2021		
£'000	%		£'000	%	
604,237	31.3	Wales Pension Partnership	1,360,124	54.1	
565,379	29.3	BlackRock	735,481	29.2	
157,230	8.2	Partners Group	211,643	8.4	
181,742	9.4	Fidelity	67,178	2.7	
60,570	3.2	Lothbury	61,338	2.4	
47,832	2.5	UBS	47,627	1.9	
31,401	1.6	Threadneedle	31,904	1.3	
625	0.0	Veritas	20	0	
280,282	14.5	Insight	0	0	
<b>1,929,298</b>	<b>100.0</b>		<b>2,515,315</b>	<b>100.0</b>	

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

Market Value at 31 March 2020			Market Value at 31 March 2021		
£'000	%		£'000	%	
305,618	15.8	WPP Global Opportunities Fund	442,964	17.5	
298,619	15.4	WPP Global Growth Fund	432,845	17.1	
-	-	WPP Absolute Return Bond	307,181	12.2	
-	-	Black Rock ACS World Low Carbon Fund	297,967	11.8	
280,279	14.5	LDI Solutions Plus Bonds	-	-	
274,417	14.2	Black Rock Aquila Life UK Equity Index Fund	211,625	8.4	
-	-	WPP Multi Asset Credit Fund	177,134	7.0	
137,117	7.1	Fidelity Institutional Select Global Equity	-	-	
119,881	6.2	Black Rock Aquila Life GI Dev Fundamental Fund	172,052	6.8	

### 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 £94,796. Currently the Wales Pension Partnership has total quoted equities of £469m on loan. These equities continue to be recognised in the relevant 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)**

<b>Description of Asset</b>	<b>Valuation hierarchy</b>	<b>Basis of valuation</b>	<b>Observable and unobservable inputs</b>	<b>Key sensitivities affecting the Valuations provided</b>
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"> <li>• EBITDA multiple</li> <li>• Revenue multiple</li> <li>• Discount for lack of marketability</li> <li>• Control premium</li> </ul>	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 2021. 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 2020/21.

## 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.

<b>Values at 31 March 2021</b>	<b>Quoted market price Level 1 £'000</b>	<b>Using observable inputs Level 2 £'000</b>	<b>With significant unobservable inputs Level 3 £'000</b>	<b>Total £'000</b>
<b>Financial assets at fair value through profit and loss</b>				
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
	<b>146</b>	<b>2,303,526</b>	<b>211,643</b>	<b>2,515,315</b>
<b>Financial liabilities at fair value through profit and loss</b>				
Payables for investment purchases	(126)	0	0	(126)
<b>Total</b>	<b>20</b>	<b>2,303,526</b>	<b>211,643</b>	<b>2,515,189</b>

## Note 15a – Fair Value Hierarchy (continued)

	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
<b>Values at 31 March 2020 Restated</b>				
<b>Financial assets at fair value through profit and loss</b>				
Fixed income	0	280,279	0	280,279
Equities	0	1,299,750	0	1,299,750
Pooled property investments	0	0	191,256	191,256
Private equity	0	0	112,661	112,661
Infrastructure	0	0	44,569	44,569
Cash deposits	783	0	0	783
	<b>783</b>	<b>1,580,029</b>	<b>348,486</b>	<b>1,929,298</b>
<b>Financial liabilities at fair value through profit and loss</b>				
Payables for investment purchases	0	0	0	0
<b>Net financial assets</b>	<b>783</b>	<b>1,580,029</b>	<b>348,486</b>	<b>1,929,298</b>

Asset type analysis has been expanded for 31 March 2020 to be consistent with 31 March 2021

## Note 15b – Reconciliation of Fair Value Measurements within Level 3

	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
<b>Total Level 3</b>	<b>348,486</b>	<b>(191,256)</b>	<b>29,249</b>	<b>(15,067)</b>	<b>49,447</b>	<b>(9,216)</b>	<b>211,643</b>

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.

	Market Value 1 April 2019 £'000	Transfers into 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 2020 £'000
Property Unit Trusts	111,254	68,047	20,644	(777)	(7,817)	(95)	191,256
Private Equity	107,218	0	19,408	(5,144)	(3,101)	(5,720)	112,661
Infrastructure	38,395	0	7,056	(1,746)	1,307	(443)	44,569
<b>Total Level 3</b>	<b>256,867</b>	<b>68,047</b>	<b>47,108</b>	<b>(7,667)</b>	<b>(9,611)</b>	<b>(6,258)</b>	<b>348,486</b>

## 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 2020 Restated			As at 31 March 2021		
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
<b>Financial assets</b>					
1,580,029			2,108,945		
191,256			194,581		
112,661			165,423		
44,569			46,220		
	8,883			12,282	
	3,829			4,017	
<b>1,928,515</b>	<b>12,712</b>	<b>0</b>	<b>2,515,169</b>	<b>16,299</b>	<b>0</b>
<b>Financial liabilities</b>					
		(2,890)			(3,339)
<b>0</b>	<b>0</b>	<b>(2,890)</b>	<b>0</b>	<b>0</b>	<b>(3,339)</b>
<b>1,928,515</b>	<b>12,712</b>	<b>(2,890)</b>	<b>2,515,169</b>	<b>16,299</b>	<b>(3,339)</b>

Asset type analysis has been expanded for 31 March 2020 to be consistent with 31 March 2021

### Note 16a – Net gains and losses on financial instruments

31 March 2020		31 March 2021
Fair value		Fair value
£'000		£'000
<b>Financial assets</b>		
(160,362)	Fair value through profit and loss	546,039
0	Loans and receivables	0
<b>(160,362)</b>	<b>Total financial assets</b>	<b>546,039</b>
<b>Financial liabilities</b>		
0	Fair value through profit and loss	0
0	Financial liabilities at cost	0
<b>0</b>	<b>Total financial liabilities</b>	<b>0</b>
<b>(160,362)</b>	<b>Net financial assets</b>	<b>546,039</b>

## **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 reporting period.

Asset type	Potential market movement (+/-)	
	31 March 2020	31 March 2021
	%	%
UK Equities	27.5	16.7
Global Equities	28.0	17.4
Emerging Markets Equities	25.4	22.1
Private Equity	28.4	28.5
Absolute Return Bond	3.9	2.1
Infrastructure	20.1	21.0
Property	14.2	14.2
Diversified Credit	8.7	6.2
Cash	0.3	0.3
<b>Total Fund</b>	<b>18.9</b>	<b>11.7</b>

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:

<b>Asset type</b>	<b>Value as at 31 March 2021</b>	<b>Percentage change</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
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
<b>Total assets available to pay benefits</b>	<b>2,528,129</b>		<b>2,914,441</b>	<b>2,141,814</b>
*Level 3 assets	211,643		268,494	154,791

<b>Asset type Restated</b>	<b>Value as at 31 March 2020</b>	<b>Percentage change</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
UK Equities	274,417	27.5	349,881	198,952
Global Equities	980,710	28.0	1,255,309	706,111
Emerging Markets Equities	44,625	25.4	55,960	33,290
Private Equity*	112,661	28.4	144,544	80,778
Absolute Return Bonds	280,279	3.9	291,210	269,348
Infrastructure*	44,569	20.1	53,528	35,611
Property	191,255	14.2	218,414	164,097
Cash	8,883	0.3	8,910	8,856
Debtors and Creditors	938	0.0	938	938
<b>Total assets available to pay benefits</b>	<b>1,938,337</b>		<b>2,378,694</b>	<b>1,497,981</b>
*Level 3 assets	157,230		198,072	116,389

Asset type analysis has been expanded for 31 March 2020 to be consistent with 31 March 2021

### 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 2020 and 31 March 2021 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 2020	As at 31 March 2021
	£'000	£'000
Cash and cash equivalents	8,100	12,136
Cash balances	783	146
Pooled Fixed Income	280,279	484,315
<b>Total</b>	<b>289,162</b>	<b>496,597</b>

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

\* 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 2020	Change in year in the net assets available to pay benefits	
		+1%	-1%
		£'000	£'000
Cash and cash equivalents	8,100	81	(81)
Cash balances	783	8	(8)
Pooled Fixed Income *	280,279	33,633	(33,633)
<b>Total change in assets available</b>	<b>289,162</b>	<b>33,722</b>	<b>(33,722)</b>

\* 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 0.61% amounting to interest of £88,037 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 (€364 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 2021 is 9.8%. The equivalent rate for the year ended 31 March 2020 was 10%. 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 2021 and at the end of the previous financial year:

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
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
<b>Total change in assets available</b>	<b>2,108,963</b>	<b>2,315,642</b>	<b>1,902,284</b>

Currency exposure - by asset type	Carrying amount as at 31 March 2020 Restated	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
		£'000	£'000
Global Equities	980,710	1,078,780	882,639
Emerging Markets Equities	44,625	49,088	40,163
Private Equity	112,661	123,927	101,395
Absolute Return Bonds	280,279	308,307	252,251
Infrastructure	44,569	49,026	40,112
Diversified Credit	0	0	0
Property	226	249	203
<b>Total change in assets available</b>	<b>1,463,070</b>	<b>1,609,377</b>	<b>1,316,763</b>

Asset type analysis has been expanded for 31 March 2020 to be consistent with 31 March 2021

### 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.

<b>Investment Manager</b>	<b>Percentage of Portfolio</b>
BlackRock	29.5%
Fidelity	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 2021 was £12.5m (£8.2m at 31 March 2020).

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum percentage of deposits placed with any one class of financial institution. In addition, the Council invests an agreed percentage of funds in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency. The Council believes it has managed its exposure to credit risk, and has had only one experience of default or uncollectable deposits when Heritable Bank went into administration in 2008. Full details can be seen in Note 27.

## **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 2021 the value of illiquid assets was £406m, which represented 16.1% of the total Fund assets (31 March 2020: £348m, which represented 18.0% 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 2021 are due within one year as was the case at 31 March 2020.

### **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:

<b>Financial assumptions</b>	<b>31 March 2019</b>
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)

<b>Mortality assumption</b>	<b>Male Years</b>	<b>Female Years</b>
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](http://www.gwyneddpensionfund.wales)

### Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but in the 2020/21 year they recovered strongly. As a result, the funding level of the Fund as at 31 March 2021 is likely to be an improvement to that reported at the previous formal valuation.

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

## NOTE 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 2020 and 2021 are shown below:

	<b>31 March 2020</b>	<b>31 March 2021</b>
	<b>£m</b>	<b>£m</b>
Active members	1,279	1,939
Deferred members	445	631
Pensioners	809	882
<b>Total</b>	<b>2,533</b>	<b>3,452</b>

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 2020 and 2021. The actuary estimates that the impact of the change in financial assumptions to 31 March 2021 is to increase the actuarial present value by £756m. It is estimated that the impact of the change in demographic and longevity assumptions is to increase the actuarial present value by £42m.

Assumption	31 March 2020	31 March 2021
	%	%
Pension increase rate	1.90	2.85
Salary increase rate	2.20	3.15
Discount rate	2.30	2.00

The life expectancy for the longevity assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2020 model, with a 0% weighting of 2020 data, standard smoothing (Sk7), initial adjustment of 0.5% 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	21.5	23.9
Future pensioners (aged 45 at the 2019 valuation)	22.7	25.9

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 2021	Approximate % increase to liabilities	Approximate monetary amount £m
	%	
0.5% p.a. increase in the pension increase rate	10	333
0.5% p.a. increase in the salary increase rate	1	46
0.5% p.a. decrease in the real discount rate	11	388

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



**NOTE 20 – CURRENT ASSETS**

<b>31 March 2020 £'000</b>		<b>31 March 2021 £'000</b>
403	Contributions due – employees	421
1,234	Contributions due – employers	1,402
2,192	Sundry debtors	2,194
<b>3,829</b>	<b>Total debtors</b>	<b>4,017</b>
8,100	Cash	12,136
<b>11,929</b>	<b>Total</b>	<b>16,153</b>

**NOTE 21 – CURRENT LIABILITIES**

<b>31 March 2020 £'000</b>		<b>31 March 2021 £'000</b>
1,828	Sundry creditors	1,671
1,062	Benefits payable	1,542
<b>2,890</b>	<b>Total</b>	<b>3,213</b>

**NOTE 22 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)**

The market value of the funds is stated below:

	<b>Market value at 31 March 2020 £'000</b>	<b>Market value at 31 March 2021 £'000</b>
Clerical Medical	3,674	4,372
Utmost Life	193	193
Standard Life	5	5
<b>Total</b>	<b>3,872</b>	<b>4,570</b>

AVC contributions were paid directly to the managers as follows:

	<b>2019/20 £'000</b>	<b>2020/2021 £'000</b>
Clerical Medical	601	597
Standard Life	10	0
<b>Total</b>	<b>611</b>	<b>597</b>

## 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 £1,231,146 (£1,275,899 in 2019/20) 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 £25.33m to the Fund in 2020/21 (£27.06m in 2019/20). At the end of the year, the Council owed £0.405m to the Fund which was primarily in respect of interest paid on the Pension Fund's balances and contributions for March 2021 and the Fund owed £1.25m 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 2020/21, the Fund received interest of £88,037 (£266,995 in 2019/20) 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 2020/21 (committee members P. Jenkins and J.B. Hughes). In addition, committee members P. Read (member until May 2020), 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. The late D. Cowans was also an active member of the Pension Fund.

Two members of the Pension Board were in receipt of pension benefits from the Gwynedd Pension Fund during 2020/21 (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 Section 151 officer.

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

<b>31/03/2020</b>		<b>31/03/2021</b>
<b>£'000</b>		<b>£'000</b>
	8 Short-term benefits	8
	2 Post-employment benefits	2
<hr/>		<hr/>
10		10

## NOTE 24 - COMMITMENTS UNDER INVESTMENT CONTRACTS

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

	Total commitments	Commitment at 31 March 2020	Commitment at 31 March 2021
	€'000	€'000	€'000
P.G. Direct 2006	20,000	776	776
P.G. Global Value 2006	50,000	3,477	3,477
P.G. Secondary 2008	15,000	1,960	1,960
P.G. Global Value 2011	15,000	2,096	2,096
P.G. Global Infrastructure 2012	40,000	8,147	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	25,973	23,120
P.G. Global Infrastructure 2018	28,000	23,688	21,516
P.G. Direct Equity 2019	48,000	n/a	30,964
PG Direct Infrastructure 2020	32,000	n/a	29,602
<b>Total Euros</b>	<b>364,000</b>	<b>71,655</b>	<b>126,068</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
P.G. Emerging Markets 2011	7,000	1,082	1,082
P.G. Secondary 2015	38,000	18,401	17,640
P.G. Direct Infrastructure 2015	43,600	20,840	13,780
<b>Total Dollars</b>	<b>88,600</b>	<b>40,323</b>	<b>32,502</b>

'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**

### **Impairment of Icelandic bank deposit**

During 2008/09 the Council made a deposit of £4m with Heritable Bank which is a UK registered bank under Scottish Law. The pension fund's share of that investment was £565,200. The company was placed in administration on 7 October 2008. The Council has received a return of £3,976,718, equating to 99.4% from the administrators up to 31 March 2021. The final dividend was received in July 2020 and the administration has now been completed.

## **The independent auditor's report of the Auditor General for Wales to the members of Gwynedd Council as administering authority for Gwynedd Pension Fund** **Opinion on the financial statements**

I have audited the financial statements of Gwynedd Pension Fund for the year ended 31 March 2021 under the Public Audit (Wales) Act 2004. Gwynedd Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2021, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with legislative requirements and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

### **Basis of opinion**

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the pension fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **Conclusions relating to going concern**

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

### **Other information**

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the annual report. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any

form of assurance conclusion thereon. My responsibility is to read the other information and, in doing so,

consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

### **Report on other requirements**

#### **Opinion on other matters**

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

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

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

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

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

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

### **Responsibilities**

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

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

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

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

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

they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- enquiring of management, the Council's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to Gwynedd Pension Fund's policies and procedures concerned with:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected, or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the posting of unusual journals.
- obtaining an understanding of Gwynedd Pension Fund's framework of authority as well as other legal and regulatory frameworks that Gwynedd Pension Fund operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Gwynedd Pension Fund.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and the Pensions Committee;-
- reading minutes of meetings of those charged with governance and the administering authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all the audit team and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Gwynedd Pension Fund's controls, and the nature, timing and extent of the audit procedures performed.

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



**Certificate of completion of audit**

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



Adrian Crompton  
Auditor General for Wales  
19 November 2021

24 Cathedral Road  
Cardiff  
CF11 9LJ

The maintenance and integrity of Gwynedd Pension Fund website is the responsibility of the Head of Finance; the work carried out by auditors does not involve consideration of these matters and accordingly auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

