



# Complete Agenda

Democratic Services  
Swyddfa'r Cyngor  
CAERNARFON  
Gwynedd  
LL55 1SH

Meeting

## AUDIT COMMITTEE

Date and Time

**10.00 am**, THURSDAY, 9TH FEBRUARY, 2017

**\*\* Please note meeting start time \*\***

Location

**Siambr Hywel Dda, Council Offices, Caernarfon, Gwynedd. LL55 1SH**

**\* NOTE \***

**This meeting will be webcast**

<http://www.gwynedd.public-i.tv/core/portal/home>

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## **AUDIT COMMITTEE**

### **MEMBERSHIP (19)**

#### **Plaid Cymru (10)**

##### Councillors

Aled Ll. Evans  
E. Selwyn Griffiths  
Michael Sol Owen  
John Wyn Williams

Gweno Glyn  
Charles Wyn Jones  
W. Tudor Owen

Gareth Wyn Griffith  
Dilwyn Morgan  
Gethin Glyn Williams

#### **Independent (5)**

##### Councillors

Trevor Edwards  
John Brynmor Hughes  
Angela Russell

Thomas G. Ellis  
John Pughe Roberts

#### **Llais Gwynedd (2)**

##### Councillors

Anwen J. Davies

Aeron M. Jones

#### **Labour (1)**

Councillor Sion W. Jones

#### **Lay Member**

John Pollard

#### **Ex-officio Members**

Chairman and Vice-Chairman of the Council

# **A G E N D A**

## **1. APOLOGIES**

To receive apologies for absence.

## **2. DECLARATION OF PERSONAL INTEREST**

To receive any declaration of personal interest.

## **3. URGENT ITEMS**

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

## **4. MINUTES**

5 - 10

The Chairman shall propose that the minutes of the meeting of this committee, held on 1 December 2016, be signed as a true record.

## **5. REVENUE BUDGET 2016/17 - THIRD QUARTER REVIEW**

11 - 30

To submit the report of the Head of Finance.

## **6. CAPITAL PROGRAMME 2016/17 - THIRD QUARTER REVIEW**

31 - 36

To submit the report of the Head of Finance.

## **7. 2017/18 BUDGET AND 2017/18 – 2019/20 FINANCIAL STRATEGY**

37 - 69

To submit the report of the Head of Finance.

## **8. TREASURY MANAGEMENT - TREASURY MANAGEMENT STRATEGY, MINIMUM REVENUE PROVISION STRATEGY AND ANNUAL INVESTMENT STRATEGY FOR 2017/18**

70 - 96

To submit the report of the Head of Finance.

## **9. REVIEW OF THE SCRUTINY SYSTEM**

97 - 106

To submit the report of the Deputy Leader and Corporate Support Senior Manager.

## **10. RISK MANAGEMENT ARRANGEMENTS**

107 - 111

(i) To submit the Wales Audit Office's letter

(ii) To submit the report of the Senior Manager Revenue and Risk.

- |  |           |
|--|-----------|
| <b>11. OUTPUT OF THE INTERNAL AUDIT SECTION 21/11/16 - 27/1/17</b>                                 | 112 - 129 |
| To submit the report of the Audit Manager.   |           |
| <b>12. INTERNAL AUDIT PLAN 2016/17</b>   | 130 - 136 |
| To submit the report of the Audit Manager on the progress made on the 2016/17 Internal Audit Plan. |           |
| <b>13. DRAFT INTERNAL AUDIT PLAN 2017/18</b>   | 137 - 143 |
| To submit the Draft Internal Audit Plan for the year 1 April 2017 – 31 March 2018.                 |           |
| <b>14. HAFAN PWLLHELI</b>  | 144 - 145 |
| To submit the report of the Economy and Community Senior Manager.                                  |           |

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## AUDIT COMMITTEE 1/12/16

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**Present:** Councillor Trevor Edwards (Chair)  
Councillor Angela Russell (Vice-chair)

**Councillors:** Anwen J. Davies, Tom Ellis, Aled Ll. Evans, Gareth Wyn Griffith, John B. Hughes, Aeron M. Jones, Charles Wyn Jones, Sion Wyn Jones, Dilwyn Morgan, Michael Sol Owen, John Pughe Roberts and Peredur Jenkins (Cabinet Member for Resources).

**Lay Member:** John Pollard

**Also in Attendance:** Dafydd Edwards (Head of Finance Department), Ffion Madog Evans (Senior Finance Manager - for Items 6 and 7 on the agenda), Dewi Morgan (Senior Manager - Revenue and Risk), Luned Fôn Jones (Audit Manager), Sioned Gwenllian Thomas (Senior Policy Officer - for Item 5 on the agenda), Iwan Evans (Monitoring Officer - for Item 10 on the agenda) and Bethan Adams (Member Support Officer).

**Apologies:** Councillors E. Selwyn Griffiths, W. Tudor Owen, Gethin Glyn Williams and John Wyn Williams.

### 1. DECLARATION OF PERSONAL INTEREST

No declarations of personal interest were received from any members present.

### 2. MINUTES

The Chair signed the minutes of the meeting of this committee held on 29 September 2016, as a true record.

### 3. EXTERNAL AUDIT REPORTS

The Senior Policy Officer set out the context, drawing the attention of members to responses received to what had been raised by members at the meeting on 23 June 2016. Members were reminded that the role of the Committee was to satisfy themselves with the progress that had been made. Attention was drawn to the fact that 29 out of 69 recommendations had been completed.

It was noted that it was currently reported on all recommendations which noted that they had not been completed from reports that went back many years. Members' opinion was sought in terms of the contents of the latest report only, of those that were published annually, for example the Annual Performance Appraisal of the Care and Social Services Inspectorate for Wales, as it was assumed that anything that had not been addressed in the previous report would be included in the latest report.

In terms of audit, the Audit Manager noted that consideration should be given to keeping them on the list as themes could change over the years and perhaps they would not receive appropriate attention if they were removed from the list. The Senior Manager - Revenue and Risk added that if there was repetition, including a cross-reference between the latest/historical reports could be considered.

Members noted their wish to continue to include historical annual reports in the list to be checked.

Members were given an opportunity to provide observations on the report and appendix which noted the audits undertaken by external auditors in recent years together with their proposals for improvement, their action plans and progress to date.

During the discussion the following main points were noted:

- Responses to points raised at the meeting on 23 June 2016 were received at this meeting, this period was far too long;
- **Page 35 Timeliness of looked after children's reviews** - observations contradicted themselves as they referred to an improvement on the one hand but on the other hand they stated that there had not been an improvement. In terms of the lack of representation from other agencies at the conferences, conferences should be able to continue via video link.
- **Page 22 Raise awareness of the implications and requirements of Deprivation of Liberty Safeguards (DoLS) and operate the governance arrangements for the operation of the procedures** - noted as completed but they were aware that many people were on the waiting list therefore, it was questioned whether the true picture was given. Matter should be referred to the Services Scrutiny Committee.

**RESOLVED:**

- (i) to accept the report;
- (ii) to continue including the historical annual reports in the list to be checked;
- (iii) to ask for a response from the Children and Supporting Families Department in relation to the timeliness of looked after children's reviews;
- (iv) refer Deprivation of Liberty Safeguards' (DoLS) Arrangements to the Services Scrutiny Committee for consideration.

**4. REVENUE BUDGET 2016/17 – SECOND QUARTER REVIEW (SEPTEMBER 2016)**

Submitted - the report of the Head of Finance Department noting that in accordance with the requirements of the Local Government (Wales) Measure 2011, that the Audit Committee was expected to scrutinise some financial matters including budget monitoring reports, when appropriate.

The Cabinet Member for Resources set out the context and elaborated on the content of the report submitted to the Cabinet on 22 November 2016. Attention was drawn to the following decisions for the attention of the committee to scrutinise -

“To accept the report on the second quarter review of the Revenue Budget (position as at 30 September 2016) and consider the latest financial situation regarding the budgets of each department / service, and ask the Cabinet Members and the relevant heads of department to take the appropriate steps regarding matters under their leadership/management.

- To transfer (£135k) from a corporate budget to the Adults, Health and Well-being Department to finance the additional costs resulting from the change in charging for the first six weeks of residential and nursing care.
- To allow the Regulatory Department to use (£200k) of their underspend to finance specific plans to improve the condition of car parks.
- To transfer (£300k) from the Regulatory Department to the Corporate Redundancy Fund to assist with the changes facing us as a Council.
- To harvest (£300k) from the favourable Council Tax collections, and (£290k) from the Benefits underspend, together with (£200k) of the underspend included within 'Other', and transfer as follows:
  - use (£20k) of the underspend as a financial contribution to the independent Harlech Swimming Pool as a one-off bridging payment for the period to 31 March 2017, in accordance with the Cabinet decision on 4 October 2016.

- use (£135k) to finance the financial obligations of the change in the Care Act 2014 by the Adult, Health and Well-being Department.
- the remainder of (£635k) to be set aside in the Transformation Fund”

The Head of Finance Department explained that finance harvested was used for Council priorities. The Departments and Cabinet Members were thanked for their budgetary management.

During the ensuing discussion officers responded to members' enquiries as follows:

- In terms of the fact that closing tourist information centres could affect the income received in car parks, a substantial impact was not anticipated as there was a movement towards booking accommodation on-line;
- In terms of the Maritime Service's overspend of £108,000, Hafan Pwllheli had been taken in-house in 2007 prior to the financial crash in 2008, and it could not be anticipated whether or not the financial position would have been better if Hafan would have remained within the management of a private company as there was less demand with more supply. The Economy and Community Department could be asked to examine the option of externalising Hafan, but the situation had become more complicated since the time of transfer, as the management of Hafan and the Harbour had been combined, and the emergence of Plas Heli;
- That parking fees made up most of the income under the 'Parking and Parking Enforcement Services' heading rather than parking fines. After increasing the number of car parks where a fee was charged, as well as the high number of visitors, income had increased;
- Following the permanent appointment of the new Head of Department and Senior Managers, that the Adults, Health and Well-being Department was re-designing its savings programme. It was ensured that the underachieving situation was being addressed;
- That underspend was anticipated under the Post-16 Services heading in the Children and Supporting Families Department following a current reduction in the demand for Post-16 support plans.

A discussion was held on Hafan Pwllheli noting that the Economy and Community Department should be asked to provide information on the situation prior to when it was taken in-house and on the current situation in terms of the financial position, user numbers and moorings. The Audit Manager noted that an audit was being held in Hafan Pwllheli and one element considered was the arrangements for paying fees and the difficulties in terms of establishing a direct debit payment arrangement which was likely to have an impact on income.

A member noted that the situation should be examined in terms of taxing caravans as some caravan sites were open throughout the year and that their owners used services but did not contribute bearing in mind that the Council was considering charging a premium of 50% on second homes. In response, the Head of Finance Department noted that the Council had the right to tax a property that was a second home but in terms of caravans they were included in the caravan site's assessment in its entirety in terms of business rates. It was added that a letter had been sent requesting powers for the Council to charge a different tax but only powers in terms of second homes had been received. The Council was operating within the regulations.

The Cabinet Member for Resources noted that the business rates system was a national system. A member noted that a scrutiny investigation should be held in relation to caravan site tax arrangements similar to the one undertaken on holiday homes. In response, the Head of Finance Department noted that the Holiday Homes and Taxes Scrutiny Investigation had suggested that the Council used powers to charge a premium on second homes and that the Council used a proportion of the income tax to provide affordable

housing. It was noted that this would assist the Welsh Government to ensure more affordable housing for local people and it would be attempted to convince them with other aspects of the rateable agenda asking for planning powers for the Council in respect of domestic housing used as holiday homes rather than the existing arbitrary system.

In response to members' concerns in terms of charging a premium on second homes, the Cabinet Member for Resources noted that the Holiday Homes and Taxes Scrutiny Investigation had investigated the concerns in detail.

The Senior Manager - Revenue and Risk explained that caravans that had been granted planning permission to be used as a home were taxed in accordance with Council Tax arrangements and a premium could be charged, whilst a premium could not be charged on any caravan where a planning condition prevented individuals from living there for at least 4 weeks a year.

**RESOLVED:**

- (i) to note the situation and the relevant risks in the context of the Council's budgets and its departments;**
- (ii) to ask the Economy and Community Department (with support from the Finance Department) to submit information to the Committee on Hafan Pwllheli prior to when it was taken in-house and on the current situation;**
- (iii) to ask the Corporate Scrutiny Committee to consider undertaking a scrutiny investigation in relation to caravan site tax arrangements.**

**5. CAPITAL BUDGET 2016/17 – SECOND QUARTER REVIEW (SEPTEMBER 2016)**

Submitted - the report of the Head of Finance Department noting that in accordance with the requirements of the Local Government (Wales) Measure 2011, that the Audit Committee was expected to scrutinise some financial matters including budget monitoring reports, when appropriate.

The Cabinet Member for Resources set out the context and elaborated on the content of the report submitted to the Cabinet on 22 November 2016. It was noted that specific schemes were in place to invest approximately £34.493 million in 2016/17. It was confirmed that £2.442 million of proposed expenditure had been re-profiled from 2016/17 to 2017/18, but no loss of funding was caused to the Council where schemes had slipped.

In response to a question by a member, the Head of Finance Department explained that after transferring housing stock to Cartrefi Cymunedol Gwynedd, the Council continued to be responsible for the housing estates' water pipes.

A member asked for an explanation in terms of what was meant by unsupported borrowing. The Head of Finance explained that this meant that the Council was investing without the support of grant funding.

**RESOLVED to note the situation and the relevant risks in the context of the Council's capital programme.**

**6. INTERNAL AUDIT OUTPUT 19/9/16 - 18/11/16**

Submitted - the report of the Audit Manager outlining the Internal Audit section's work for the period. It was noted that 21 reports on audits from the operational plan had been completed and 3 follow-up audits.

Consideration was given to each individual report and during the discussion reference was made to the following matters –



## **Budgetary Management - Primary Schools, Ysgol Talsarnau**

In response to a member's observation, the Audit Manager noted that she was hopeful that there would be an improvement in terms of budgetary management when the school would be re-visited.

### **Verification Limits**

The Audit Manager noted that an opinion category had not been given for the audit as the procedure of undertaking additional independent verifications in the Central Accountancy Unit had now been terminated following a discussion with the Senior Finance Manager.

### **Coding Structure**

The Audit Manager noted that an opinion category had not been given for the audit as there was no suitable action that would lead to streamlining the account codes therefore, staff would be taught to use the correct codes to reduce examples of miscoding.

### **Leisure Centres**

A member noted that it was good to see an improvement and that gratitude needed to be conveyed to the Economy and Community Department and leisure centres. In response, the Audit Manager noted that she was pleased to report that there had been an improvement. She referred to Duty Managers at Plas Silyn Leisure Centre noting that they went above and beyond to ensure that the centre was attractive for people to use it.

### **MOT Fees**

In response to a member's question regarding installing a card payment machine in the workshops, the Audit Manager noted that there was a fee to buy the machine as well as a monthly fee; there was no point investing in a machine if the income received was not substantial. The Senior Manager - Revenue and Risk added that it was a matter for the Highways and Municipal Department with support from the Income Unit. He drew attention to the fact that work was undertaken with companies by means of an invoicing procedure.

A member noted that using a computerised payment system should be considered. In response, the Senior Manager - Revenue and Risk noted that the Council had a similar system, and offering it to workshops could be considered, if it was practically possible.

### **RESOLVED:**

- (i) to accept the report on the work of the Internal Audit section for the period 19 September 2016 to 18 November 2016 and to support the agreed actions that had already been submitted to the managers of the relevant services for implementation;**
- (ii) to convey the Committee's gratitude to the Economy and Community Department, Bangor Aquatics and Healthy Lifestyle Centre, Plas Silyn Leisure Centre, Dwyfor Leisure Centre and Bro Dysynni Leisure Centre for their work in raising standard of controls;**
- (iii) that the Chair and Vice-chair of the committee, along with Councillors John Brynmor Hughes, Dilwyn Morgan and Michael Sol Owen serve on the Working Group to consider the audits that have received a category 'C' opinion;**
- (iv) that it is the responsibility of any member who is unable to be present in the Working Group to arrange a substitute.**

## 7. INTERNAL AUDIT PLAN 2016/17

Submitted - the report of the Audit Manager providing an update on the current situation in terms of completing the 2016/17 internal audit plan.

It was reported that the Internal Audit Unit up to 18 November 2016 had completed 52.44% of the plan, with 43 of the 82 audits in the 2016/17 plan released in a finalised version.

Attention was drawn to amendments to the plan noting that one team member had left the Council's employment at the end of October 2016 and following a review, it had been decided to cancel the 'Managing Early Departures' Arrangements' audit. It was reported that there was a high probability that the cancellations of other audits would be inevitable if the present situation continued especially as another team member would leave the Council's employment at the beginning of 2017.

In response to a question by a member regarding the risk as a result of cancelling the 'Managing Early Departures' Arrangements' audit, the Audit Manager noted that things were prioritised on risk basis and as Wales Audit Office had recently examined the matter it had been decided to cancel this audit.

In response to observations, the Head of Department noted that the post becoming vacant at the beginning of the year would be filled. He suggested that the Audit Manager should re-prioritise matters in the 2016/17 internal audit plan and discuss with the Chair and Vice-chair.

A member noted that noting deferring rather than cancelling should be considered. In response, the Audit Manager noted that noting deferring would give the impression that the matter would be examined again.

### **RESOLVED:**

- (i) to accept and note the contents of the report as an update of progress against the 2016/17 audit plan;**
- (ii) that the Audit Manager re-prioritises matters in the 2016/17 internal audit plan and discusses with the Chair and Vice-chair.**

## 8. REVIEW OF THE CONSTITUTION

Submitted – the report of the Monitoring Officer in relation to reviewing the constitution. It was reported that the amended Constitution had been adopted by the Council in July 2014 which was based on a model constitution developed nationally. It was noted that changes to the Constitution had been reported upon to the Council from time to time since it had been adopted. He was of the opinion that it was timely to take an overview of its implementation in order to ensure that it worked for the Council and to identify fields where better clarity or amendments were required.

The Committee was asked to consider re-establishing a working group to assist with the work of reviewing the Constitution, which would include the Deputy Leader who was responsible for governance, or to ask the Scrutiny Review Group to undertake the work.

A member noted that it was timely to re-examine the Constitution given the technological changes of webcasting meetings and voting electronically.

It was reported that a report would be submitted to the Council on 8 December 2016 reporting on amendments to officers' delegated powers which reflected departmental and legislative changes as well as the requirement to amend the Financial Procedure Rules. Committee members' opinions were sought regarding amending the capital receipts

procedure following disposal of property so that an arrangement was created allowing a Department to make an application to keep a proportion of the capital receipt rather than automatically keep 20% of every capital receipt. With the Council facing serious cuts in capital funding that would be available to realise the capital programme's priorities in future, it was noted that the opportunity was taken to ensure that capital available to realise Council priorities following the sale of assets, was maximised.

**RESOLVED:**

- (i) to note the report;**
- (ii) to appoint the Chair and Vice-chair of the Committee, Councillors Gareth Wyn Griffith, Aeron M. Jones, Dilwyn Morgan, Michael Sol Owen and John Pughe Roberts as well as the Deputy Leader to serve on the Working Group to consider the findings of the Review of the Constitution;**
- (iii) recommend the change in the Financial Rules to the Council.**

The meeting commenced at 10.30am and concluded at 12.15pm

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**CHAIR**

# Agenda Item 5

**MEETING: AUDIT COMMITTEE**

**DATE: 9 FEBRUARY 2017**

**TITLE: REVENUE BUDGET 2016/17 –  
THIRD QUARTER REVIEW**

**PURPOSE: MONITORING REPORT ON THE LATEST FINANCIAL  
POSITION**

**ACTION: Receive the information, consider the risks arising from  
the forecast expenditure and income against the budget,  
regarding managing the budgets of the Council and its  
departments.**

**CONTACT OFFICERS: DAFYDD L EDWARDS, HEAD OF FINANCE and  
FFION MADOG EVANS, SENIOR FINANCE MANAGER**

**CABINET MEMBER: COUNCILLOR PEREDUR JENKINS**

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1. The second quarter budget review report was submitted to the Audit Committee on 1 December 2016.
2. The report submitted today considers the third quarter budget review and, for the time being, as can be seen from Appendix 1, the Council's overall position is satisfactory.
3. However, the Audit Committee's Chairman has agreed to consider the report before we report to the Cabinet.
4. It is intended to present any comments the Audit Committee will have "on the table" at the Cabinet meeting on 14 February.
5. The Audit Committee is requested to note the position and the relevant risks regarding the budgets of the Council and its departments, and comment as necessary.

## REPORT TO THE CABINET

14 February 2017

**Cabinet Member:** Councillor Peredur Jenkins, Cabinet Member - Resources

**Subject:** The Revenue Budget 2016/17 -  
Third Quarter Review (December 2016)

**Contact Officer:** Dafydd L Edwards, Head of Finance

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### 1. The decision sought / Purpose of the report

The Cabinet is asked to:

- Receive the report on the third quarter review of the Revenue Budget (position as at 31 December 2016), and consider the latest financial position regarding the budgets of each department / service, asking the Cabinet Members and relevant heads of department to take appropriate steps regarding the matters under their leadership/management.
- Transfer (£115k) from the Regulatory Department to the Council's general balances to assist with the changes facing us to fulfil the Council's priorities.
- Harvest (£250k) from the favourable Council Tax collections, (£180k) from the Benefits underspend, (£600k) reserve budget, together with (£250k) of the underspend included within 'Other' to the Council's general balances, with £1,055 of the sum (£756k 2017/18, and £299k 2018/19) to be used specifically to finance obligations in the Education field that have already been approved by the Cabinet on 13 December 2016.

### 2. Introduction / Background

It is the Cabinet's responsibility to take action, as necessary, in order to secure appropriate management of the Council's budgets (e.g. approval of significant virements or supplementary budgets).

This report presents the latest quarterly review of the Council's revenue budget for 2016/17, and a summary of the position by each Department is outlined in **Appendix 1**.

In **Appendix 2**, further details are given relating to the main issues and the budget headings where significant variances are forecasted, along with specific recommendations where appropriate.

## **2.1 Regulatory Department**

The favourable income position, together with early realisation of savings by the Regulatory Department this year, has resulted in an underspend in excess of (£100k), and accordingly it is recommended that the underspend in excess of £100k is transferred to the Council's General Balances.

## **2.2 Corporate**

It is recommended that the underspend from the Council Tax base, Benefits, reserve budget and other headings within the Corporate budget, are transferred to the Council's Balances to assist with the changes facing us to fulfil the Council's priorities.

## **2.3 General**

The third quarter review of the budgets, generally, reflects an acceptable level of financial management, but it is expected that the Children's Department take steps to manage the budget by 31 March.

### **Next steps and timetable**

Implement the recommendations submitted and present a follow-up report to the Cabinet at the end of the financial year.

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### **Local member's views**

Not relevant

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### **Opinion of the Statutory Officers**

#### **Chief Executive:**

Nothing to add to the report

#### **Monitoring Officer:**

Nothing to add from a propriety perspective

#### **Head of Finance:**

I have collaborated with the Cabinet Member in the preparation of this report and I confirm the content.

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### **Appendices**

Appendix 1 – Summary of Departments' net budget position.

Appendix 2 – Details of budgets and significant variances.

**Revenue Budget 2016/17 - Summary of position by Department**

	Third Quarter Review					Second Quarter Review £ '000
	Revised Budget 2016/17 £'000	Overspend / (Underspend) 2016/17 £ '000	Movement to/from Reserves £ '000	Recommended Adjustments £'000	Revised Overspend/ (Underspend) £ '000	
Adults, Health and Wellbeing	50,207	88	0	0	88	168
Children and Families	13,941	222	0	0	222	168
Education	89,057	42	0	0	42	13
Economy and Community	11,719	2	0	0	2	73
Highways and Municipal	23,076	58	0	0	58	118
<b>Regulatory</b> (Planning, Transportation and Public Protection)	8,954	(215)	0	115	(100)	(23)
Gwynedd Consultancy	1,163	(47)	0	0	(47)	70
Corporate Management Team and Legal	711	(55)	0	0	(55)	(29)
Finance	765	(56)	0	0	(56)	(67)
Corporate Support	512	(80)	0	0	(80)	(88)
<b>Corporate Budgets</b> <i>(Variances only)</i>	*	(1,285)	0	1,280	(5)	(190)
<b>Totals (net)</b>	<b>200,105</b>	<b>(1,326)</b>	<b>0</b>	<b>1,395</b>	<b>69</b>	<b>213</b>

<b>Revenue Budget 2016/17 - Third Quarter Review</b>						
<b>Adults, Health and Wellbeing Department</b>	Revised Budget 2016/17	Estimated Final Position 2016/17	<b>Estimated Gross Overspend / (Underspend) 2016/17</b>	Use of Other Sources Or other Recommended Adjustments	<b>Revised Overspend/ (Underspend)</b>	Net Overspend/ (Underspend) 2nd Quarter Review
<b>Area:-</b>	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adult Services</b>						
Older People's Service						
Residential and Nursing - Homes	9,860	9,544	(316)	0	(316)	(320)
Home Care	6,329	6,301	(28)	0	(28)	2
Other	2,785	2,767	(18)	0	(18)	(33)
	18,974	18,612	(362)	0	(362)	(351)
Physical Disability Services						
Residential and Nursing	479	429	(50)	0	(50)	(60)
Home Care	1,016	1,057	41	0	41	25
Other	711	648	(63)	0	(63)	(52)
	2,206	2,134	(72)	0	(72)	(87)
Learning Disability Services	14,949	14,846	(103)	0	(103)	(124)
Mental Health Services						
Residential and Nursing	1,386	1,622	236	0	236	265
Other	2,064	2,016	(48)	0	(48)	(105)
	3,450	3,638	188	0	188	160
Other Services (Adults)						
Management	424	390	(34)	0	(34)	(12)
Older People and Physical Disability Team	2,432	2,427	(5)	0	(5)	(9)
	2,856	2,817	(39)	0	(39)	(21)
<b>Adult Services Total</b>	<b>42,435</b>	<b>42,047</b>	<b>(388)</b>	<b>0</b>	<b>(388)</b>	<b>(423)</b>



<b>Revenue Budget 2016/17 - Third Quarter Review</b>						
<b>Adults, Health and Wellbeing Department</b>	Revised Budget 2016/17	Estimated Final Position 2016/17	<b>Estimated Gross Overspend / (Underspend) 2016/17</b>	Use of Other Sources Or other Recommended Adjustments	<b>Revised Overspend/ (Underspend)</b>	Net Overspend/ (Underspend) 2nd Quarter Review
<b>Area:-</b>	£'000	£'000	£'000	£'000	£'000	£'000
<b><u>Provider Services (showing net budget)</u></b>						
Residential Care	68	154	86	0	86	62
Day Care	(20)	(17)	3	0	3	23
Community Care	92	214	122	0	122	142
Other	25	(2)	(27)	0	(27)	(37)
<b><u>Provider Services Total</u></b>	<b>165</b>	<b>349</b>	<b>184</b>	<b>0</b>	<b>184</b>	<b>190</b>
<b><u>Other Services</u></b>						
Housing Services	4,403	4,416	13	0	13	28
Departmental Central Services <i>(including Department savings)</i>	3,204	3,483	279	0	279	373
<b><u>Total Other Services</u></b>	<b>7,607</b>	<b>7,899</b>	<b>292</b>	<b>0</b>	<b>292</b>	<b>401</b>
<b><u>Adults, Health and Wellbeing Total</u></b>	<b>50,207</b>	<b>50,295</b>	<b>88</b>	<b>0</b>	<b>88</b>	<b>168</b>

**Adults, Health and Wellbeing Department**

**Older People's Services** - an underspend of (£362k) is forecasted mainly as the trend of a reduction in the number of clients in residential and nursing placements continues, with a reduction of 68 residents since the beginning of the financial year, from 409 to 341 by now.

**Physical Disability Services** - an underspend of (£72k) is forecasted, with (£50k) of this sum on residential and nursing, the trend of a reduction in the number of direct payment cases continues, but an increase in the demand for home care packages.

**Learning Disability Services** - the underspend is mainly on residential and nursing and therefore follows the same trend reported on elderly and physical disability services above, an underspend on day services but an overspend on support packages and direct payments.

**Provider Services** - the trend continues with a net overspend of £188k as a result of new expensive residential and nursing cases, and an increase of £46k during the quarter on the spend on alcohol and drug care. A one-off underspend of £40k on vacant posts has assisted in reducing the overspend.

**Mental Health Services** - continuation in the trend with an overspend of £184k, mainly on community care, £92k of which is from an overspend on travelling costs with the remainder on staffing and overheads. An increase in the overspend on residential care as a result of additional staffing costs.

**Departmental Central Services** - there was a significant rise in the number of 2016/17 saving schemes being realised within the Department, and now it is forecasted that the net underachievement will reduce to £273k (£508k in quarter 2), but a number of saving schemes continue to slip, or are yet to be realised in 2016/17. The Department's intention is to take further additional steps to try and ensure that the situation improves by the end of the financial year, and this through repackaging its saving schemes.

<b>Revenue Budget 2016/17 - Third Quarter Review</b>						
<b>Children and Families Department</b>	Revised Budget 2016/17	Estimated Final Position 2016/17	<b>Estimated Gross Overspend / (Underspend) 2016/17</b>	Use of Other Sources Or other Recommended Adjustments	<b>Revised Overspend/ (Underspend)</b>	Net Overspend/ (Underspend) 2nd Quarter Review
<b>Area:-</b>	£'000	£'000	£'000	£'000	£'000	£'000
Service Management	467	444	(23)	0	(23)	(22)
Operational Services	1,864	2,090	226	0	226	195
Placement Services						
Out of County Placements	2,264	2,324	60	0	60	72
Agency Fostering	970	995	25	0	25	62
Internal Fostering	1,640	1,750	110	0	110	56
Support Services and Other	1,448	1,547	99	0	99	80
	6,322	6,616	294	0	294	270
Post-16 Services	1,037	853	(184)	0	(184)	(194)
Specialist Services/Derwen	1,444	1,410	(34)	0	(34)	(54)
Youth Justice Services	235	210	(25)	0	(25)	(24)
Early Years Services	107	62	(45)	0	(45)	(51)
Other Services	2,465	2,478	13	0	13	48
<b>Children and Families Total</b>	<b>13,941</b>	<b>14,163</b>	<b>222</b>	<b>0</b>	<b>222</b>	<b>168</b>

## Children and Families

**Operational Services** - an increase of £31k in the forecasted overspend since what was reported in the second quarter review, with an overspend of £226k now being forecasted by the end of the financial year on staffing and higher costs of complex care packages. This field is the subject of a bid for 2017/18.6

**Placement Services** - an overspend of £294k on placement services, which is £24k higher than forecasted in quarter 2, with the overspend on internal fostering having doubled to £110k following the placing of new cases during the quarter. Part of the increase has been counterbalanced by a reduction of £37k in the overspend forecasted on fostering with agents and £12k on out of county placements, as only one new case was seen during the quarter, and accordingly there is capacity to reduced the relevant provision. The overspend continues on allowances, and the payments for internal fostering, that is the 'Cynllun Aros Ymlaen' overspending by £59k. Work continues to meet the related savings targets.

**Post 16 Services** - an underspend of (£184k) is forecasted following a reduction in the demand for Post-16 support packages.

**Early Years Services** - additional fee income but an increase incosts since the second quarter.

It is expected that the Department will take steps to try to manage their budget by the end of the financial year. There are reserves of £58k held by the Department to contribute towards the reported overspend. This will be given further consideration in closing down the accounts, after establishing the final position.

<b>Revenue Budget 2016/17 - Third Quarter Review</b>						
<b>Education Department</b>	<b>Revised Budget 2016/17</b>	<b>Estimated Final Position 2016/17</b>	<b>Estimated Gross Overspend / (Underspend) 2016/17</b>	<b>Use of Other Sources Or other Recommended Adjustments</b>	<b>Revised Overspend/ (Underspend)</b>	<b>Net Overspend/ (Underspend) 2nd Quarter Review</b>
<b>Area:-</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Delegated Schools	72,236	72,236	0	0	0	0
Transport	4,303	4,310	7	0	7	37
Redundancies and Early Retirement	551	553	2	0	2	0
Integration	135	135	0	0	0	0
Out of County	992	992	0	0	0	0
Catering and Cleaning	350	247	(103)	0	(103)	(121)
Nursery Education	587	577	(10)	0	(10)	(21)
Education Improvement Grant	529	529	0	0	0	0
Management	1,680	1,658	(22)	0	(22)	(30)
Additional Learning Needs Unit	1,928	2,114	186	0	186	185
Support for Underperforming Schools			0	0	0	0
Further Education	23	9	(14)	0	(14)	(12)
School Reserve Budgets	277	277	0	0	0	0
Contribution to Joint Committees	1,726	1,726	0	0	0	0
Other	3,740	3,736	(4)	0	(4)	(25)
<b>Education Total</b>	<b>89,057</b>	<b>89,099</b>	<b>42</b>	<b>0</b>	<b>42</b>	<b>13</b>

**Education**

An overspend position of £42k is forecasted by the Education Department by the end of the financial year, a deterioration of £29k from the overspend of £13k reported in the second quarter, with the level of underspend by numerous services having reduced by the third quarter, and not adequate by now to counterbalance the overspend. The main areas contributing to the position are:

**Catering and Cleaning** - according to the latest forecasts, an underspend of (£103k) is likely, mainly as a result of the early realisation of 2017/18 school catering savings, but a combination of higher costs and a reduction in net income leading to an underspend forecast by now.

**Additional Learning Needs Units** - no change since the position reported in the second quarter, with circumstances relating to one specific centre being responsible for the overspend of £186k forecasted under this heading.

<b>Revenue Budget 2016/17 - Third Quarter Review</b>						
<b>Economy and Community Department</b>	Revised Budget 2016/17	Estimated Final Position 2016/17	<b>Estimated Gross Overspend / (Underspend) 2016/17</b>	Use of Other Sources Or other Recommended Adjustments	<b>Revised Overspend/ (Underspend)</b>	Net Overspend/ (Underspend) 2nd Quarter Review
<b>Area:-</b>	£'000	£'000	£'000	£'000	£'000	£'000
Management	903	903	0	0	0	0
Business Support	173	180	7	0	7	19
Marketing and Customer Care	607	607	0	0	0	0
Community Regeneration	556	562	6	0	6	0
Skills and Enterprise	11	6	(5)	0	(5)	0
Strategic Projects Team	845	890	45	0	45	46
Strategy and Development	261	261	0	0	0	0
Archives	411	401	(10)	0	(10)	(9)
Museums	158	153	(5)	0	(5)	(5)
Galleries	77	77	0	0	0	0
Halls	278	281	3	0	3	11
Arts	272	269	(3)	0	(3)	(3)
Country Parks	115	89	(26)	0	(26)	(16)
Maritime	167	242	75	0	75	108
Youth Service	1,326	1,228	(98)	0	(98)	(98)
Healthy Communities Service - Leisure Centres	3,392	3,417	25	0	25	40
Sports Development	270	268	(2)	0	(2)	0
Libraries	1,897	1,887	(10)	0	(10)	(20)
<b>Total Economy a Community</b>	<b>11,719</b>	<b>11,721</b>	<b>2</b>	<b>0</b>	<b>2</b>	<b>73</b>

## Economy and Community

The financial situation has improved by £71k from the £73k overspend reported in the second quarter, following an attempt by a number of services across the Department to reduce costs and attract more income. The areas with the greatest variances are:

**Maritime** - the latest forecasts suggest that the net overspend will reduce to £75k, from the £108k reported in the second quarter. The overspend is mainly stemming from the shortfall of income at Hafan Pwllheli and the harbours, following a reduction in the demand for anchorages. The position has improved since the second quarter with a reduction in the income shortfall that is being forecasted. The Department have also tried to reduce the shortfall in the income by reducing the costs at the sites. The Audit Committee has requested on 1 December 2016, for the Economy and Community Department to prepare a comprehensive report on the situation at Hafan Pwllheli, this work is ongoing.

**Youth Service** - the trend of an underspend of (£98k) reported in the second quarter continues by the Youth Service, (£78k) of which is on two vacant Development Officer job posts, and (£20k) on youth clubs, as the Department identify savings for 2017/18 and onwards in these fields.



<b>Revenue Budget 2016/17 - Third Quarter Review</b>						
<b>Highways and Municipal Summary Position (including Trunk Roads)</b>	Revised Budget 2016/17	Estimated Final Position 2016/17	<b>Estimated Gross Overspend / (Underspend) 2016/17</b>	Use of Other Sources Or other Recommended Adjustments	<b>Revised Overspend/ (Underspend)</b>	Net Overspend/ (Underspend) 2nd Quarter Review
<b>Area:-</b>	£'000	£'000	£'000	£'000	£'000	£'000
Highways Services (including Trunk Roads)	9,132	9,155	23	0	23	31
Engineering Services	460	493	33	0	33	19
Municipal Services						
Waste						
Waste Disposal	2,280	2,155	(125)	0	(125)	(165)
Treatment and Transfer Sites	1,636	1,641	5	0	5	47
Waste Collection and Recycling	3,752	3,808	56	0	56	92
Commercial Waste	(20)	99	119	0	119	125
Other Waste	1,719	1,738	19	0	19	37
Waste Sub-total	9,367	9,441	74	0	74	136
Crematorium and Cemeteries	125	89	(36)	0	(36)	(57)
Other Municipal	3,953	3,985	32	0	32	7
	13,445	13,515	70	0	70	86
Municipal Works Unit	39	(29)	(68)	0	(68)	(18)
<b>Highways and Municipal (including Trunk Roads) Total</b>	<b>23,076</b>	<b>23,134</b>	<b>58</b>	<b>0</b>	<b>58</b>	<b>118</b>

### **Highways and Municipal (including Trunk Roads)**

The latest forecasts suggest a substantial reduction in the level of the overspend to £58k, a movement of £60k from the £118k forecasted in the second quarter, with the financial position generally more favourable across the whole Department.

**Waste** - numerous reasons for the variances by the services within the waste field including:

- **Waste Disposal** - an underspend of (£125k) as a result of less waste going into land-fill.

- **Waste Collection and Recycling** - the latest forecasts suggest a reduction in the overspend to £56k. A combination of early realisation of green waste savings and lower costs following on from changes to operating arrangements. But, this is counterbalanced by slippage in the recycling bank savings, £48k grant reduction, and additional pressure on the service following an increase in the number of new houses during the year, leading to higher operating and renewal costs.

- **Commercial Waste** - following on from new rationalisation arrangements in respect of school bins, a loss of income of £119k was obtained. But side by side with this, the effects of rationalisation can already be seen as there has been a reduction in the waste going into landfill, and accordingly an underspend against the Waste Disposal budgets reported on above. The 2017/18 prices will be adjusted to reflect the loss of income.

**Municipal Provider Unit** - it is forecasted that there will be a (£68k) underspend by the end of the financial year as a result of early realisation of staffing savings and less operating costs.

<b>Revenue Budget 2016/17 - Third Quarter Review</b>						
<b>Regulatory Department</b>	<b>Revised Budget 2016/17</b>	<b>Estimated Final Position 2016/17</b>	<b>Estimated Gross Overspend / (Underspend) 2016/17</b>	<b>Use of Other Sources Or other Recommended Adjustments</b>	<b>Revised Overspend/ (Underspend)</b>	<b>Net Overspend/ (Underspend) 2nd Quarter Review</b>
<b>Area:-</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Department Management	314	284	(30)	15	(15)	0
Planning Services						
Development Control	294	289	(5)	0	(5)	0
Other	(46)	(58)	(12)	0	(12)	0
	248	231	(17)	0	(17)	0
Street Works and Transport Services						
Forward Planning	2,482	2,482	0	0	0	0
Structural Maintenance	1,136	1,136	0	0	0	0
Road Safety	271	262	(9)	0	(9)	0
Traffic and Statutory Arrangements	322	305	(17)	15	(2)	1
Parking Services and Parking Enforcement	(1,392)	(1,389)	3	0	3	0
Transport	1,983	1,973	(10)	0	(10)	0
Enforcement and Transport	503	418	(85)	85	0	0
Other	3	2	(1)	0	(1)	0
	5,308	5,189	(119)	100	(19)	1
Countryside and Access Services	1,184	1,183	(1)	0	(1)	(4)
Joint Planning Policy Unit	305	304	(1)	0	(1)	0
Public Protection Services	1,670	1,647	(23)	0	(23)	(4)
Catering, Cleaning and Caretaking Services	6	(10)	(16)	0	(16)	(4)
Property Services	(81)	(89)	(8)	0	(8)	(12)
<b>Regulatory Total</b>	<b>8,954</b>	<b>8,739</b>	<b>(215)</b>	<b>115</b>	<b>(100)</b>	<b>(23)</b>

**Regulatory**

The latest forecasts suggest an underspend of (£215k), which is a movement of (£192k) since the second quarter position, and which stems from a general underspend by the majority of services within the Department, with a number having already achieved their 2017/18 staff savings, including in Regulatory, Development Control, Road Safety, Enforcement and Transport, and Public Protection.

**Transport and Enforcement** - a one-off underspend of (£85k) is forecasted from realising the savings of re-structuring the unit one year ahead of schedule.

**Summary and Recommendation**

As the underspend level forecasted by the Department is above (£100k), it is suggested that (£115k) is harvested from the underspend to be placed in general balances, to assist with the changes facing us as a Council.

**It is recommended that** (£115k) is transferred from the Regulatory Department to the Council's general balances to assist with the changes facing us to achieve the Council's priorities.

<b>Revenue Budget 2016/17 - Third Quarter Review</b>						
<b>Consultancy Department</b>	Revised Budget 2016/17	Estimated Final Position 2016/17	<b>Estimated Gross Overspend / (Underspend) 2016/17</b>	Use of Other Sources Or other Recommended Adjustments	<b>Revised Overspend/ (Underspend)</b>	Net Overspend/ (Underspend) 2nd Quarter Review
<b>Area:-</b>	£'000	£'000	£'000	£'000	£'000	£'000
Roads and Engineering Services	46	11	(35)	0	(35)	128
Flood Risk Management Unit Services	933	933	0	0	0	(52)
Building Services	184	172	(12)	0	(12)	(6)
<b>Consultancy Total</b>	<b>1,163</b>	<b>1,116</b>	<b>(47)</b>	<b>0</b>	<b>(47)</b>	<b>70</b>

### **Consultancy**

A favourable movement of (£117k) since the overspend of £70k reported in the second quarter review, with an underspend of (£47k) by now being forecasted by the end of the financial year.

**Roads and Engineering Services** - an underspend of (£35k) is by now foreseen following a substantial movement in the forecasts during the quarter, this following the success of the Department in attracting additional income through a combination of additional internal and external work.

**Flood Risk Management Unit Services** - a balanced financial position is by now forecasted, following on from using the underspend forecasted in the second quarter to finance plans in the risk and flood management fields, together with spending on essential work on a vehicle.

<b>Revenue Budget 2016/17 - Third Quarter Review</b>						
<b>Central Departments</b>	Revised Budget 2016/17	Estimated Final Position 2016/17	<b>Estimated Gross Overspend / (Underspend) 2016/17</b>	Use of Other Sources Or other Recommended Adjustments	<b>Revised Overspend/ (Underspend)</b>	Net Overspend/ (Underspend) 2nd Quarter Review
<b>Area:-</b>	£'000	£'000	£'000	£'000	£'000	£'000
Corporate Management Team and Legal	711	656	(55)	0	(55)	(29)
Finance	765	709	(56)	0	(56)	(67)
Corporate Support	512	432	(80)	0	(80)	(88)
<b>Resources Total</b>	<b>1,988</b>	<b>1,797</b>	<b>(191)</b>	<b>0</b>	<b>(191)</b>	<b>(184)</b>

### **Central Departments**

**Corporate Management Team and Legal** - an increase of (£26k) in the underspend forecasted since the second quarter position, mainly as a result of receiving additional income by the Legal Unit and additional income from Denbigh Council to the Corporate Director's budget. In addition to this, a 2017/18 saving realised early (£13k) in the Emergency Planning field contributing towards the favourable situation forecasted.

**Finance** - a reduction in the underspend forecasted since the previous review, but the trend of attracting income in excess of the budget in the Audit and Information Technology fields, together with a one-off underspend on posts continues by the Department.

**Corporate Support** - an underspend of (£80k) is forecasted by the year end, mainly resulting from one-off staff savings due to staff turnover across the Department, with a number of 2017/18 savings already realised. Included within this is a £18k income shortfall in the Printroom, which is in line with what was reported in the second quarter.

<b>Revenue Budget 2016/17 - Third Quarter Review</b>						
<b>Corporate (Only reflecting variances)</b>	Revised Budget 2016/17	Estimated Final Position 2016/17	<b>Estimated Gross Overspend / (Underspend) 2016/17</b>	Use of Other Sources Or other Recommended Adjustments	<b>Revised Overspend/ (Underspend)</b>	Net Overspend/ (Underspend) 2nd Quarter Review
<b>Area:-</b>	£'000	£'000	£'000	£'000	£'000	£'000
Council Tax	*	*	(250)	250	0	0
Benefits	*	*	(180)	180	0	0
Net Interest Income	*	*	78	0	78	66
Reserve Budget	*	*	(600)	600	0	0
Other			(333)	250	(83)	(256)
<b>Corporate Total</b>	*	*	<b>(1,285)</b>	<b>1,280</b>	<b>(5)</b>	<b>(190)</b>

### **Corporate**

A favourable position of a higher Council Tax collection of (£250k) is forecasted, mainly resulting from an increase in the number of new houses during the year and a reduction in the exceptions of reducing the Council Tax payable. An underspend of (£180k) on Benefits, but the interest forecast has deteriorated during the quarter as a result of the present market position, and accordingly, a £78k reduction in Net Interest Receipts is forecasted by the year end.

As we are now in the third quarter of the financial year and consequently the end of year picture is clearer, it is possible to release £600k of the reserve budget for 2016/17 as the calls are not as great as the amount reserved.

Within the "other" heading numerous on off savings of a corporate nature are included, including business rates appeals and one-off savings of bid related staffing costs.

**It is recommended that** (£250k) is harvested from the favourable collection of Council Tax, (£180k) of the underspend on Benefits, (£600k) reserve budget, together with (£250k) of the underspend included under 'Other' to the Council's general balances, with £1,055k (£756k 2017/18, and £299k 2018/19) of it towards the commitments in the Education field that have already been approved by the Cabinet on 13 December 2016.

**MEETING:                   AUDIT COMMITTEE**

**DATE:                      9 FEBRUARY 2017**

**TITLE:                     CAPITAL PROGRAMME 2016/17 –  
THIRD QUARTER REVIEW**

**PURPOSE:                 MONITORING REPORT ON THE EXPENDITURE AND  
FINANCING OF THE CAPITAL PROGRAMME**

**ACTION:                  Receive the information and consider the risks  
regarding the Capital Programme**

**CONTACT OFFICER:       DAFYDD L EDWARDS, HEAD OF FINANCE**

**CABINET MEMBER:        COUNCILLOR PEREDUR JENKINS**

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1. The attached report (capital programme's third quarter review) is presented to the Cabinet on 14 February for decisions regarding the revised programme and its financing.
2. The Audit Committee's Chairman has agreed to consider the report before we present it to the Cabinet.
3. If there are any comments by the Audit Committee, they will be presented "on the table" at the Cabinet meeting on 14 February.
4. The Audit Committee is asked to note the position and any risks regarding the Council's capital programme, and comment as necessary.



## REPORT TO THE CABINET

14 February 2017

**Cabinet Member:** Councillor Peredur Jenkins - Resource Cabinet Member

**Subject:** Capital Programme 2016/17 – Third Quarter Review  
(31 December 2016 position)

**Contact Officer:** Dafydd L Edwards - Head of Finance

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### The decision sought / Purpose of the report

To accept the report on the third quarter review (31 December 2016 position) of the capital programme, and approve the revised financing as shown in part 4 of the report, that is:

- an increase of £2.059m in the use of other borrowing
  - a decrease of £1.871m in the use of grants and contributions
  - a decrease of £0.077m in the use of capital receipts
  - an increase of £0.470m in the use of revenue contributions
  - an increase of £0.177m in the use of renewal and other reserves
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### 1. Introduction

This technical report is presented as part of the 2016/17 budget monitoring procedure. The main purpose of the report is to present the revised capital programme and to approve the relevant financing sources. There is a summary in parts 3 and 4 of the report, with the recommendation in part 5:

Part 3: Analysis by Department of the £61.647m capital programme for the 3 years 2016/17 – 2018/19.

Part 4: An explanation of the sources of finance for the net increase of approximately £0.698m since the second quarter review.

The Cabinet has the authority to adapt the capital programme. Approval is sought for the programme (part 3) and financing (part 4).

The remainder of the report is for information:

- Appendix A: The main changes per source of finance
- Appendix B: Movements from 2016/17 to 2017/18
- Appendix C: The first 9 months expenditure in 2016/17.

### 2. Main Findings:

The main conclusions that arise from the revised position are:

- There are firm schemes in place to invest approximately £31.592m in 2016/17, with £8.024m of it being financed by attracting specific grants.
- There is £6.040m of proposed expenditure having been re-profiled from 2016/17 to 2017/18 but no loss of funding was caused to the Council where schemes have slipped.

### 3. Capital Programme 2016/17 to 2018/19

See below which shows the revised proposed capital programme.

DEPARTMENT	END OF DECEMBER REVIEW				INCREASE/ (DECREASE) SINCE THE LAST REVIEW £'000
	2016/17	2017/18	2018/19	TOTAL	
	£'000	£'000	£'000	£'000	
Education	16,779	9,959	237	26,975	10
Finance	525	995	0	1,520	76
Economy and Community	1,010	1,197	0	2,207	(74)
Adults, Health and Wellbeing - Housing	1,935	2,689	0	4,624	0
Adults, Health and Wellbeing - Other	733	301	0	1,034	0
Children and Families	48	0	0	48	0
Highways and Municipal	2,747	5,296	3,650	11,693	182
Corporate Support	114	527	0	641	(40)
Regulatory	6,284	4,446	52	10,782	444
Consultancy	1,195	6	0	1,201	100
Corporate	222	700	0	922	0
<b>TOTAL</b>	<b>31,592</b>	<b>26,116</b>	<b>3,939</b>	<b>61,647</b>	<b>698</b>

### 4 Changes to the Sources of Finance

The budget for the three year programme shows an increase of £0.698m since the second quarter review. The proposed sources of financing for this are noted below:

SOURCE OF FINANCE	END OF DECEMBER REVIEW				INCREASE/ (DECREASE) SINCE THE LAST REVIEW £'000
	2016/17	2017/18	2018/19	TOTAL	
	£'000	£'000	£'000	£'000	
Supported Borrowing	6,652	6,352	321	13,325	0
Other Borrowing	10,250	4,541	119	12,851	2,059
Grants and Contributions	8,024	4,187	0	14,270	(1,871)
Capital Receipts	515	1,256	0	1,771	(77)
Departmental & Corporate Revenue	2,906	1,651	0	4,557	470
Capital Fund	168	2,419	0	2,587	0
Renewals & Other Funds	3,077	5,710	3,499	12,286	117
<b>TOTAL</b>	<b>31,592</b>	<b>26,116</b>	<b>3,939</b>	<b>61,647</b>	<b>698</b>

**5. RECOMMENDATION**

The Cabinet is asked to:

- accept the 2016/17 to 2018/19 revised programme (part 3) and
- approve the relevant sources of finance (part 4 above).

**6. Reasons for recommending the decision**

It is necessary to ensure appropriate financing arrangements for the Council's plans to spend on capital, and the Cabinet must approve the capital programme and its sources of funding.

Incorporating funding via grant is a point of order, but it is also necessary to deal with situations where there has been a change in expenditure profiles between years and the value of capital receipts and contributions.

These are recommendations to ensure definite sources of funding for the 2016/17 – 2018/19 capital schemes.

**7. Relevant considerations**

These are technical issues regarding the financing of schemes and relevant implications and debates have already been addressed when the individual schemes were adopted.

**8. Next steps and timetable**

To implement the recommendations to finance the programme.

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**View of the Local Member**

Not relevant.

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**Views of the Statutory Officers**

**Chief Executive:**

I do not have much to add to the report. I note that the expenditure percentage in the programme is lower this year, but that the Cabinet Member does not see this as a cause for concern, although, clearly we must keep an eye on this matter, with it being so close to the end of the financial year.

**Monitoring Officer:**

Nothing to add from a propriety perspective.

**Head of Finance:**

I have collaborated with the Cabinet Member in the preparation of this report and I confirm the content.

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**Appendix**

Appendix A, B and C.

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**Main Changes Per Source of Financing:**

See below the relevant schemes that have caused the main changes to the sources of finance during the last quarter:

	<b>Increase / (Decrease) 2016/17 £'000</b>
<b>Other Borrowing</b>	
<ul style="list-style-type: none"> <li>21<sup>st</sup> Century Schools (Education Department) – an increase in borrowing due to a technical adjustment to the source of financing to reduce the level of grant and increase the level of supported borrowing following an instruction received from the Government (see also Grants and Contributions below). This technical adjustment to the financing will not impact on the schemes at all, and the Welsh Government will still finance 50% of the cost.</li> </ul>	2,059
<b>Grants and Contributions</b>	
<ul style="list-style-type: none"> <li>21<sup>st</sup> Century Schools (Education Department) – a reduction in the level of grant, see Other Borrowing above for details.</li> </ul>	(2,059)
<ul style="list-style-type: none"> <li>Gwynedd Museum and Gallery Scheme (Economy and Community Department) – an increase in the use of the lottery grant following a re-profiling of the expenditure (and therefore the financing) between the capital and revenue elements of the scheme (see also capital receipts below).</li> </ul>	95
<ul style="list-style-type: none"> <li>Flood Alleviation from the A55 Scheme (Consultancy Department) – additional grant from the Government to divert water from the A55 to the Ogwen River in order to alleviate flooding in the Talybont Area</li> </ul>	84
<b>Capital Receipts</b>	
<ul style="list-style-type: none"> <li>Gwynedd Museum and Gallery Scheme (Economy and Community Department) – a decrease in the use of capital receipts (see also Grants above).</li> </ul>	(108)
<b>Departmental Revenue</b>	
<ul style="list-style-type: none"> <li>Re-surfacing of Carparks (Regulatory Department) – specific schemes to improve the condition of carparks (the Second Quarter Revenue review report to the Cabinet 22/11/16 approved £200,000 with a further £100,000 during the third quarter)</li> </ul>	300
<ul style="list-style-type: none"> <li>Ledger Renewal (Finance Department) – a scheme to upgrade the ledger system</li> </ul>	75
<ul style="list-style-type: none"> <li>Renewal of the Property computerised system (Regulatory Department) – in order to purchase a new system to manage the Property portfolio</li> </ul>	50
<ul style="list-style-type: none"> <li>Renewal of the Public Protection computerised system (Regulatory Department) – in order to develop self-servicing and to maximise the use of computerised equipment within the service.</li> </ul>	50
<b>Renewals and Other Funds</b>	
<ul style="list-style-type: none"> <li>Cartgylchu (Highways and Municipal Department) - increased expenditure as a result of the change from recycling bins to this type of container.</li> </ul>	130

**Budget Re-profiling – Main Schemes:**

See below the main schemes that have been re-profiled since the original budget:

	2016/17 £'000	2017/18 £'000
Renewal of the Council's Vehicles (Highways and Municipal Department)	(2,384)	2,384
Carbon Management Schemes (Regulatory Department)	(1,350)	1,350
Information Technology Schemes for the Council (Finance Department)	(427)	427
Housing Grants Schemes (Housing Department)	(366)	366
Housing Schemes – Three Year Plan (Housing Department)	(323)	323
Relocation of Segontium Day Care Service (Adults, Health and Wellbeing Department)	(301)	301
EDRMS Scheme (Corporate Support Department)	(264)	264

**Note:**

The above re-profiling will not result in any loss in grant.

There is a variety of valid reasons behind the re-profiling in many cases, but the delay prior to implementing these schemes can mean that the services have to cope for longer with current assets which have not been improved.

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**Capital Expenditure First 9 Months 2016/17**

DEPARTMENT	CAPITAL PROGRAMME FULL YEAR (reviewed December)	ACTUAL EXPENDITURE FOR THE 9 MONTHS TO
	2016/17 £'000	31/12/2016 £'000
Education	16,779	10,765
Finance	525	270
Economy and Community	1,010	288
Adults, Health and Wellbeing – Housing	1,935	991
Adults, Health and Wellbeing – Other	733	165
Children and Families	48	5
Highways and Municipal	2,747	1,636
Corporate Support	114	70
Regulatory	6,284	3,364
Consultancy	1,195	1,009
Corporate	222	0
<b>TOTAL</b>	<b>31,592</b>	<b>18,563</b>

**Note:** The percentage that has been spent this year (59%) is comparably lower than the position this time last year (64%). Despite this, it is not a cause for concern, as 2015/16 was an extraordinary year.

MEETING:	<b>AUDIT COMMITTEE</b>
DATE:	<b>9 FEBRUARY 2017</b>
TITLE:	<b>2017/18 BUDGET AND 2017/18 – 2019/20 FINANCIAL STRATEGY</b>
PURPOSE:	<b>To submit the budget which the Cabinet intends to recommend to the Council for scrutiny by the Audit Committee</b>
ACTION REQUIRED:	<b>To scrutinise the information, including the medium-term financial plan, before the Cabinet recommends the 2017/18 budget to the full Council</b>
CONTACT OFFICER:	<b>DAFYDD L EDWARDS, HEAD OF FINANCE</b>
CABINET MEMBER:	<b>COUNCILLOR PEREDUR JENKINS</b>

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- 1.** At its meeting on 14 February, the Cabinet will consider the attached report and come to a conclusion regarding the budget to be proposed to the Council, which will include a recommendation regarding the Council Tax increase for 2017/18.
- 2.** Bearing in mind that it is good practice to set the budget in the context of the long term position, it is also intended to consult with the Council on the financial strategy for the period 2017/18 – 2019/20.
- 3.** The Cabinet will give consideration to the report soon after the meeting of the Audit Committee, and following this scrutiny, we will report to the Cabinet on the conclusions of the Committee.
- 4.** The Audit Committee will be given the opportunity to consider the financial propriety of the proposals and relevant risks, and then present comments to the Cabinet on the options.

**REPORT TO THE CABINET**  
**14 February 2017**

**Cabinet Member:** Councillor Peredur Jenkins, Cabinet Member for Resources

**Subject:** 2017/18 Budget and 2017/18 - 2019/20 Financial Strategy

**Contact Officer:** Dafydd L Edwards, Head of Finance

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**Decision sought**

**(a)** Recommend to the Council (in its meeting on 2 March 2017) that:

1. A budget of £231,299,720 should be set for 2017/18, to be funded by £168,963,540 of Government Grant and £62,336,180 Council Tax income, with an increase of 2.8% (or a revised combination of figures after the Cabinet has considered the options).
2. Establish a capital programme of £12.015m in 2017/18 and £6.410m in 2018/19 to be funded from sources noted in clause 9.3 of the report.

**(b)** Note the Medium Term Financial Plan in Appendix 4, and adopt the strategy which is in part 15-17 of the Plan.

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**Summary**

1. The Council has to set a balanced budget for 2017/18.
2. In accordance with usual practice, the annual budget is presented (the following main report) within the context of a medium term financial strategy (Appendix 4), ensuring that the budget prepares for the position to come, rather than meeting the requirements of one year alone.
3. This year, the Council profits from last year's medium term planning, as we are able to balance the budget without making any new decisions which would cut services for our citizens.
4. Having consulted in a series of workshops during January/February, and with the Audit Committee (9 February), it is a matter for the Cabinet to consider the 2017/18 – 2019/20 financial strategy, recommending an appropriate budget to the Council for 2017/18.
5. The following report details the matters to be considered when establishing the 2017/18 budget, together the medium term strategy.

## A) 2017/18 BUDGET

6. The proposed budget for 2017/18 can be summarised as follows –

<b>Establishing the 2017/18 Budget</b>	£
2016/17 Base Budget	227,227,120
Use of Reserves Adjustment	2,590,610
Additional Expenditure Requirements	<u>8,713,740</u>
2017/18 Expenditure Requirements before savings	238,531,470
less Grant Income	-168,963,540
less Council Tax (2.8% increase)	<u>-62,336,180</u>
2017/18 Funding Gap	<u>7,231,750</u>

<b>Addressing the Gap in 2017/18</b>	£
Approved Efficiency Savings	3,290,460
Schools Savings	990,000
Approved Cuts	1,868,970
Further Efficiency Savings	<u>1,082,320</u>
Total Savings to close the Gap	<u>7,231,750</u>

<b>Balanced Budget for 2017/18</b>	£
2017/18 Expenditure Requirements before savings	238,531,470
2017/18 Savings Total	<u>-7,231,750</u>
2017/18 Net Budget	<u>231,299,720</u>

<b>To be funded from -</b>	
Grant Income	168,963,540
Council Tax	<u>62,336,180</u>
2017/18 Net Budget	<u>231,299,720</u>

7. By 2017/18, we will need to increase our expenditure to £238.5m in order to “stand still”, including £2.6m to meet pressures on the services’ budgets (details of the ‘bids’ are in Appendix 3). Consideration is given to development priorities separate to this, through the Strategic Plan. Presented here are the unavoidable commitments that the departments are facing now.
8. In order to meet the financial gap, it will be possible to attribute efficiency savings which were already in progress, together with £1.5m of additional savings for 2017/18, and increasing the Council Tax 2.8%.



9. Before completing a more thorough review of the Asset Strategy, we have established a programme on the basis of the minimum required for 2017/18, as noted in Appendix 2, which will mean a programme of £12.015m in 2017/18 and £6.410m in 2018/19. The programme continues to spend on capital schemes on a higher level than the resource we receive from the Welsh Government to support our capital programme, but it is not considered that the relevant level of borrowing will overstretch the Council.

## B) MEDIUM TERM STRATEGY

10. The revised forecast is now summarized in the table below:

<b>Medium Term Plan</b>			
MODELLING THE MEDIUM SCENARIO	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	£'000	£'000	£'000
Add back one-off use of reserves	2,591		
Additional Expenditure Requirements	8,714	7,400	8,000
Revenue Grant (Increase) / Decrease	-2,013	2,529	2,567
Council Tax Increase	-2,060	-2,302	-2,387
Gap before savings schemes	7,232	7,627	8,180
Current Efficiency Savings	-3,291	-944	
Schools' Efficiency Savings	-990	-263	
Cuts already decided upon	-1,869	-368	-65
Additional Efficiency Savings	-1,082	-2,296	-267
Balance from the funding gap	0	3,756	7,848

11. It is recommended that we should continue to work on the basis of the same range of possibilities as already agreed, namely:

Council Tax Policy	Consider increase in the Council Tax similar to the Wales average.
Schools Budget	Continue with the target of £4.3m from the schools budget (but defer the 2017/18 element for the secondary sector).
Efficiency Savings	Maximise the efficiency savings that can be achieved (in order to avoid cuts in 2018/19)
Cuts	Implement cuts only as necessary, in order to meet the remaining balance

12. The strategy to ensure more efficiency savings is already in hand, and I am convinced we can surpass the 2017/18 target so that an amount will be in hand by 2018/19. In the meantime, no doubt the members will be underlining the message to officers to maximise the efficiency savings which can be identified and realised during 2017/18.

### **Reasons for recommending the decision**

13. The strategy attempts to protect the services the Council provides for the people of Gwynedd whilst keeping the Council Tax increase to the minimum which is consistent with that aim. By ensuring savings, they are intended to be achieved in those areas which will have the least effect upon our citizens.

### **Relevant considerations**

14. It is possible to charge less or more Council Tax, and it is a matter for the Council to consider the budget to be set for 2017/18 on the basis of the issues noted in the following report, and consider whether they wish to change any element.

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### **Opinion of local member**

Not a local matter

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### **Views of the Statutory Officers**

#### **Chief Executive:**

The fact that the Cabinet member is able to submit a report like the one before us is testimony to the prudent financial planning which the Council has been doing for some time now, the tireless work to influence the settlement on the basis of evidence, and a definite focus on realising efficiency savings. This focus needs to continue for the future.

#### **Monitoring Officer:**

Although it is a matter for the Full Council to make a final decision on the budget, it is important that the Cabinet gives a clear recommendation to the Full Council regarding its spending plans and the draft budget, and this report achieves that. Once the Council has agreed on the funding sources, then the Cabinet will be responsible for the expenditure and prioritisation within that budget. The financial strategy on the other hand is a matter for the Cabinet to decide, but in doing so it would be desirable to be inclusive and to consult with the Council. I support the intention to do so.

#### **Head of Finance:**

I have collaborated with the Cabinet Member in the preparation of this report and I confirm the content.

## **2017/18 BUDGET and 2017/18 – 2019/20 FINANCIAL STRATEGY**

### **1 BACKGROUND**

- 1.1 This detailed report notes the factors that influence the revenue budget proposed for 2017/18, and outlines the main changes since 2016/17.
- 1.2 In addition, Appendix 4 updates the medium term financial strategy established last year for the period up to 2019/20.

### **2 WELSH GOVERNMENT GRANT**

- 2.1 The Welsh Government has announced the settlement to finance local government for 2017/18, but has not provided any indicative figures for the following year. The details are noted below in Table 1.

Table 1  
**Revenue Support Grant 2016/17 & 2017/18**

	<b>Total Welsh Authorities £'000</b>	<b>Gwynedd Council £'000</b>
2016/17 Government Grant (without amendment)	4,101,550	167,078
2016/17 Government Grant (amended)	4,103,632	167,155
2017/18 Government Grant	4,113,620	168,964
	Increase £	12,070
	Increase %	0.3%
		1.1%

- 2.2 It can be seen from the Welsh Government's figures which are in the above table that Gwynedd Council receives an increased grant of £1.9m by next year (after amending the 2016/17 figure to reflect the transfer into the settlement) which is an increase of 1.1%, with the average increase across Wales being 0.3%.
- 2.3 A number of factors feed the formula, namely the number of pupils, number of income support claimants, etc, and the higher increase in grant for Gwynedd and other rural authorities is because the (current) higher costs of running social services (care) in rural authorities has since been incorporated in the revised allocation formula, and also because population estimates have gone in our favour this year. It is fair to say that Gwynedd's officers have been prominent in providing the evidence to justify changing the formula to reflect the true cost of care in rural areas.
- 2.4 There was a further relatively small change of £127,000 due to a related tax base adjustment.

### 3 COUNCIL REVENUE EXPENDITURE - 2017/18

- 3.1 Table 2 below shows the increase in the expenditure required in order to “stand still” in 2017/18.

Table 2  
**Additional Expenditure Requirements**

	<b>£'000</b>	<b>£'000</b>
2016/17 Base Budget		227,227
Salary Inflation (Staff)	1,882	
Increments net of Turnover	318	
Apprenticeship Levy	540	
Pensions (automatic enrolment)	342	
Other Inflation (Suppliers)	1,876	
Interest on balances	186	
Borrowing Costs	-318	
Levy (Fire Authority)	262	
Demography	414	
Services' Income Adjustments	29	
Miscellaneous	173	
Transfer to the Settlement	547	
Pressures on Services (bids)	<u>2,463</u>	
Net total of increase		8,714
Use of Reserves in 2016/17		<u>2,591</u>
Total 2017/18 expenditure requirements before savings		238,532

- 3.2 **Base Budget 2016/17** – Although £227m is the net 2016/17 expenditure, it is important to note that the Council's true expenditure is £379m as we receive a multitude of specific grants worth £89m and raise nearly £63m for services which we provide.
- 3.3 **Salary inflation £1.88m** – Provision has been made for a 1% salary increase for Council staff, in accordance with the national agreement, with a higher % for some staff on lower grades worth £360k to meet the 'living wage' requirements.
- 3.4 **Increments net of Turnover £318k** – Net amount which reflects a higher turnover level than the value of salary increments for all Council staff, but mainly £201k for school staff, and £108k for Care Provider staff.

- 3.5 **Apprenticeship Levy £540k** – A new additional cost which is similar to a 'tax' on large employers (0.5% of the total employment bill) following relevant legislation.
- 3.6 **Pensions – Automatic Enrolment £342k** – Because of Gwynedd Pension Fund's excellent investment performance, we succeeded in not having to increase the Council's employers pension contribution rates. Following the triennial valuation on 31/03/2016, we know that large employers' pension contributions in some other pension funds will rise by 1% each year for the next 3 years. 3% of Gwynedd's employment costs would have been worth around £5m. However, the effect of the automatic enrolment legislation means that more workers are joining the pension scheme, with employers' contributions on those salaries being an additional cost.
- 3.7 **Other inflation £1.88m** – Net amount which includes provision for the effect of the 'living wage' (minimum pay) on the costs and fees of our private suppliers.
- 3.8 **Interest on Balances £186k** – Projection of a further reduction in interest rates receivable in 2017/18.
- 3.9 **Borrowing Costs (£318k)** – There will be a reduction in borrowing costs, at the period end of some old loans. At present, no additional borrowing is intended (see the Treasury Management report).
- 3.10 **Levies £262k** – In December 2016, North Wales Fire Authority decided to raise the levy 4% on the constituent authorities. With the population adjustment, this means an increase of 4.53% for Gwynedd Council.
- 3.11 **Demography £414k** – Net amount which reflects +£81k due to an increase in the number of pupils in Schools, +£33k due to an increase in the number of cases in the Childrens' Service, +£300k due to an increase in the number of people receiving care from the Adults' Service. The net figure of +£81k for schools hides different positions in different sectors, namely secondary -£383k, primary +£314k, and Special +£150k. Specific attention is given to the schools' position in part 4 below.
- 3.12 **Adjustments to Services' Income Budgets £29k** – Net amount which has adjusted services' income targets, including -£119k Economy (mainly Hafan, Pwllheli), +£20k Highways (due to an increased use of the Crematorium), +£10k Corporate Support (Registration fees), and +£60k Regulatory to reflect an increase in parking income, land charges, etc.
- 3.13 **Miscellaneous £173k** – A total which reflects a significant number of minor adjustments in provisions across the Council.
- 3.14 **Transfer to the settlement £547k** – Transferring into the Council's settlement in the Care services field, together with the relevant responsibilities, and thus to be reflected in the Adults Department's budget, £106k from the former Transformation Delivery Grant (to help put the new Welsh social care law in operation), £199k to meet the increase in capital limit for assessing residential care fees, and £213k for the prevention of homelessness, together with other sundries. Also, there will be a transfer in for LGBTI Education capital costs, whilst £49k will also transfer out of the Education budget, together with the responsibility for paying teachers' registration fees.

- 3.15 **Pressures on Services £2,463k** – Unavoidable 'bids' – refer to **Appendix 1** for details of each individual 'bid'.

It is recommended to approve applications ("bids") worth £2,010k by the Council's departments for permanent additional resources to meet the unavoidable pressures on their services. It is also recommended to approve £453k worth of one-off bids.

Bear in mind that the Council's main priorities (developmental matters in order to make a difference) are being funded and commissioned separately, through the Strategic Plan. What is presented here through the "bids" are unavoidable commitments that the departments are facing now.

Every department has the right to identify any expenditure which the Council has to fulfil to ensure the continuation of basic services. This heading is not for new developments, but rather for continuation of current basic services.

Of course, an element of these applications are highlighted whilst reviewing this year's spending patterns. Others are a result of factors where there is a need for expenditure in order to protect outcomes for the public, or to meet statutory requirements. There is also an element of central government creating more pressure and expectations, and then we have to deal with the consequential effects.

These items have been subject to challenge by the Corporate Management Team and the Cabinet Member for Resources before being recommended to be approved by the Cabinet.

- 3.16 **Use of Reserves in 2016/17** – £2.6m from Reserves was used to bridge one-off in 2016/17, in order to reflect the profile of the savings that can be achieved. This has to be made good now by adding it to the 2017/18 gap.

## **4 SCHOOLS**

- 4.1 Regarding the Financial Strategy and schools' savings targets, the 07/10/2014 Cabinet resolved:

"To set a savings target of £4.3m for schools to be delivered over the next three years, and that the Cabinet Member for Education be requested to lead a joint piece of work with the Schools Finance Forum to develop the schemes to be implemented in order to deliver this target."

The Schools Finance Forum, which includes school heads and governors, have achieved this work with the Cabinet Member for Education and the Cabinet Member for Resources.

- 4.2 It has already been decided to profile the £4.3m savings to be implemented - £952k in 2015/16, £2,095k in 2016/17, **£990k in 2017/18**, and £263k in 2018/19. Therefore, the intention was to secure £990,000 of savings from the schools budget in 2017/18.
- 4.3 Bear in mind that the schools' budget will face the usual adjustments that arise from changes in pupil numbers, with some schools benefiting and others losing out, together with a reduction in grants given direct to schools by the Welsh Government.

- 4.4 Further, in a meeting of the Schools Finance Forum on 29 November 2016, concern was noted that Secondary demography would reduce worth £383k in 2017/18, but that it would change direction in the following year. Although the positions of individual schools will vary, the Forum highlighted that it didn't make sense to reduce some secondary schools' budgets this year because of demography, and then to resurrect them the following year. This could mean unnecessary redundancy costs (to be financed centrally by the Council).
- 4.5 The Council's Cabinet saw the sense of the debate, but also noted that the Secondary sector was becoming more vulnerable, and there was a need to find a sustainable long-term solution for the sector. In order to buy time to assess the problem and establish a long-term solution for the sector, the Cabinet on 13 December 2016 decided that bridging money should be included in the 2017/18 budget for secondary schools receiving a lower allocation due to a reduction in pupil numbers, and freeze the implementation of the third part of the £4.3m savings in the Secondary sector – i.e. £298,990 – for two years, and to finance this from the Council's balances.
- 4.6 This is not removing the saving – only freezing it for two years in order to buy a little time for the secondary sector to come up with long-term proposals in order to respond to the problems which they are clearly facing.
- 4.7 Deferring the saving, together with the demography reductions, will be an additional expenditure of £756,290 in the 2017/18 budget, but to be financed one-off from the Council's balances. It is anticipated that by the end of this financial year (by 31/03/2017) the Council will have general balances of £5.5m, which represents approximately 1.5% of the Council's gross revenue expenditure. In the 2016/17 budget, I recommended keeping a minimum of £4.4m of general balances. This decision does not endanger those levels, although of course there will be less balances remaining for the Council to consider their use for any other purpose.
- 4.8 Generally, I would not plan to finance continuous regular spending from the Council balances. However, this is not the intention here. The one-off use of a portion of the balances, in order to bridge a unique situation in the secondary sector in 2017/18, will be good practice in order to avoid unnecessary redundancies, giving the secondary sector an opportunity to reach a more sustainable position in the medium term.

## **5 SUMMARY OF THE POSITION IN 2017/18**

- 5.1 It can be seen from Part 3 above, that the Council's expenditure requirements (before deducting savings) for 2017/18 are £238.5m (an unavoidable increase of 5%) and we will be receiving a grant of £169m from the Welsh Government (an increase of 1.1%). This means a funding gap before tax of £69.5m.
- 5.2 Since our assumptions for 2017/18 in February 2016, our figures have been modified for the Welsh Government's more favourable than expected settlement (£3m), which is counterbalanced to some extent by higher expenditure requirements, including demography and higher inflation on some supplies, unavoidable developments in the field of social care, teachers increments, and low interest. We had foreseen other additional costs, namely the apprenticeship levy, the living wage, the waste strategy, etc, in February 2016.

- 5.3 With no increase in the Council Tax rate, the tax yield for 2017/18 would be £60.6m. With an increase of 3.97% (the assumption a year ago), the tax yield would be £63m, and we would be facing a gap of £6.5m in 2017/18. As the savings programme is likely to exceed that gap by 2017/18, a lower increase is being considered. With an increase of 2.8%, it is expected that the income from Council Tax will be £62.34m, and we would be facing a gap of £7.2m in 2017/18.

## 6 COUNCIL TAX

- 6.1 Therefore, there is a key decision to be made in the wake of the above considerations, namely to establish the exact level of Council Tax to be recommended to the Council for 2017/18. The key to all of this is to strike an appropriate balance between the need to spend on services for the most vulnerable in our society, and the appropriate increase to be levied on the residents of Gwynedd.
- 6.2 In the original assumptions made in our medium term financial strategy, a figure of 3.5% was used, as an estimate of the average increase in Wales. By 2016/17, it was decided to increase the tax 3.97%, in order to avoid implementing some cuts. By 2017/18, a further increase of 3.97% (as planned a year ago) would produce tax of £63.06m (£2.77m of additional income) towards the gap.
- 6.3 However, as a number of factors have gone in our favour this year, the 2017/18 budget can be balanced with a lower increase in the tax level. Therefore, it is recommended to increase the tax 2.8%, which would produce tax of £62.34m (£2.05m of additional income) towards the gap. This would equate to a Council Tax increase of £33.80 in a Band D property, or 65p a week. The tax raised by the community councils and the Police Authority would of course be additional to this, and higher than usual tax increases are expected in some communities by 2017/18.
- 6.4 Over 17% of households in Gwynedd receive some element of assistance towards their Council Tax, and over 61% of properties in Gwynedd are in bands lower than band D. Every additional 0.1% of tax would adjust the financial gap we would need to find by around £60,700. Therefore, 0.5% would mean adjusting the financial gap by around £303,500 whilst 1% would mean adjusting the financial gap by around £607,000.
- 6.5 The increase in Gwynedd's Council Tax, together with the average increase across Wales since 2008/09, is shown below.

<b>Year</b>	<b>Gwynedd</b>	<b>Wales</b>
<b>Total 2008-17</b>	<b>37.1%</b>	<b>33.2%</b>
2016/17	4.0%	3.7%
2015/16	4.5%	4.3%
2014/15	3.9%	4.2%
2013/14	3.5%	3.1%
2012/13	3.5%	1.9%
2011/12	3.9%	3.1%
2010/11	3.9%	3.7%
2009/10	3.9%	3.9%
2008/09	3.8%	3.7%

In 2016/17, Gwynedd Council's Band D Council Tax level was £1,207, while the average level of tax for the counties in Wales was £1,127.



- 6.6 We do not yet know what the exact average increase across Wales will be for 2017/18, but the latest information I have is that the average across Wales will be around 3%. Having increased 0.3% higher than the Wales average last year by 2016/17, this year by 2017/18 there is an opportunity to increase slightly less than the average, and adhere to the long-term policy.
- 6.7 The choice between maintaining services and taxation is always difficult, of course, and it is a matter for all members to weigh up and arrive at the balance they consider to be appropriate. However, **as a starting point for discussion, a Council Tax increase of 2.8% is recommended, which would be a weekly increase of 65p, or £33.80 annually, with a Band D tax of £1,240.96 for 2017/18.**
- 6.8 The Council decided in its meeting of 8 December 2016 to raise a "premium" of 50% on long-term empty properties and second homes from April 2018 onwards, and use a percentage of the money to provide housing for young people in the county's communities. The premium on these properties could attract considerable additional income for the Council by 2018/19, but it is not a consideration for 2017/18.

## **7 ADDRESSING THE GAP IN 2017/18**

- 7.1 Increasing the Council Tax level by 2.8% would leave a gap of £7.2m to be found in 2017/18, and this can be found from savings.
- 7.2 In its medium-term strategy in March 2016, the Council drew up a considered and sensible savings and cuts programme to be implemented during the period 2016/17 – 2018/19. Since then, as reported to the full Council 8 December, there has been satisfactory progress with the savings achievement programme, which means that it is possible to call upon £5.1m of savings and cuts which are already in progress by 2017/18, together with the £990k schools saving, in order to meet the financial gap.
- 7.3 It is anticipated that we will achieve further efficiency savings in 2017/18, and I am convinced that the amount of these further savings will be more than sufficient to close the residual gap of around £1.1m, with any over-achievement then available for the more uncertain 2018/19 financial strategy challenge.
- 7.4 The following table summarises the relevant totals as the Council sets its budget and tax for 2017/18.

### Establishing the 2017/18 Budget

	£
2016/17 Base Budget	227,227,120
Use of Reserves Adjustment	2,590,610
Additional Expenditure Requirements	8,713,740
2017/18 Expenditure Requirements before savings	<u>238,531,470</u>
less Grant Income	-168,963,540
less Council Tax (2.8% increase)	<u>-62,336,180</u>
2017/18 Funding Gap	<u><u>7,231,750</u></u>

### Addressing the Gap in 2017/18

	£
Approved Efficiency Savings	3,290,460
Schools Savings	990,000
Approved Cuts	1,868,970
Further Efficiency Savings	1,082,320
Total Savings to close the Gap	<u><u>7,231,750</u></u>

### Balanced Budget for 2017/18

	£
2017/18 Expenditure Requirements before savings	238,531,470
2017/18 Savings Total	<u>-7,231,750</u>
2017/18 Net Budget	<u><u>231,299,720</u></u>
<b>To be funded from -</b>	
Grant Income	168,963,540
Council Tax	<u>62,336,180</u>
2017/18 Net Budget	<u><u>231,299,720</u></u>

## **8 BALANCES**

- 8.1 It is foreseen that the Council will have general balances of £5.5m at the end of this financial year, representing around 1.5% of the Council's gross revenue expenditure.
- 8.2 We have noted on more than one occasion that due to the turbulent environment we will be facing in the years ahead, that it is appropriate to keep sums in reserve in order to deal with problems that could arise.
- 8.3 Nothing has happened in the meantime to change this opinion, and the absence of any statement from the Welsh Government about future grant settlements for local government means that the risk continues. Therefore, the need to ensure that we have appropriate balances to deal with any financial shocks is still relevant (see Appendix 4 for the medium term Financial Strategy).
- 8.4 Having committed £1.1m from general balances, in order to have time to consider and resolve the secondary schools problem reasonably, it is recommended that we do not use any more of the general balances in 2017/18.
- 8.5 We have a number of specific reserves established by the Council to meet specific expenditure needs. These are also part of the Council's budget of course, and have been scrutinised annually. Attention was given to the specific reserves by the Cabinet on 7 June 2016 and the Audit Committee on 23 June 2016, when it was approved to transfer over £2m from reserves and provisions towards corporate priorities / requirements. I review the level of these reserves continually, and it is intended to hold another intensive review by June 2017, to consider how much scope there will be for the Council to change its priorities within these reserves.
- 8.6 In their report "Meeting the Financial Challenges facing Local Authorities in Wales" (issued 27 January 2014) the Wales Audit Office stated (in paragraph 1.8):
- "Councils can use reserves to help them to balance their budgets where savings plans do not achieve the expected results or where income is less than anticipated. However, financing recurrent expenditure from reserves would not normally be appropriate. A prudent level of useable reserves is a key element of financial stability; the minimum appropriate level will vary dependent on an authority's known and potential liabilities and its spending plans. There are signs that a few councils are over-relying on general reserves to deal with budget shortfalls, rather than seeking more sustainable approaches, which often involve making unpopular decisions."
- 8.7 I am convinced that the one-off use of balances to overcome the secondary schools' temporary difficulties in 2017/18 is an appropriate use of the Council's balances in special circumstances.

## 9 CAPITAL

- 9.1 Whilst local authority revenue budgets face constraints, capital budgets are also under pressure, and there are revenue implications for capital expenditure which is not funded by specific grants.
- 9.2 In light of the revenue financial constraints we face and the fact that our Asset Strategy includes a significant element of prudential borrowing (which places pressure on the revenue budget to pay for the borrowing costs), a thorough review of the Asset Strategy is already underway and it is intended to report on proposals to a Cabinet meeting in March 2017.
- 9.3 However, before then, there have been adjustments and changes in the proposed profile for individual schemes presented in Appendix 2, and we will be funding the programme as follows:

Table 3  
**Funding capital programme 2017/18 – 2018/19**

	2017/18 £'000	2018/19 £'000
Capital requirements	12,015	6,410
To be funded through:		
Capital provision in the settlement	6,675	5,907
School grants / borrowing	3,222	0
Capital receipts	835	0
Contribution from revenue	399	0
Prudential borrowing	<u>884</u>	<u>503</u>
Total to be financed	<u>12,015</u>	<u>6,410</u>

The programme continues to spend on capital schemes on a higher level than the resource we receive from the Welsh Government to support our capital programme, but it is not considered that the relevant level of borrowing will over-stretch the Council.

- 9.4 I note that 2017/18 is the final year of the current Asset Strategy and the new Council will have the opportunity to draw up a new one for the next 10 years. 2018/19 will be the first year of that strategy, and therefore (while the financial strategy sets a programme for 2018/19 in order to assist departments with planning) it is likely that there will be additions to it next year as a result of drawing up the new strategy, but we are guaranteeing the programme noted here as a minimum.

## **10 EQUALITY IMPACT ASSESSMENT**

- 10.1 The budget outlined above endeavours to continue to provide appropriate outcomes for all the county's citizens, but as there was insufficient increase in our income to meet inflation, etc, we must implement the savings schemes agreed last year, and set targets for some additional schemes.
- 10.2 With savings, there is a possibility for us to have an impact which would disproportionately affect those with protected characteristics, but there were appropriate impact assessments regarding the financial decisions on the savings and cuts decided upon a year ago.
- 10.3 Our aim was to ensure that our financial decisions conform with the requirements of the Equality legislation, namely:
- Eliminate illegal discrimination, harassment and victimisation, and any other conduct prohibited by the Act.
  - Promote equality of opportunity between people who share a relevant protected characteristic and those who do not.
  - Encourage good relations between those who share a protected characteristic and those who do not.
- In assessing, we tried to identify how to make the best of every opportunity to improve equality in addition to trying to avoid or mitigate any negative effects to the best of our ability.
- 10.4 In planning our budgets, consideration is given to equality on every level, by utilising data and evidence in relation to demography and trends at a strategic level, and in the same way (but more specifically) in coming to decisions on individual savings schemes. Data and evidence has already been collected for our Equality Strategic Plan, and we will continue to build upon this information by analysing new data, monitoring services and engagement.
- 10.5 We have clear processes for finding savings, which include a full assessment of the impact of savings in terms of equality. We analyse each individual scheme, noting if the department needs to conduct an impact assessment when developing the project. This will be the procedure with further efficiency savings by 2017/18.
- 10.6 The recommended budget does more than meet inflation costs. It also attempts to ensure that unavoidable financial pressures being placed on services (due to greater demands from increasing numbers of clients, etc) are recognised in the budgetary decisions (see the additional expenditure requirements in Part 3).
- 10.7 Each service has the right to submit a request for resources if it considers that additional funding is required to ensure that services continue. The sums seen under the "service pressures" heading is recognition that the Council provides sufficient funding to ensure that our financial arrangements do not have a detrimental impact on the level of services provided. Full details are given in Appendix 1 and it can be seen that a substantial part (£1.28m) of the total of £2,462,960 is going to social care.

## 11 CONCLUSIONS

11.1 This report sets out the factors that should be considered when establishing the 2017/18 budget and confirms that the strategy to cope with the financial position facing the Council for the next three years should continue.

### 2017/18 BUDGET

11.2 It is recommended to address a revenue expenditure requirement of £238.53m, having added £11.3m (which includes a provision of £2.46m for pressures on services).

11.3 After receiving a grant of £168.96m from the Welsh Government and with Council Tax income increasing 2.8% to £62.34m, this will leave a gap of £7.2m to be found in 2017/18.

11.4 It will be possible to address this gap via a combination of steps, as follows:

2017/18 Expenditure requirements	£238,531,470
Less Government Grant income	£168,963,540
Less Council Tax income	<u>£62,336,180</u>
Savings which will have been achieved	<u><u>£7,231,750</u></u>

11.5 **This will mean setting a net budget, after using balances, of £231,299,720 (£238.53m less savings of £7.23m). An analysis of the budget per service is given in Appendix 3.**

11.6 **It is also recommended that a capital programme of £12.015m should be established for 2017/18 together with £6.410m for 2018/19.**

### LONGER TERM STRATEGY

11.7 Regarding the position over the next three years, it is recommended to plan to manage the funding gap by keeping all options open, and we should aim to continue to find the majority of the gap by maximising the efficiency savings that we can deliver.

## 2017/18 REVENUE BIDS

Cabinet Member	Ref	Details of the Bid	Permanent / One Off	Amount (£)	Recommendation		
					Finance (£)	Reject (£)	Comments
<b>EDUCATION DEPARTMENT</b>							
G.T.	ADD 1	<b><u>One Off Requirements to Establish Ysgol Bro Idris</u></b> Bid to finance staff time in order to prepare sound policies and procedures for the new school, and thus ensure that the school operates to its potential.	One Off Bid	105,530	105,530		Recommend finance the bid in full.
G.T.	ADD 2	<b><u>Moving Towards Education District Offices</u></b> Bid to finance the establishment of the education district offices model, in order to promote the "Gwynedd School" model and thus improve the quality of education in Gwynedd.	Permanent Bid	275,000	275,000		Cabinet have approved the Education District Offices model, and approved annual costs of up to £275,000 for three years. It's expected that the Department will find savings in order to supersede the bid by 2020.
<b>Total Permanent Revenue Bids</b>				<b>275,000</b>	<b>275,000</b>	<b>-</b>	
<b>Total One Off Revenue Bids</b>				<b>105,530</b>	<b>105,530</b>	<b>-</b>	
<b>EDUCATION DEPARTMENT TOTAL</b>				<b>380,530</b>	<b>380,530</b>	<b>-</b>	

**2017/18 REVENUE BIDS**

Cabinet Member	Ref	Details of the Bid	Permanent / One Off	Amount (£)	Recommendation		
					Finance (£)	Reject (£)	Comments
<b>ECONOMY DEPARTMENT</b>							
M.R.	ECON 1	<b>Harlech and Ardudwy Leisure Initiative</b> Bid to finance Gwynedd Council's contribution towards a steady stream of income that is required to ensure that the initiative is viable. The 6 community council will increase their precept to meet the £50,000 that is needed.	Permanent Bid	6,000	6,000		Cabinet have approved a permanent budget of £6,000 from 2017/18 onwards, as part of the package with the local community councils.
<b>Total Permanent Revenue Bids</b>				<b>6,000</b>	<b>6,000</b>	<b>-</b>	
<b>Total One Off Revenue Bids</b>							
<b>ECONOMY DEPARTMENT TOTAL</b>				<b>6,000</b>	<b>6,000</b>	<b>-</b>	



**2017/18 REVENUE BIDS**

Cabinet Member	Ref	Details of the Bid	Permanent / One Off	Amount (£)	Recommendation		
					Finance (£)	Reject (£)	Comments
<b>ADULTS, HEALTH AND WELLBEING DEPARTMENT</b>							
W.G.R.	OED 1	<p><b><u>Loss of Income due to the Welfare and Social Services (Wales) Act 2014</u></b>                      Bid in response to the Welfare and Social Services Act 2014 which states that we must charge for the first 8 weeks of respite/residential placement in accordance with the rules for charging for non-residential services. Under the new rules we can not charge no more than £60 a week, and in some cases charge nothing at all which has meant a significant loss of income.</p>	Permanent Bid	135,000	135,000		Recommend finance the bid in full.
W.G.R.	OED 2	<p><b><u>Change to the Capital Threshold to Self Finance Care Services from £24,000 to £30,000</u></b>                      Bid in response to the Welsh Government statement that they will be increasing the capital threshold used to determine whether individuals self finance their care/nursing placements from £24,000 to £30,000.</p>	Permanent Bid	200,000	200,000		Recommend finance the bid in full, to be held in a corporate contingency budget, until the exact amount is known.
W.G.R.	OED 3	<p><b><u>Learning Disabilities – Transition Age</u></b>                      To fund care packages for 6 individuals transferring from the Children’s Service to the Adult Learning Disabilities Service.</p>	Permanent Bid	243,720	243,720		Recommend finance the bid in full, but assign £30,000 to a corporate contingency budget.

2017/18 REVENUE BIDS

Cabinet Member	Ref	Details of the Bid	Permanent / One Off	Amount (£)	Recommendation		
					Finance (£)	Reject (£)	Comments
<b>ADULTS, HEALTH AND WELLBEING DEPARTMENT</b>							
W.G.R.	OED 4	<p><b><u>Increase in Residential and Nursing Home Fees</u></b>                      Bid to ensure a consistent methodology between North Wales councils for awarding the fee levels that should be paid to providers of residential and nursing care.</p>	Permanent Bid	188,240	188,240		Recommend finance the bid in full, but assign to a corporate contingency budget.
W.G.R.	OED 5	<p><b><u>Established Safeguarding and Quality Assurance Team</u></b>                      Bid to address the concerns of the Care and Social Services Inspectorate Wales (CSSIW) on the Council's arrangements for safeguarding vulnerable adults. By establishing a team to carry out the new duties where there are no sufficient capacity at present.</p>	Permanent Bid	225,095	130,000	95,095	Recommend finance £130,000 of the bid, thus finance 2 DoLs officers and 1 officer for the "Escalating Concerns" regime. Department to prioritise their resources in order to fulfil other aspects.
		<p>One off element is for a period of two years, due to the need to deal with the DoLs backlog, to fund two social workers posts.</p>	One Off Bid	84,880	84,880		Recommend finance the bid in full.

Cabinet Member	Ref	Details of the Bid	Permanent / One Off	Amount (£)	Recommendation		
					Finance (£)	Reject (£)	Comments
<b>ADULTS, HEALTH AND WELLBEING DEPARTMENT</b>							
W.G.R	OED 6	<b><u>Operational Budget for Deprivation of Liberty Cases</u></b> Bid due to the increase in the number of individuals requiring assessment coupled with the complexity of such assessments. Additionally, Learning Disability cases (approximately 150 cases) are expected to start going through the process during 2016/17.	Permanent Bid	45,000	45,000		Recommend finance the bid in full.
I.T.	OED 7	<b><u>Renting Wise Wales</u></b> Bid in response to the Housing Act (Wales) 2014, which sets a new legal requirement for landlords and estate agents to register and license by 23/11/2016. This additional duty will be the responsibility of the Housing Enforcement Unit.	Permanent Bid	68,380		68,380	Recommend refusal of the bid for 2017/18, and request the Department to prioritise resources within the Housing Service.
<b>Total Permanent Revenue Bids</b>				<b>1,105,435</b>	<b>941,960</b>	<b>163,475</b>	
<b>Total One Off Revenue Bids</b>				<b>84,880</b>	<b>84,880</b>	<b>-</b>	
<b>ADULTS, HEALTH AND WELLBEING DEPARTMENT TOTAL</b>				<b>1,190,315</b>	<b>1,026,840</b>	<b>163,475</b>	

**2017/18 REVENUE BIDS**

Cabinet Member	Ref	Details of the Bid	Permanent / One Off	Amount (£)	Recommendation		
					Finance (£)	Reject (£)	Comments
<b>CHILDREN AND SUPPORTING FAMILIES DEPARTMENT</b>							
M.R.	PLANT 1	<b>Children in Care Placements</b> Bid in order to deal with the increase in the number of new placements.	One Off Bid	160,000	160,000		Recommend finance the bid in full.
M.R.	PLANT 2	<b>Resources for the Operational Children's Team</b> Bid to finance two social workers and administrator in order to deal with the significant increase in demand for services.	Permanent Bid	120,000	50,000 (Permanent) ----- 50,000 (One Off)	20,000	Recommend finance one of the social workers post permanently and one social workers post temporarily for 2 years. With the Department to identify efficiency options within 2 years.
<b>Total Permanent Revenue Bids</b>				<b>120,000</b>	<b>50,000</b>	<b>20,000</b>	
<b>Total One Off Revenue Bids</b>				<b>160,000</b>	<b>210,000</b>	<b>-</b>	
<b>CHILDREN AND SUPPORTING FAMILIES DEPARTMENT TOTAL</b>				<b>280,000</b>	<b>260,000</b>	<b>20,000</b>	

**2017/18 REVENUE BIDS**

Cabinet Member	Ref	Details of the Bid	Permanent / One Off	Amount (£)	Recommendation		
					Finance (£)	Reject (£)	Comments
<b>HIGHWAYS AND MUNICIPAL DEPARTMENT</b>							
J.W.J	PaB 1	<p><b>Waste</b> Bid in order to deal with an increase in the Department expenditure following a reduction of approximately 6.7% in the Environmental and Waste Grant, reduction in landfill costs and disposal costs combined with an increase in tonnes of food to GwyrAD and to the housing stock.</p> <p>The Grant has changed over recent years, with one grant now for a range of services. If we remove all of the other services the grant funds - £101,500 Natural Resource Management (Floods) £56,750 - Local Environment Quality (Tidy Towns, dog fouling etc) the core waste balance to be funded by the Council would be £78,350.</p>	Permanent Bid	657,320	657,320		Recommend finance the bid in full, including the Waste Strategy element that has already been planned, as well as the other aspects where the Welsh Government has reduced the grant (for example floods, tidy towns, dog fouling etc).
JWJ	PaB 2	<p><b>Waste</b> Finance the costs of Residual Waste Disposal, as the one off budget for Ffridd Rasmus has come to an end.</p>	One Off Bid	52,840	52,840		Recommend finance the bid in full.
<b>Total Permanent Revenue Bids</b>				<b>657,320</b>	<b>657,320</b>	<b>-</b>	
<b>Total One Off Revenue Bids</b>				<b>52,840</b>	<b>52,840</b>	<b>-</b>	
<b>HIGHWAYS AND MUNICIPAL DEPARTMENT TOTAL</b>				<b>710,160</b>	<b>710,160</b>	<b>-</b>	

**2017/18 REVENUE BIDS**

Cabinet Member	Ref	Details of the Bid	Permanent / One Off	Amount (£)	Recommendation		
					Finance (£)	Reject (£)	Comments
<b>FINANCE DEPARTMENT</b>							
P.J.	CYLL 1	<b><u>Implementation of Information Technology Strategy</u></b> Finance two Account Manager posts to ensure the implementation of the Information Technology Strategy, which has been approved by the Cabinet.	Permanent Bid	79,430	79,430		Recommend finance the bid in full.
<b>Total Permanent Revenue Bids</b>				<b>79,430</b>	<b>79,430</b>	-	
<b>Total One Off Revenue Bids</b>					-	-	
<b>FINANCE DEPARTMENT TOTAL</b>				<b>79,430</b>	<b>79,430</b>	-	

<b>TOTAL PERMANENT REVENUE BIDS</b>	<b>2,243,185</b>	<b>2,009,710</b>	<b>183,475</b>
<b>TOTAL ONE OFF REVENUE BIDS</b>	<b>403,250</b>	<b>453,250</b>	<b>-</b>
<b>TOTAL BIDS</b>	<b>2,646,435</b>	<b>2,462,960</b>	<b>183,475</b>

**2017/18 CAPITAL BIDS**

Cabinet Member	Ref	Details of the Bid	Amount (£)	Recommendation		
				Finance (£)	Reject (£)	Comments
<b>ECONOMY DEPARTMENT</b>						
I.T.	ECON 1	<b>Relocation of Criccieth Library</b> Bid to finance the change in the library service in Criccieth, from being a library maintained by the authority to be a community library in collaboration between Adult Services and the Town Council.	26,720	26,720		Recommend finance the bid in full.
M.W-D.	ECON 2	<b>Aberdyfi Foot Bridge</b> Bid in order to finance a new footbridge in Aberdyfi, as the present bridge has come to the end of its useful life.	100,000			Recommend that further options appraisal are needed, therefore a further report should be submitted before the Council decides to commit its scarce capital money.
M.W-D.	ECON 3	<b>Voluntary Development Fund</b> Funding to support capital projects by social and voluntary organisations and enterprises. The budget is managed under the banner of Cist Gwynedd.  Over the past 2 years, the Council has contributed £212,000 towards 25 project, with the total cost of these projects £926,000.	70,000	70,000		Recommend finance the bid in full.
<b>ECONOMY DEPARTMENT TOTAL</b>			<b>196,720</b>	<b>96,720</b>	<b>-</b>	
<b>TOTAL CAPITAL BIDS</b>			<b>196,720</b>	<b>96,720</b>	<b>-</b>	

**APPENDIX 2**

<b>CAPITAL PROGRAMME FOR 2017/18 – 2018/19</b>		
	<b>2017/18</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Buildings Repairs and Maintenance (dealing with the backlog and avoiding further deterioration)	2,553	2,477
Fire and Asbestos work	300	308
Schools Organisation	6,039	248
Street Lighting	50	50
Safety fences on roads	134	134
Dealing with flooding on roads	100	100
Playing Fields	35	35
Vehicle Renewals	0	93
Transport Feasibility Schemes	100	100
Cycle Routes	20	20
Information Technology Renewals	436	275
Electronic Documents and Records System	155	0
Housing Grants	2,000	2,000
To be distributed	93	570
<b>Total</b>	<b>12,015</b>	<b>6,410</b>



## 2017/18 PROPOSED BUDGETS BY SERVICES

	Base Budget 2016/17	Inflation	Increments	Levy, Interest on Balances & Capital Charges	Demography & Transfer to the Settlement	Income Budgets	Various	Pressure, Apprenticeship & Pensions	Savings & Cuts	Base Budget 2017/18
DEPARTMENTS	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Corporate Management Team and Legal	2,052	18	3	0	0	0	(50)	0	(21)	2,002
Corporate Support	7,973	69	3	0	0	(10)	(30)	0	(408)	7,597
Finance	6,144	67	(9)	0	0	0	32	79	(263)	6,050
Trunk Roads	(87)	0	0	0	0	0	0	0	0	(87)
Highways and Municipal	20,559	210	(12)	0	0	(20)	78	726	(1,866)	19,675
Regulatory	6,947	83	5	0	3	(60)	83	(25)	(980)	6,056
Gwynedd Consultancy	318	1	(18)	0	0	0	(1)	0	(105)	195
Central Education	13,289	83	(30)	0	(1)	0	27	247	(415)	13,200
Schools Budget	69,147	689	196	0	34	0	(26)	791	(1,087)	69,744
Economy and Community Adults, Health and Wellbeing	5,965	29	43	0	0	119	(14)	6	(873)	5,275
Children and Supporting Families	44,014	1,363	127	0	327	0	(114)	559	(1,937)	44,339
	12,554	147	10	0	33	0	100	253	(340)	12,757
<b>Departmental Total</b>	<b>188,875</b>	<b>2,759</b>	<b>318</b>	<b>0</b>	<b>396</b>	<b>29</b>	<b>85</b>	<b>2,636</b>	<b>(8,295)</b>	<b>186,803</b>
Corporate and Capital Matters	43,202	999	0	381	565	0	88	781	1,063	47,079
<b>TOTAL =</b>	<b>232,077</b>	<b>3,758</b>	<b>318</b>	<b>381</b>	<b>961</b>	<b>29</b>	<b>173</b>	<b>3,417</b>	<b>(7,232)</b>	<b>233,882</b>
Less Community Council Precepts	(1,826)									(1,826)
<b>TOTAL GROSS EXPENDITURE</b>	<b>230,251</b>	<b>3,758</b>	<b>318</b>	<b>381</b>	<b>961</b>	<b>29</b>	<b>173</b>	<b>3,417</b>	<b>(7,232)</b>	<b>232,056</b>
Financed by: Balances and Specific Reserves	(3,024)	0	0	(251)	0	0	0	(72)	2,591	(756)
<b>NET TOTAL =</b>	<b>227,227</b>	<b>3,758</b>	<b>318</b>	<b>130</b>	<b>961</b>	<b>29</b>	<b>173</b>	<b>3,345</b>	<b>(4,641)</b>	<b>231,300</b>

**A MEDIUM TERM PLAN TO ADDRESS THE FINANCIAL GAP 2017/18 - 2019/20**

1. For a number of years, whilst establishing its budget, Gwynedd Council has been planning ahead to prepare for what might be on the horizon. This has paid dividends, and in fact this is why we have been able to balance the 2017/18 budget without having to decide on any additional cuts which would have an impact on the people of Gwynedd. Not every Council is in a position to do this.
2. In order to continue on this course, in addition to establishing a budget for 2017/18, an effort has also been made to project the financial situation for the following two years, so that we can set the 2017/18 position in its wider context and plan how we are going to meet the challenges ahead.
3. The grant figure we will receive from the Welsh Government is the most uncertain figure for 2018/19 onwards. As the grant finances around 74% of the Council's net budget, clearly this figure is key to the projections. We know from the statement of the UK Government's Chancellor, and the statements made by Mark Drakeford, Cabinet Secretary for Finance and Local Government in the Welsh Government, that there could be a challenging future ahead for local government in Wales.
4. The strategy for the next three years sets out a realistic and prudent picture of what could lie ahead for us. The following tables show the results of the latest projections, noting those savings which have already been planned.
5. The financial strategy adopted by the Cabinet in February 2016 faced the financial gap between 2016/17 and 2017/18, while this report reviews the basis of those assumptions and attempts to look past that period up to 2020.
6. The 2017/18 grant settlement is used here for planning purposes, together with the budget (the latest estimates of the Council's requirements) for 2017/18, together with an outline estimate for 2018/19 and 2019/20.
7. Unlike some other authorities, assuming that we will be able to realise the additional efficiency savings, implementing the agreed savings schemes and cuts (adopted by the Council in March 2016) will be sufficient in order for Gwynedd Council to balance the budget with no additional cuts by 2017/18.
8. In the following illustration, slippage can be seen in the schedule of realising some savings from 2017/18 to 2018/19. This will, of course, assist us with next year's budget, and will receive attention in relevant Cabinet Members' performance reports.
9. The UK Government's expenditure will become clearer in March 2017, but for planning purposes, the 23/11/2016 autumn statement confirmed some previous figures regarding financing local government in Wales for 2018/19 and beyond.
10. By making reasonable assumptions about the position of the UK Government's relevant departments, the effect of the Barnett formula, and the Welsh Government's options (how much 'protection' is given to Health and other projects), 3 cases can be modelled forecasting how much could possibly be allocated to local government in Wales.

**2017/18 - 2019/20 BUDGET**

<b>MODELLING THE WORST SCENARIO</b>	<b><u>2017/18</u></b>	<b><u>2018/19</u></b>	<b><u>2019/20</u></b>
	<b><u>CT 2.8%</u></b>	<b><u>CT3.5%</u></b>	<b><u>CT 3.5%</u></b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Add back one-off use of reserves	2,591		
Additional Expenditure Requirements	8,714	7,400	8,000
General Revenue Grant (Increase) / Decrease (+ adjustment)	-2,013	6,069	4,890
Council Tax Increase	-2,060	-2,302	-2,387
	<hr/>	<hr/>	<hr/>
Gap before savings schemes	7,232	11,167	10,503
Current Efficiency Savings	-3,291	-944	
Schools' Efficiency Savings	-990	-263	
Cuts decided to be achieved in the specific year	-1,869	-368	-65
Additional Efficiency Savings 'on track' to be achieved during the year	-1,082	-2,296	-267
	<hr/>	<hr/>	<hr/>
Balance from the funding gap	0	7,296	10,171
Previous year's gap			7,296
			<hr/>
2 year gap			17,467
			<hr/> <hr/>

**2017/18 - 2019/20 BUDGET**

<b>MODELLING THE BEST SCENARIO</b>	<b><u>2017/18</u> CT 2.8% £'000</b>	<b><u>2018/19</u> CT 3.5% £'000</b>	<b><u>2019/20</u> CT 3.5% £'000</b>
Add back one-off use of reserves	2,591		
Additional Expenditure Requirements	8,714	7,400	8,000
General Revenue Grant (Increase) / Decrease (+ adjustment)	-2,013	6	-162
Council Tax Increase	-2,060	-2,302	-2,387
Gap before savings schemes	7,232	5,104	5,451
Current Efficiency Savings	-3,291	-944	
Schools' Efficiency Savings	-990	-263	
Cuts decided to be achieved in the specific year	-1,869	-368	-65
Additional Efficiency Savings 'on track' to be achieved during the year	-1,082	-2,296	-267
Balance from the funding gap	0	1,233	5,119
Previous year's gap			1,233
2 year gap			6,352

**2017/18 - 2019/20 BUDGET**

<b>MODELLING THE MEDIUM SCENARIO</b>	<b><u>2017/18</u> CT 2.8% £'000</b>	<b><u>2018/19</u> CT 3.5% £'000</b>	<b><u>2019/20</u> CT 3.5% £'000</b>
Add back one-off use of reserves	2,591		
Additional Expenditure Requirements	8,714	7,400	8,000
General Revenue Grant (Increase) / Decrease (+ adjustment)	-2,013	2,529	2,567
Council Tax Increase	-2,060	-2,302	-2,387
Gap before savings schemes	7,232	7,627	8,180
Current Efficiency Savings	-3,291	-944	
Schools' Efficiency Savings	-990	-263	
Cuts decided to be achieved in the specific year	-1,869	-368	-65
Additional Efficiency Savings 'on track' to be achieved during the year	-1,082	-2,296	-267
Balance from the funding gap	0	3,756	7,848
Previous year's gap			3,756
2 year gap			11,604

11. The 'best' scenario on the previous pages reflects the position should the Wales Government provide inflation for Health and treat everything else equally. The 'medium' case is an update of our previous projections, while the 'worst' figures reflect more pessimistic forecasts which were more common across other local authorities in previous years. The true settlements could be outside the scenarios outlined above, but it is reasonable to presume it will be between the best and worst scenarios in the 3 tables.
12. As noted in the report on the 2017/18 budget, implementing the schemes which have already been agreed will be sufficient for Gwynedd Council to balance the budget without making any additional cuts by 2017/18. However, there is a range of over £11m between the 'best / worst' case positions we have speculated upon over the following two years (2018/19 and 2019/20), and it is also possible that the outcome will be outside our 'best / worst case scenarios'. If the 'central' case scenario happens, £3.8m of additional savings will be required by 2018/19 and a further £7.8m by 2019/20 (total of £11.6m).
13. Whatever the future grant figures will be, that will not change our ability to discover more efficiency savings. Therefore, we should keep to our present strategy which includes maximising such savings, and dealing with any additional funding gap (which will become clearer during 2017/18) by implementing cuts in 2018/19 and beyond, if totally necessary to do so at that time.

### **Medium Term Financial Plan for 3 years**

14. Ideally, the Council would prefer to implement a financial strategy over 4 or 5 years. Unfortunately, that is totally unpractical, as the Welsh Government has provided a settlement for one year only, with no indicative figures for following years. Further, in the wake of the vote on Britain's membership in the European Union, considerable uncertainty continues regarding the UK Government's budget (not to mention the Council's priorities post-election).
15. Therefore, it is sensible to deal with the 2017/18 budget now, and then before drawing up a more detailed response plan for the following two years (2018/19 and 2019/20) when we will have identified the relevant gap with more certainty (during 2017/18).
16. In the meantime, it is recommended that we should continue to work on the basis of the same range of possibilities as already agreed, namely:

Council Tax Policy	Consider increase in the Council Tax similar to the Wales average.
Schools Budget	Continue with the target of £4.3m from the schools budget (but defer the 2017/18 element for the secondary sector).
Efficiency Savings	Maximise the efficiency savings that can be achieved (in order to avoid cuts in 2018/19)
Cuts	Implement cuts only as necessary, in order to meet any remaining balance of the funding gap

17. The strategy to ensure more efficiency savings is already in hand, and I am convinced we can surpass the 2017/18 target so that an amount will be in hand by 2018/19. In the meantime, no doubt the members will be underlining the message to officers to maximise the efficiency savings which can be identified and realised during 2017/18.

# Agenda Item 8

<b>MEETING</b>	<b>AUDIT COMMITTEE</b>
<b>DATE</b>	<b>9 FEBRUARY 2017</b>
<b>TITLE</b>	<b>TREASURY MANAGEMENT TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION STRATEGY AND ANNUAL INVESTMENT STRATEGY FOR 2017/18</b>
<b>AUTHOR</b>	<b>DAFYDD L EDWARDS, HEAD OF FINANCE CAROLINE ROBERTS, INVESTMENT MANAGER</b>
<b>CABINET MEMBER</b>	<b>COUNCILLOR PEREDUR JENKINS</b>

## Introduction and Background

1. The Code of Practice for managing Treasury Management in Public Services published by CIPFA, requires the Council to prepare a Policy Statement and practice papers together with detailed schedules setting out the Council's approach to all treasury operations. The primary requirement of the Code is the approval by the Full Council of the Policy Statement, the practice papers and the schedules. These were approved by the Council at its meeting (in respect of 2016/17) at its meeting on 3<sup>rd</sup> March 2016.
2. The Welsh Assembly Government's Statutory Guidance on Local Government Investments ("The Guidance"), requires the Council, as part of its treasury management function to prepare an Annual Investment Strategy. The Guidance states that authorities can combine the Treasury Management Strategy Statement and the Annual Investment Strategy into one report. Gwynedd Council has adopted that suggestion, therefore the Annual Investment Strategy is included as section 5 of **Appendix A**.
3. The Council is required by the Code and the Guidance to approve an annual Treasury Management Strategy Statement, an Annual Investment Strategy and a Minimum Revenue Provision Strategy prior to the commencement of each financial year. The proposed strategy for 2017/18 is detailed herewith as **Appendix A**.
4. As Administering Authority of the Gwynedd Pension Fund the Council also undertakes treasury management investment functions on its behalf by combining the surplus cash held by the Council and the Pension Fund for daily investment purposes. The Pension Fund requests this annually as the returns received are improved and the risks reduced by combining the cash with the Council's funds. The Pensions Committee will approve the relevant elements of this Strategy Statement and request the continuation of the pooling arrangements for 2017/18 at its meeting on 16<sup>th</sup> March 2017.

5. In addition, the Local Government Act 2003 introduced a prudential framework for local authority's capital investment. The arrangements, which have been applicable from 1<sup>st</sup> April 2004 introduced a system of governance for local authority capital expenditure, based largely on self regulation. The Prudential Code for Capital Finance in Local Authorities has been developed by CIPFA as a professional code of practice, with statutory backing, to support local authorities in taking decisions to spend capital. Key objectives are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable. Local authorities, before the beginning of each financial year, are required to set certain prudential indicators for the forthcoming and following years. Following the recent review, CIPFA has now introduced a new prudential indicator, "Upper limits on the proportion of net debt to gross debt" to highlight where an authority may be borrowing in advance of its cash requirement. The indicators, which are based on the capital and revenue budget proposals contained elsewhere on the agenda, are shown here in **Appendix B**.
6. With effect from 31<sup>st</sup> March 2008, the Welsh Assembly Government introduced the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 [the "Amendment Regulations"]. These Regulations introduce certain amendments to those introduced in 2003 [the "Original Regulations"] as part of the implementation of the Prudential Borrowing regime. Amongst the changes introduced is the requirement for an Annual Minimum Revenue Provision (MRP) Policy Statement.
7. The Original Regulations set out a statutory basis and a complex formula for the calculation of MRP. The Amendment Regulations only require a charge that is 'prudent', and authorities are permitted more discretion in terms of the charge levied, albeit within certain parameters. **Appendix C** therefore also incorporates the Annual MRP Statement for 2017/18.
8. Members of the Audit Committee and the Cabinet Member for Resources were invited to a briefing meeting on 25 January 2017 with Arlingclose, the Council's Treasury Advisors, to discuss Treasury Management. Members were reminded of CIPFA's Code of Practice for Treasury Management as well as their roles and responsibilities as members for the Treasury Management function. The advisors highlighted the various current treasury risks, and spoke in detail about the credit and counterparty risks, interest rate risks and inflation risk. They also discussed the Council's debt portfolio, net borrowing position, and the prudential indicators.



## **Recommendation**

- 8. The Audit Committee is asked to recommend that the Full Council on 2<sup>nd</sup> March should adopt the Treasury Management Strategy Statement and Annual Investment Strategy for 2017/18 (Appendix A), the Prudential Indicators (Appendix B), the Minimum Revenue Provision Statement (Appendix C) and the pooling arrangement with the Pension Fund for daily cash flow investment.**

## Treasury Management Strategy Statement 2017/18

### 1. Introduction

- 1.1 In March 2011 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.
- 1.2 In addition, the Welsh Government (WG) issued revised *Guidance on Local Authority Investments* in April 2010 that requires the Authority to approve an investment strategy before the start of each financial year.
- 1.3 This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the WG Guidance.
- 1.4 The Authority 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 Authority's treasury management strategy.
- 1.5 In accordance with the WG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Authority's capital programme or in the level of its investment balance.

### 2. External Context

#### 2.1 Economic background

The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation (CPI) will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcomes of Italy's referendum on its constitution (December 2016), the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

## **2.2 Credit outlook**

Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however continue to fall.

## **2.3 Interest rate forecast**

The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive, but although a low probability, this cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low.

- 2.4 A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Appendix 1**.
- 2.5 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.25%, and that no new long-term loans will be required.

### 3. Local Context

- 3.1 The Authority had £108.7m of borrowing and £45.5m of investments as at 31 December 2016. This is set out in further detail at **Annex B**. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

**Table 1: Balance Sheet Summary and Forecast**

	<b>31.3.16 Actual £'000</b>	<b>31.3.17 Estimate £'000</b>	<b>31.3.18 Estimate £'000</b>	<b>31.3.19 Estimate £'000</b>	<b>31.3.20 Estimate £'000</b>
<b>Borrowing CFR</b>	<b>171,376</b>	<b>178,281</b>	<b>179,581</b>	<b>176,390</b>	<b>172,985</b>
Less: External borrowing *	(114,870)	(107,497)	(106,790)	(106,790)	(106,083)
<b>Internal borrowing</b>	<b>56,506</b>	<b>70,784</b>	<b>72,791</b>	<b>69,600</b>	<b>66,902</b>
Less: Usable reserves	(58,061)	(73,088)	(78,807)	(78,807)	(80,690)
Less: Working capital	(66,925)	(17,041)	(16,771)	(16,500)	(16,500)
<b>Investments</b>	<b>(68,480)</b>	<b>(19,345)</b>	<b>(22,787)</b>	<b>(25,707)</b>	<b>(30,288)</b>

\* shows only loans to which the Authority is committed and excludes optional refinancing

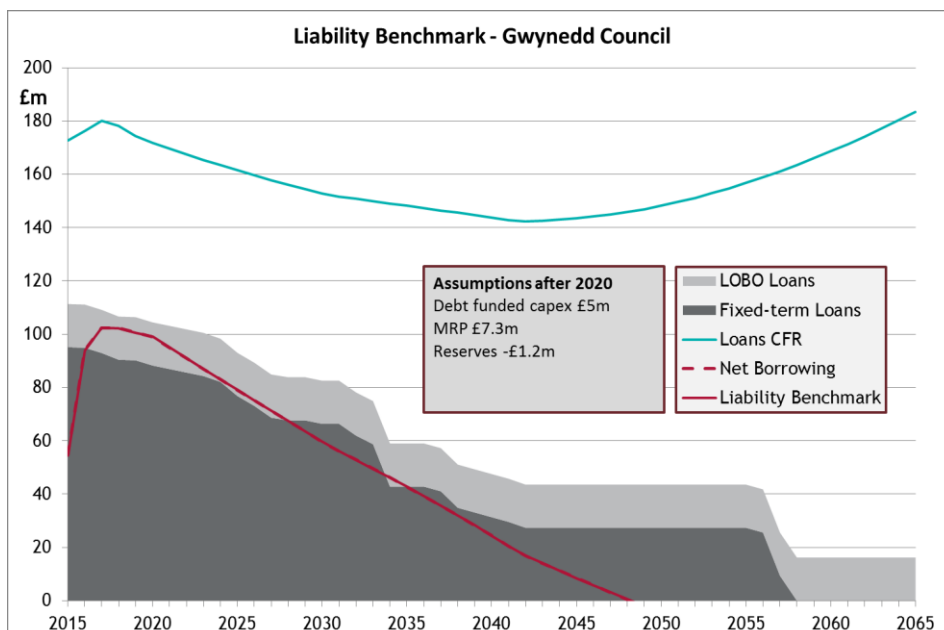
3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

Table 1 shows that the Council should not need to borrow during the next three years.

3.3 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2017/18.

3.4 To assist with its long-term treasury management strategy, the Authority and its advisers have created a liability benchmark, which forecasts the Authority's need to borrow over a 50 year period. Following on from the medium term forecasts in table 1 above, the benchmark assumes:

- capital expenditure funded by borrowing of £5m a year
- minimum revenue provision on new capital expenditure based on a 25 year asset life
- income, expenditure and reserves all increase by 2.5% inflation a year



The chart shows that borrowing is much lower than the CFR and that the Council has funds to invest. On the assumptions noted above this is likely to continue to be the position in the long term.

#### **4. Borrowing Strategy**

4.1 The Authority currently holds £109 million of loans, a decrease of £1m on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority does not expect to need to borrow in 2017/18. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £190 million.

#### **4.2 Objectives**

The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

#### **4.3 Strategy**

Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2017/18 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively the Authority may arrange forward starting loans in 2017/18, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow short-term loans to cover unexpected cash flow shortages.

#### **4.4 Sources**

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see paragraph 5.5 below)
- any other bank or building society authorised to operate in the UK

- UK local authorities
- Capital market investors
- Special purpose companies created to enable local authority bond issues

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Authority has previously raised the majority of its long-term borrowing from the Public Works Loan Board, but it may consider other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

#### **4.5 Short-term and Variable Rate Loans**

Short-term and variable rate loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

#### **4.6 Debt Rescheduling**

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

## **5. Investment Strategy**

- 5.1 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £38 and £87 million, and similar levels are expected to be maintained in the forthcoming year.

This includes the cash balances of Gwynedd Pension Fund which are pooled with the Council's funds for investment purposes. The Pension Fund requests this annually as the returns received are improved and the risks reduced by combining the cash with the Council's funds. The Pensions Committee will approve the relevant elements of this Strategy Statement and request the continuation of the pooling arrangements for 2017/18 at its meeting on 16 March 2017.

### **5.2 Objectives**

Both the CIPFA Code and the WG Guidance require the Authority 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 Authority'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. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

### **5.3 Negative Interest Rates**

If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

### **5.4 Strategy**

Given the increasing risk and falling returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2017/18. The majority of the Authority's surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit and money market funds. This diversification will represent a continuation of the strategy adopted in 2015/16.



## 5.5 Approved Counterparties

The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and time limits shown.

**Table 2: Approved Investment Counterparties**

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	5% 5 years	10% 20 years	10% 50 years	5% 20 years	5% 20 years
AA+	5% 5 years	10% 10 years	10% 25 years	5% 10 years	5% 10 years
AA	5% 4 years	10% 5 years	10% 15 years	5% 5 years	5% 10 years
AA-	5% 3 years	10% 4 years	10% 10 years	5% 4 years	5% 10 years
A+	5% 2 years	10% 3 years	5% 5 years	5% 3 years	5% 5 years
A	5% 13 months	10% 2 years	5% 5 years	5% 2 years	5% 5 years
A-	5% 6 months	10% 13 months	5% 5 years	5% 13 months	5% 5 years
BBB+	2.5% 100 days	5% 6 months	2.5% 2 years	2.5% 6 months	2.5% 2 years
None	£1m 6 months	n/a	10% 25 years	£50,000 5 years	5% 5 years
Pooled funds	10% per fund				
Business loans to local companies*			£3m in total 10 years		

This table must be read in conjunction with the notes below.

\* Advancement of these loans will be approved by the procedure detailed in paragraph 5.9 below. Evaluation of the Business Loans is not part of the advice or services from the Council's treasury advisor.

## 5.6 Credit Rating

Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

## 5.7 **Banks Unsecured**

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Authority's current account bank Barclays Bank plc.

## 5.8 **Banks Secured**

Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

## 5.9 **Government**

Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

## 5.10 **Corporates**

Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

## 5.11 **Registered Providers**

Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

## 5.12 **Pooled Funds**

Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility

will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

### **5.13 Local Loans Fund**

The Council has set up a Local Loans Fund which will make loans to local businesses. These investments are included in the Non-Specific Investments table above and will be for a maximum period of 10 years. The total value of the fund for such investments is £3million. Applications for loans under this scheme will not be part of the usual credit assessment for treasury management investment purposes but will be assessed by appointed consultants and any decision to lend will be made by the Investment Panel for the scheme.

### **5.14 Risk Assessment and Credit Ratings**

Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

### 5.15 **Other Information on the Security of Investments**

The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

### 5.16 **Specified Investments**

The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

### 5.17 Non-specified Investments

Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement; those that are defined as capital expenditure by legislation, such as shares in money market funds and other pooled funds; and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

**Table 3: Non-Specified Investment Limits**

	<b>Cash limit</b>
Total long-term investments	£40m
Total shares in Money Market funds	£40m
Total shares in other pooled funds	£8m
Total investments without credit ratings or rated below [A-]	£8m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below [AA+]	£8m
Total non-specified investments	£80m

### 5.18 Investment Limits

The Authority's revenue reserves and Pension Fund cash available to cover investment losses are forecast to be £56 million on 31st March 2017. In order that no more than 15% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £8 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

**Table 4: Investment Limits**

	<b>Cash limit</b>
Any single organisation, except the UK Central Government	£8m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£8m per group
Any group of pooled funds under the same management	£20m per manager
Negotiable instruments held in a broker's nominee account	£40m per broker
Foreign countries	£8m per country
Registered Providers	£20m in total
Unsecured investments with Building Societies	£8m in total
Loans to unrated corporates	£8m in total
Money Market Funds	£ £40m in total

**5.19 Liquidity management**

The Authority uses prudent cash flow forecasting techniques to determine the maximum period for which funds may prudently be committed.

## 6. Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

### 6.1 Security

The Authority 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 (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	<b>Target</b>
Portfolio average credit score	6.0

### 6.2 Liquidity

The Authority 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.

	<b>Target</b>
Total cash available within 3 months	£10m

### 6.3 Interest Rate Exposures

This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	50%	50%	50%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

#### 6.4 **Maturity Structure of Borrowing**

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	<b>Upper</b>	<b>Lower</b>
Under 12 months	25%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and within 20 years	100%	0%
20 years and within 30 years	100%	0%
30 years and within 40 years	100%	0%
40 years and within 50 years	100%	0%
50 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

#### 6.5 **Principal Sums Invested for Periods Longer than 364 days**

The purpose of this indicator is to control the Authority'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 will be:

	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Limit on principal invested beyond year end	£20m	£10m	£10m

### 7. **Other Items**

7.1 There are a number of additional items that the Authority is obliged by CIPFA or WG to include in its Treasury Management Strategy.

#### 7.2 **Policy on Use of Financial Derivatives**

In the absence of any explicit legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.



### **7.3 Investment Training**

The needs of the Authority's treasury management staff for training in investment management are assessed every year as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA and other appropriate organisations.

### **7.4 Investment Advisers**

The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is monitored by the Head of Finance and the Investment Manager on a regular basis.

### **7.5 Investment of Money Borrowed in Advance of Need**

The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £195 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

## **8. Financial Implications**

The budget for investment income in 2017/18 is £0.17 million, based on an average investment portfolio of £69.1 million at an interest rate of 0.25%. The budget for debt interest paid in 2017/18 is £6.0 million, based on an average debt portfolio of £106.6 million at an average interest rate of 5.62%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

**9. Other Options Considered**

The WG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance, having consulted the Cabinet Member for Resources, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

<b>Alternative</b>	<b>Impact on income and expenditure</b>	<b>Impact on risk management</b>
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses will be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses will be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income  High premia for early redemption of debt may outweigh any savings	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

### Arlingclose Economic & Interest Rate Forecast January 2017

#### Underlying assumptions:

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.
- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends.
- Financial markets currently have priced in stronger global growth following significant global fiscal and monetary stimulus; the short term outlook for the global economy is indeed brighter than early 2016. US fiscal stimulus is also a possibility following Trump's victory. The potential rise in protectionism could, however, dampen growth prospects.
- Economic data have presented a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending. On the downside, the currency-led rise in CPI inflation (currently 1.6% a year/year) will continue, breaching the target in 2017.
- Over the coming years the rise in inflation will reduce household spending growth, while economic and political uncertainty will dampen investment intentions, prompting lower activity levels.
- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The usual negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.
- Given the pressure on household spending and business investment, the rise in inflation is unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods, particularly if this feeds through to wage growth. Given this view and the current inflation outlook, further monetary loosening looks less likely.

## Forecast:

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short/medium term than previously expected.
- The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.
- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
<b>Official Bank Rate</b>													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25
<b>Arlingclose Central Case</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>
Downside risk	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
<b>3-month LIBID rate</b>													
Upside risk	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
<b>Arlingclose Central Case</b>	<b>0.25</b>	<b>0.25</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>
Downside risk	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
<b>1-yr LIBID rate</b>													
Upside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
<b>Arlingclose Central Case</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.60</b>	<b>0.70</b>	<b>0.85</b>	<b>0.90</b>	<b>0.90</b>	<b>0.90</b>	<b>0.95</b>
Downside risk	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
<b>5-yr gilt yield</b>													
Upside risk	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
<b>Arlingclose Central Case</b>	<b>0.60</b>	<b>0.50</b>	<b>0.45</b>	<b>0.45</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.55</b>	<b>0.60</b>	<b>0.65</b>	<b>0.70</b>	<b>0.75</b>	<b>0.80</b>
Downside risk	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
<b>10-yr gilt yield</b>													
Upside risk	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
<b>Arlingclose Central Case</b>	<b>1.10</b>	<b>1.05</b>	<b>0.95</b>	<b>0.95</b>	<b>0.95</b>	<b>0.95</b>	<b>0.95</b>	<b>1.00</b>	<b>1.05</b>	<b>1.10</b>	<b>1.15</b>	<b>1.20</b>	<b>1.25</b>
Downside risk	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
<b>20-yr gilt yield</b>													
Upside risk	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
<b>Arlingclose Central Case</b>	<b>1.65</b>	<b>1.55</b>	<b>1.50</b>	<b>1.50</b>	<b>1.50</b>	<b>1.50</b>	<b>1.50</b>	<b>1.55</b>	<b>1.60</b>	<b>1.65</b>	<b>1.70</b>	<b>1.75</b>	<b>1.80</b>
Downside risk	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
<b>50-yr gilt yield</b>													
Upside risk	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
<b>Arlingclose Central Case</b>	<b>1.55</b>	<b>1.45</b>	<b>1.40</b>	<b>1.40</b>	<b>1.40</b>	<b>1.40</b>	<b>1.40</b>	<b>1.45</b>	<b>1.50</b>	<b>1.55</b>	<b>1.60</b>	<b>1.65</b>	<b>1.70</b>
Downside risk	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60

## Prudential Indicators 2017/18

### 1. Background

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

### 2. Estimates of Capital Expenditure

The Authority's planned capital expenditure and financing may be summarised as follows.

<b>Capital Expenditure and Financing</b>	<b>2016/17 Revised £'000</b>	<b>2017/18 Estimate £'000</b>	<b>2018/19 Estimate £'000</b>	<b>2019/20 Estimate £'000</b>
<b>Total Capital Expenditure</b>	<b>31,592</b>	<b>25,509</b>	<b>10,293</b>	<b>6,675</b>
Capital Receipts	515	1,256	0	0
Government Grants	10,540	6,713	2,525	2,525
Revenue	6,151	8,850	3,499	0
Supported Borrowing	4,136	4,150	4,150	4,150
Prudential borrowing	10,250	4,540	119	0
<b>Total Financing</b>	<b>31,592</b>	<b>25,509</b>	<b>10,293</b>	<b>6,675</b>

### 3. Estimates of Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

<b>Capital Financing Requirement</b>	<b>31.03.17 Revised £'000</b>	<b>31.03.18 Estimate £'000</b>	<b>31.03.19 Estimate £'000</b>	<b>31.03.20 Estimate £'000</b>
<b>Total CFR</b>	<b>178,281</b>	<b>179,581</b>	<b>176,390</b>	<b>172,985</b>

The CFR is forecast to decrease by £5.296m over the next three years as capital expenditure financed by debt no longer outweighs resources put aside for debt repayment.

#### 4. Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

<b>Debt</b>	<b>31.03.17 Revised £'000</b>	<b>31.03.18 Estimate £'000</b>	<b>31.03.19 Estimate £'000</b>	<b>31.03.20 Estimate £'000</b>
Borrowing	107,497	106,790	106,790	106,083
Finance leases	0	0	0	0
PFI	0	0	0	0
<b>Total Debt</b>	<b>107,497</b>	<b>106,790</b>	<b>106,790</b>	<b>106,083</b>

Total debt is expected to remain below the CFR during the forecast period.

#### 5. Operational Boundary for External Debt

The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case, scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

<b>Operational Boundary</b>	<b>31.03.17 Revised £'000</b>	<b>31.03.18 Estimate £'000</b>	<b>31.03.19 Estimate £'000</b>	<b>31.03.20 Estimate £'000</b>
Borrowing	180,000	180,000	190,000	190,000
Other long-term liabilities	0	0	0	0
<b>Total Debt</b>	<b>180,000</b>	<b>180,000</b>	<b>190,000</b>	<b>190,000</b>

## 6. Authorised Limit for External Debt

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

<b>Authorised Limit</b>	<b>2016/17 Revised £'000</b>	<b>2017/18 Estimate £'000</b>	<b>2018/19 Estimate £'000</b>	<b>2019/20 Estimate £'000</b>
Borrowing	190,000	190,000	200,000	200,000
Other long-term liabilities	0	0	0	0
<b>Total Debt</b>	<b>190,000</b>	<b>190,000</b>	<b>200,000</b>	<b>200,000</b>

## 7. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2016/17 Revised %</b>	<b>2017/18 Estimate %</b>	<b>2018/19 Estimate %</b>	<b>2019/20 Estimate %</b>
General Fund	5.95	5.78	5.81	6.07

## 8. Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the proposed capital programme.

<b>Incremental Impact of Capital Investment Decisions</b>	<b>2017/18 Estimate £</b>	<b>2018/19 Estimate £</b>	<b>2019/20 Estimate £</b>
General Fund - increase in annual band D Council Tax	0	0	0

## **9. Adoption of the CIPFA Treasury Management Code**

The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* at its full Council meeting on 3<sup>rd</sup> March 2011.



### Annual Minimum Revenue Provision Statement 2017/18

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Welsh Government's *Guidance on Minimum Revenue Provision* (Guidance 11c) most recently issued in 2010.

The broad aim of the WG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The WG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

For capital expenditure incurred before 1<sup>st</sup> April 2008, and for supported capital expenditure incurred on or after that date, MRP will be determined in accordance with the former regulations that applied on 31<sup>st</sup> March 2008.

For unsupported capital expenditure incurred after 31<sup>st</sup> March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

Where loans are made to other bodies for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.

Capital expenditure incurred during 2017/18 will not be subject to a MRP charge until 2018/19.

Based on the Authority's estimate of its Capital Financing Requirement on 31<sup>st</sup> March 2017, the budget for MRP has been set at £5.47m.

<b>MEETING</b>	<b>AUDIT COMMITTEE</b>
<b>DATE</b>	<b>9th FEBRUARY, 2017</b>
<b>SUBJECT</b>	<b>REVIEW OF THE SCRUTINY SYSTEM</b>
<b>AUTHOR(S)</b>	<b>Councillor Dyfrig Siencyn (Deputy Leader) and Arwel E Jones (Senior Corporate Support Manager)</b>
<b>PURPOSE</b>	<b>To formulate recommendations to the full Council, at its next meeting, on a new scrutiny model for May, 2017</b>

1. After criticism of the Council’s Scrutiny Arrangements by the Wales Audit Office, this committee decided, at its meeting on 21 January 2016, to approve the proposal to establish a small sub-group of Audit, Scrutiny and Cabinet Members that would:-
  - a) consider the work-load of the committees and investigate other scrutiny models, including support arrangements
  - b) interview others regarding the possible models
  - c) introduce a simple procedure of recording how much pre-scrutiny (before decision are made) takes place

The proposal was for the sub-group to draw up recommendations for consideration before the Council commenced its new term in May, 2017.
  
2. The group met on several occasions over the past year, and it attempted to learn from good practice from other councils, sought advice from the Wales Audit Office and held discussions with other Councils in Wales about their arrangements.
  
3. This led to initial proposals that were the subject of discussions at two formal workshops and during informal discussions following the most recent meetings of the Area Forums. At those various meetings, and in the Sub-group's work, an opportunity was available to discuss the possible proposals with 40 of the members from the 75 invited.
  
4. This led to the formulation of two likely models that the Council could consider, namely Model A which is an alteration of the current arrangements with three scrutiny committees (Education and Economy, Care and Communities) with the corporate matters being scrutinised by the Audit Committee; and Model B, a model that establishes one Principal Scrutiny Committee but with more investigations (with up to eight investigations at once compared to three under Model A).
  
5. Both models were discussed by the Sub-group and the views on them were divided. In terms of the members of the sub-group who expressed an opinion, Councillors Beth Lawton, John Pughe Roberts and Angela Russell favour Model A since it is more similar to the current model and are of the view that moving to Model B would be too radical but want to emphasise that the committees’ agendas should be managed by the Scrutiny Forum that should meet more frequently including joint meetings with the Cabinet. Councillors Dyfrig Siencyn and John Wyn Williams are in favour of Model B since it seems that this is the model that does most to address the weaknesses noted at the start of the review and offers the best opportunity for scrutiny to add value.

6. The Audit Committee should bear in mind, when weighing this up, that the aim noted at the beginning of the work was to respond to a critical external report and self-assessment regarding our scrutiny work and address the four basic weaknesses in the Council's scrutiny arrangements that were identified by the Sub-group itself at the start of the work, namely:-
- The need to strengthen the connection by means of a dialogue between Scrutiny and the Cabinet by undertaking more joint policy development (Scrutineers and the Cabinet).
  - The need for clarity regarding why an issue needs to be scrutinised with appropriate resources and skills to undertake the work.
  - Boundaries of committee work have been too sacred and their workloads inconsistent.
  - The speed at which work is completed is slow and frustration regarding the frequency of meetings.

NB When considering the two models, it is important to weigh up their advantages and disadvantages against these four points.

7. An important point to remember, of course, is that the implementation of the model will be crucial. By having the correct skills and attitudes amongst the people responsible for its implementation (both members and officers), we can make whatever model we have work better than the current arrangements. However, which model is in place creates the environment for scrutiny and sets the climate for success or failure. Therefore, as we adopt a model, we must ensure that we do not create an environment that makes good and effective scrutiny more difficult than it needs to be.
8. In the two appendices attached, a more comprehensive description of the models, an assessment of their advantages and disadvantages and their ability to meet the weaknesses noted in 6 above, can be seen.
9. However, as noted in the workshops held with members, regardless of the model adopted, some things must be changed and these can be seen in the points below. Therefore, the Sub-group recommends that the series of recommendations below should be implemented, regardless of which model will be selected:-
- 9.1 Strengthen the dialogue between the Cabinet and the rest of the Council and improve discussion and briefing arrangements - The formal arrangements for this are different in the two models. However, **suggestion (a) is that we establish a procedure of regular discussion sessions.** One possibility, subject to the requirements of the programme of subjects requiring attention, would be to designate dates in the meetings calendar to hold discussion sessions for all Council members on individual subjects. This could involve workshops, as held during the Gwynedd Challenge, or a less formal discussion session. The programme of subjects would be decided upon after looking at the longer-term issues that would benefit from having a broader discussion about them. Filming those sessions is also proposed so that members who are unable to attend can have a taster of what was discussed. Another possibility would be to further develop the area

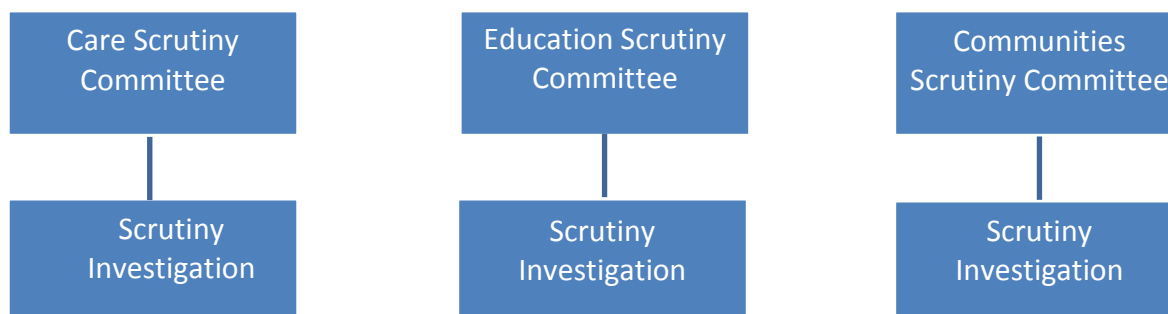
arrangements that we have been implementing for two or three years now and use those vehicles to undertake briefing and discussion work.

- 9.2 More joint policy development work (pre- scrutiny) - Over the past two years, scrutiny agendas have included much more pre-scrutiny and joint policy development. Both models offer different methods for doing so. Regardless of the model selected, **Suggestion (b) is that the work programme for the year again includes a higher proportion of matters that will be submitted for prior scrutiny** with those matters being identified and recorded as pre-scrutiny matters. It is also suggested in **Suggestion (c)** that a procedure should be obtained where Cabinet Members invite scrutiny members to join them to undertake specific work on policy development in fields of interest to them. **Suggestion (ch)** is that the main way of achieving this will be for the Leadership Team to regularly monitor the Council's Corporate Risk Register with the scrutinisers along with policy development matters and causes of concern regarding performance or service provision in order to identify matters that require attention with sufficient notice, which could lead to a briefing / discussion session, an item on a scrutiny committee's agenda or to an investigation.
- 9.3 Further clarity on why scrutiny and dialogue is needed regarding the work programmes - Criticism was received regarding the scrutiny work programme and the grounds for including some items and both models propose different forms of holding a dialogue with the Cabinet regarding the work programme. However, regardless of the outcome in that respect, **Suggestion (d)** is that more emphasis is placed on justifying why a matter is being scrutinised and to do so by focusing on what Scrutiny is attempting to improve, with this being noted prior to the commencement of any work or challenging. This can sometimes be difficult as it is not always evident at the start whether an issue merits being scrutinised or not. **Suggestion (dd)** therefore is to present a new concept of "Gwyntyllu" namely that any new matter, where a member has already attempted to make ground with the department, is raised and taken through the procedure. The purpose of this procedure, which would be logged, would be to discuss with Cabinet Members and departments to see whether there is evidence that a matter merits formal scrutiny, either at a Committee or in an investigation. This would mean that items would be in the "Gwyntyllu" procedure until it can be seen whether they are suitable for scrutiny.
- 9.4 Improved grasp on scrutinising performance - It appears that the pilot of having scrutiny members attending the performance meetings of Cabinet Members was a success with members from both sides seeing the benefit and Heads also saw it as an improvement from the previous arrangements. **Suggestion (e)** therefore is that the performance scrutiny pilot becomes a part of the Council's regular arrangements but with the following minor changes. Firstly, one of the scrutiny members should attend each departmental meeting for about a year or two in order to develop their understanding of the field with those members then being changed in order to extend this to more members over time. Secondly, clearer guidance will need to be provided on the roles of the scrutiny members at the meeting and there will be a clear expectation for those members to report back on their findings.

9.5 Work better with member interests - It is obvious that members work better in fields of interest to them and/or fields where they have particular interests and / or skills. Unfortunately, the political balance process restricts the Council's ability somewhat to appoint members to committees according to their interests and skills. Regardless of the model selected, **suggestion (f) is that the Council identifies the fields of interest and skills of individual members early.** This will allow for information to be forwarded to political groups regarding which members would be suitable to nominate to individual committees under Model A. In Model B, the information could be used to nominate members to serve on scrutiny investigations and working groups according to their interests and skills, without depending on political balance arrangements.

10. The Committee is invited to:-

- a) **consider whether one model is superior to another in terms of its ability to improve scrutiny and make a recommendation to the Full Council.**
- b) **recommend suggestions (a) to (f) in paragraphs 9.1 to 9.5 above, regardless of the formal model selected.**
- c) **ask the Monitoring Officer, in consultation with the Senior Corporate Support Manager and the Head of Legal Services to draft the required changes to the Constitution to implement the system proposed and recommend it to the Full Council.**

**MODEL A - THREE SCRUTINY COMMITTEE MODEL**

<b>BODY / MEETING</b>	<b>DESCRIPTION</b>
<b>Scrutiny Committees</b>	<p>Three Scrutiny Committees of 18 members for the fields of Care, Education and Communities meeting five times a year. Note, that under this model, the Audit Committee would become responsible for scrutinising corporate matters in addition to the current governance matters. The following work fields are noted</p> <p><b>The Work</b> The 3 committees will:-</p> <ul style="list-style-type: none"> <li>a) Manage their own work programmes by determining an annual work programme at workshops and this will then be periodically reviewed and updated during the year at preparatory meetings. The three committees will undertake one scrutiny investigation at any given time.</li> <li>b) Ensure open public scrutiny on everything within their work programmes and undertake more probing investigations during the year on matters requiring more detailed attention (with the number dependent on the speed of the investigations).</li> </ul> <p><b>The Arrangements</b></p> <ul style="list-style-type: none"> <li>a) Three committees of 18 members selected according to political balance.</li> <li>b) An informal dialogue taking place with the Cabinet through the Scrutiny Forum when drawing up the annual work programmes of the committees and to agree on fields where investigations could add value. This would take place by holding two meetings each year but also an informal discussion would be held on the matters subject to the new "Gwyntyllu" procedure (see 9.3 above)</li> <li>c) Preparatory meetings system continuing to ensure that the work programmes are reviewed regularly and to prepare for the public scrutiny that takes place at the committees themselves, including reports from the performance monitoring scrutiny procedure</li> </ul>

<p><b>Scrutiny Investigations</b></p>	<p><b>The Work</b> Up to three Scrutiny Investigations under-way at any given time investigating fields identified by the individual scrutiny committee, looking at policy development, matters arising from the Risk Register or where there is concern about performance or service provision</p> <p><b>The Arrangements</b> a) Each investigation would be led by a member of the relevant Scrutiny Committee and an officer independent of the service acting as project manager of the investigation b) With up to three Investigations under-way at any one time, it will be possible for up to 18/20 members who are non-Cabinet members to participate in a scrutiny investigation at any given time. These Members will be drawn from the members of the relevant committees that will, hopefully, have been placed by the political groups, on committees that are in accordance with their interests. c) A director can be identified to mentor and advise on each investigation - this mentoring role would involve advising and approving the brief, acting as a sounding board as and when necessary during the Investigation, stepping in, if necessary, to resolve problems and also to ensure the quality of the final report of the Investigation before reporting back to the Scrutiny Committee. ch) Once recommendations are submitted to be adopted by the individual Scrutiny Committee, the Cabinet Member will then report publicly at the Committee whether he/she intends to implement the recommendations or not. A specific process should also be in place in departments to act upon the recommendations and report back on them. It will be possible to keep a public log of this and the relevant Scrutiny Committee will review it regularly to ensure implementation.</p>
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NB As the depth and length of investigations can be so varied, it is now suggested that two kinds of investigations can be acknowledged, a full investigation that could take many months and much engagement, research and discussions, and some less intensive (referred to as Scrutiny Working Groups) where it is thought work can be done as a task and finish group at two or three meetings.

**The Remit of Scrutiny Committees**

Care Scrutiny Committee - To scrutinise matters relating to care services such as Older People and Adults, Families, Children and Young People and Health  
Education and Economy Scrutiny Committee (that would include the co-opted Education members) - To scrutinise matters relating to Education and Economy such as Education and Employment Pathways, Regeneration and the Economy  
Communities Scrutiny Committee - To scrutinise matters relating to services to the wider community such as, the Environment, Transportation and Community Transport, Waste and Recycling, Housing, Carbon Footprint Reduction and the Local Development Plan.

(NB It is suggested that the scrutiny of the Council's work in the field of the Welsh language is left to the Language Committee)

Audit Committee - To undertake all Audit Committee functions and scrutinise matters relating to the internal operation of the Council such as Corporate Strategies, Partnerships, Engagement, Business Transformation, Efficiency and the Workforce

#### **MAIN ADVANTAGES AND DISADVANTAGES**

##### Main Advantages

- A more balanced workload across the three committees
- An opportunity to develop member expertise within each committee; members being able to identify their fields of interest.
- An opportunity for a number of members to be a part of a scrutiny committee (54 seats in total on three committees)
- The pattern of the current investigations that has worked well on the whole will continue
- A more familiar model to the members who have been members of the former council

##### Main Disadvantages

- Lack of overview of various fields / committees at present and a weakness in the management of the scrutiny programme as a whole - matters can fall between two stools
- Scrutiny work load falling on Education and Adults and taking resources from those fields to feed "scrutiny" rather than delivering services for residents
- Lack of effective overview can lead to a risk of failing to scrutinise a priority field at one committee whilst giving attention to something less important in another committee.
- Boundaries still exist between the remits of the three committees
- Uncertainty whether there are enough skills and scrutiny capacity amongst the members and officers
- Only possible to support three investigations at a time and fewer fields given detailed attention as a result
- Potential for external criticism for a lack of response to the negative comments regarding the existing system e.g. - management of the scrutiny programme and slow response.
- Risk of being dependent on the same members repeatedly, as we currently are

#### **ASSESSMENT AGAINST THE WEAKNESSES**

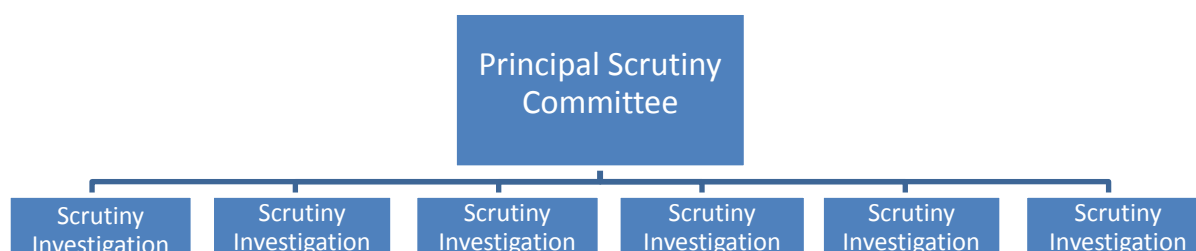
- Strengthen the dialogue between the Cabinet and Scrutiny - this model addresses the need partially with its success dependent on the work of the Scrutiny Forum. The model also addresses the need to undertake more policy development and prior scrutiny work in part, but still allows for the work programmes of the individual committees to be



flexible and responsive. However, the model does not allow for making any increase in the capacity to undertake additional detailed investigations

- Refine and manage the scrutiny programme - this model partially addresses the need and depends on the Scrutiny Forum to do so; however, individual committees retain the right to call-in individual matters, regardless of their priority - risk that the work will increase in some fields as there is a committee for them
- Inconsistent work pressure and committee boundaries that are too sacred - This model addresses the problem in terms of the current lack of balance in the committee's work load but specific boundaries will continue for the new committees
- Slowness in completing work and frustration regarding the frequency of meetings - The model neither releases additional capacity so that investigations can act sooner nor does it address the issue of slow response as it will not be possible to hold meetings more often under this model.

## MODEL B – ONE PRINCIPAL SCRUTINY COMMITTEE MODEL



BODY / MEETING	DESCRIPTION
<p><b>Principal Scrutiny Committee</b></p>	<p>One Scrutiny Committee of 15 members meeting every six weeks with meetings aligned with Cabinet meetings. In addition, the committee would include all the Education co-opted members when discussing Education matters. The Audit Committee would continue to be responsible for governance matters. The following remit is noted:</p> <p><b>The Work</b> The committee will:-</p> <ul style="list-style-type: none"> <li>a) Establish its own annual programme in a workshop and commission a comprehensive programme of up to 8 investigations at a time and set a timetable for reporting back and specific responsibilities for those investigations.</li> <li>b) Act as a body that meets every six weeks to independently scrutinise matters of concern that do not require a specific investigation to hold the Cabinet and departments accountable in public (can arise in terms of performance and other fields)</li> <li>c) Discuss some but not all matters arising or have arisen from the most recent meetings and the next Cabinet meetings</li> </ul> <p><b>The Arrangements</b></p> <ul style="list-style-type: none"> <li>a) A comparatively small committee of 15 members chosen based on political balance but referring specifically to scrutiny skills. The members would include a Chairman and Vice-chairman and other members who could shadow specific areas and would be responsible for leading on individual investigations that would also include front-line members (according to their interests)</li> <li>b) A consistent dialogue between the Principal Committee and the Cabinet to review the annual programme and to agree on fields where investigations could add value by holding joint-meetings of both bodies once every six weeks to consider the Risk Register, policy and performance or service provision matters, in order to consider the progress of the investigations in progress and to joint-plan the next ones. An informal discussion would also be held on the matters that</li> </ul>

	<p>are part of the new "Gwyntyllu" system (para 6.3 above)</p> <p>c) A preparatory meeting procedure will not be a part of this pattern. At the end of every formal committee meeting, an informal meeting will discuss the agenda of the next meeting or two meetings of the Principal Scrutiny Committee and also report from the scrutiny performance monitoring process.</p> <p>ch) A procedure to review messages from the Council's engagement work to identify matters of concern for residents</p>
<p><b>Scrutiny Investigations</b></p>	<p><b>The Work</b></p> <p>Up to eight Scrutiny Investigations under-way at any time investigating fields which have been identified by the Principal Scrutiny Committee, looking at policy development or cases of concern about performance or service provision</p> <p><b>The Arrangements</b></p> <p>a) Each investigation would be led by a member of the Scrutiny Committee and an officer who is independent of the service acting as project manager of the investigation</p> <p>b) With up to eight Investigations under-way at any one time, up to 48/50 non-Cabinet members (both members and non-members of the committee) will be able to be part of a scrutiny investigation at any given time but a procedure will be required to identify individual members' interests in order to identify those fields where members' contribution could add value to the work of investigations in particular fields</p> <p>c) A director can be identified to mentor and advise on each investigation - this mentoring role would involve advising and approving the brief, acting as a sounding board as and when necessary during the Investigation, stepping in, if necessary, to resolve problems and also to check the final report of the Investigation before reporting back to the Scrutiny Committee.</p> <p>ch) Once recommendations are submitted to be adopted by the individual Scrutiny Committee, the Cabinet Member will then report publicly at the Committee whether he/she intends to implement the recommendations or not. A specific process should also be in place in departments to act upon the recommendations and report back on them. It will be possible to keep a public log of that and the Principal Scrutiny Committee will review it regularly to ensure implementation</p>

NB As the density and length of investigations can be so varied, it is suggested that two kinds of investigations can be acknowledged, a full investigation that could take many months and much engagement, research and discussions, and some less intense (referred to as Scrutiny Working Groups) where it is anticipated that work can be undertaken as a task and finish group at two or three meetings.

## Remit of the Committee

Principal Scrutiny Committee (that would include all the Education co-opted members when discussing Education matters) - Scrutinise the most important elements of the Executive's work (Cabinet and officers) across all Council services, manage all of the Council's scrutiny work and commission and coordinate a series of Scrutiny Investigations and Scrutiny Working Groups that will consider subjects in detail and draw-up recommendations for improvement and propose them to the relevant Cabinet Members.

### MAIN ADVANTAGES AND DISADVANTAGES

#### Main Advantages

- Better management of the scrutiny work programme so that the structure of the committees does not drive the matters requiring attention
- Capacity to support more pre-scrutiny investigations being supported by directors and other officers with a quality assurance process
- Scrutiny committee meetings held more often - the ability to act sooner and more flexibly
- Possible to link members' interests with investigation fields
- Focus the attention of members with robust scrutiny skills on one committee in order to improve the quality of scrutiny
- Other members having a less public experience of leading investigations to nurture and develop their chairperson-ship and leadership skills
- Up to 50 members able to be a part of a detailed investigation at any given time

#### Main Disadvantages

- Some concern about the work load on some members, in particular those serving on the new Principal Committee
- Risk that the work of the committee itself becomes too superficial as the fields are so broad
- Uncertainty regarding its impact on empowering front-line members
- Creation of 2 tiers of councillors in terms of members' status outside the Cabinet
- Less public scrutiny as more of the detailed scrutiny work takes place in investigations and working groups
- Likelihood that the increased number of investigations will make more demands on the service than the current investigations
- Fewer opportunities for members to develop by taking the chairs of committees
- Some risk of experiencing difficulty to fill a committee agenda every six weeks
- Risk for members who are not on the committee to be unprepared to participate in investigations, leading to the risk of becoming dependent on the same members repeatedly, as we currently are.

### ASSESSMENT AGAINST THE WEAKNESSES

- Strengthen the dialogue between the Cabinet and Scrutiny - the model addresses the need to align the meetings of the Cabinet and Scrutiny and enforces an agreement between the Cabinet and Scrutiny on the programme of investigations. Allows for more

pre policy development and scrutiny work to take place by increasing capacity to undertake further detailed investigations

- Refine and manage the scrutiny programme - this model addresses the need as only one work programme will be in place
- Inconsistent work pressure and committee boundaries that are too sacred - The model addresses the problem in terms of the current lack of balance in the committees' work load by having one committee only and prioritise attention to fields in investigations
- Slowness in completing work and frustration regarding the frequency of meetings - The model addresses the matter by creating additional capacity for undertaking investigations and also as the Principal Scrutiny Committee meets every six weeks.



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Mr D Williams,  
Chief Executive,  
Gwynedd Council,  
Shirehall St,  
Caernarfon.  
LL55 1SH

**Reference:** 687A2016

**Date issued:** January 2017

Dear Dilwyn,

## Risk Management

As you are aware within our 2016-17 audit programme we are undertaking a risk based assessment of the Council's corporate arrangements. As part of this work we have reviewed your risk management arrangements. The identification and effective mitigation of risks is an important aspect of corporate governance. Effective risk management arrangements are essential when undertaking service and corporate transformation projects. There are many such projects underway within the Council, not least its cultural change programme, Ffordd Gwynedd.

Our review of risk management took place at a time when the Council is refreshing and strengthening its arrangements for identifying, recording and managing risk. With the refresh being driven by senior management, the drivers for change include the Council's modernisation agenda reflecting the 'Ffordd Gwynedd' Cultural Change Programme and a desire to better integrate risk management with strategic planning.

As you know, the Senior Manager Revenues and Risk presented a report setting out the Council's arrangements for risk management to the Audit Committee in December 2015. This report together with a number of other papers sets out the means by which improvements will be secured and the arrangements within the Council strengthened. This will take place over the next 12 months. In particular the content of the Corporate

Risk Register will be refreshed and its alignment with the strategic plan and the work of the Audit Committee will be improved.

Rather than critique current arrangements our approach has been to understand the overall risk management framework and to focus on the steps the Council is taking to secure improvement. We considered how likely these are to be effective and have concluded that:

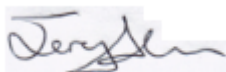
**The Council is making good progress in strengthening its risk management arrangements enabling them to better support robust and effective decision-making**

In addition, we have identified some improvement opportunities the Council may wish to consider as part of its current initiatives to further improve risk management. These are set out below and have been discussed with the Council's officers in the course of this review. The Council's risk management arrangements would benefit from:

- developing a a risk summary or risk tracking document as part of its Corporate Risk Register;
- introducing greater consistency about the identification and management of risk in papers and reports presented to Members;
- having more explicit regard to the concept of 'risk appetite' in its approach to risk management;
- introducing a Risk Strategy and Operations Manual to accompany the Council's refreshed arrangements; and
- training officers and Members on risk management as part of a wider awareness raising initiative.

I trust that you find this letter helpful and constructive in supporting your own work on strengthening the Councils risk management arrangements.

Yours sincerely



Jeremy Evans  
Performance Audit Manager

Cc Ian Hughes – Performance Audit Specialist  
Nigel Griffiths – Performance Audit Lead

COMMITTEE	<b>AUDIT COMMITTEE</b>
DATE	<b>9 FEBRUARY 2017</b>
TITLE	<b>RISK MANAGEMENT ARRANGEMENTS</b>
PURPOSE OF REPORT	<b>TO UPDATE THE AUDIT COMMITTEE ON THE COUNCIL'S RISK MANAGEMENT ARRANGEMENTS, AND RESPOND TO THE LETTER FROM THE WALES AUDIT OFFICE</b>
AUTHOR	<b>DEWI MORGAN, SENIOR MANAGER REVENUES AND RISK</b>
ACTION	<b>RECEIVE AN UPDATE ON FURTHER DEVELOPMENTS TO THE RISK MANAGEMENT ARRANGEMENTS, THE NEXT IMPLEMENTATION STEPS, AND CONSIDER IF THE RESPONSE ADDRESSES THE MATERS RAISED IN THE AUDITOR'S LETTER</b>

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## **1. INTRODUCTION**

- 1.1 One of the statutory responsibilities of the Audit Committee is to review and assess the Authority's arrangements for risk management, internal control and corporate governance, in accordance with part 81(1)(c) the Local Government (Wales) Measure 2011.
- 1.2 As part of wider work to review the governance of the Council, the Wales Audit Office has audited the Council's risk management arrangements, and in particular the way in which recent developments add value to the actions of the authority. This report forms the Council's response to the letter of from the Performance Audit Manager (WAO) to the Chief Executive.
- 1.3 The main outcome of the audit is that the Council is making good progress in strengthening its risk management arrangements enabling them to better support robust and effective decision-making.**

## **2. AUDITOR'S SUGGESTIONS**

- 2.1 The auditor has not seen the need to release a formal report on the results of the work, nor have they presented formal recommendations. However, the letter states that there are 5 improvement opportunities, namely:
- developing a risk summary or risk tracking document as part of its Corporate Risk Register;
  - introducing greater consistency about the identification and management of risk in papers and reports presented to Members;
  - having more explicit regard to the concept of 'risk appetite' in its approach to risk management;
  - introducing a Risk Strategy and Operations Manual to accompany the Council's refreshed arrangements; and
  - training officers and Members on risk management as part of a wider awareness raising initiative.
- 2.2 The remainder of this part of the report outlines the Council's response to these improvement opportunities.



## **2.3 Developing a risk summary or risk tracking document as part of its Corporate Risk Register**

2.3.1. A detailed report was submitted to the Committee in December 2015 outlining the Council's risk management arrangements:

<https://democracy.cyngor.gwynedd.gov.uk/documents/s2917/Risk%20Management%20Arrangements.pdf>

2.3.2. This report provided a detailed picture of the risk management arrangements at the time.

2.3.3. The report also stated that a task group of officers, including the Senior Manager Revenues and Risk, would examine the risk management arrangements in 2016 to ensure they remain appropriate within the new culture which the Council wants to develop. In particular, there was an intention of considering how the risk arrangements will dovetail with the exercise of identifying barriers to achieving the purpose of business units, and putting the people of Gwynedd at the centre of everything we do.

2.3.4. In response, the Governance Arrangements Assessment Group has set up a Subgroup (which includes the Chief Executive, Senior Manager Revenues and Risk and the Risk Co-ordinator and Insurance Manager) in order to review the risk management arrangements further.

2.3.5. The outcome of the work of the Risk Subgroup will be to reshape the Corporate Risk Register into a new format that will be easier to follow and gives more ownership to departments. It is intended that the modified Corporate Risk Register will be presented to the Audit Committee in June/July 2017.

2.3.6. The auditor's suggestion is that the Audit Committee – after initially receiving the full register – then receives a report that summarises the changes to the register. This would facilitate the ability of the Audit Committee to review the arrangements, and we agree that this will be a reasonable, effective and efficient way of progressing.

## **2.4 Introducing greater consistency about the identification and management of risk in papers and reports presented to Members**

2.4.1. A number of reports that members receive – particularly reports to the full Council or the Cabinet for formal decisions – already contain an outline of the relevant risks. Comments from the statutory officers, which are required with such a report, are a means of ensuring that risks in specific areas receive the attention they deserve.

2.4.2. In general, Ffordd Gwynedd thinking suggests a move away from being prescriptive when preparing reports, and ensuring that the form of any report is suitable for its purpose.

2.4.3. However, the auditor's concern is that it is not always clear if the residual risks (i.e. the size of the remaining risk after taking steps to mitigate) are acceptable.

2.4.4. One of the fundamental principles that the Risk Subgroup have looked at recently is ***whether we as a Council are really operating a "tick-box" system rather than using the registers as a means of managing what needs to be done?***

2.4.5. The Risk Co-ordinator and Insurance Manager regularly visits the owners of the risks in the Corporate Risk Register in order to receive an update on any changes. The strong sense at the moment is that the risk register is a record of risks rather than a method of identifying what truly needs to be done.

2.4.6. The next step in the evolution of the arrangement, therefore, will be the continued use of risk registers as a means of identifying the things that really need to be prioritised. If we get this right, any report which will be submitted for a decision will explain explicitly what risks this action will address, and this improvement opportunity will be implemented naturally from that.

## **2.5 Having more explicit regard to the concept of 'risk appetite' in its approach to risk management**

- 2.5.1. "Risk appetite" is the amount of risk that the Council is ready to take as it goes about achieving its objectives. Setting risk appetite ensures that the resources given to understanding and managing the risks are proportionate.
- 2.5.2. The auditor agrees with the Council's argument that it cannot have a general appetite for the Council as a whole, as there is so much variety in services across the authority. However, the Council agrees that there is room to consider each individual risk, and identify if the current situation is acceptable or not (perhaps by including a column such as "*Where we are willing to be?*" or similar on the Corporate Risk Register). This will have further consideration in re-shaping the register and, as stated previously, we will submit the revised Register to the Audit Committee in June/July 2017.

## **2.6 Introducing a Risk Strategy and Operations Manual to accompany the Council's refreshed arrangements**

- 2.6.1. We have some concern that "strategy" implies a bulky document that is approved by a Committee that no one will look at again.
- 2.6.2. On the other hand, if the aim of the Council is to have risk management arrangements where the Corporate Risk Register is a living document that will be used to prioritise and drive decisions forward, then it would be sensible to prepare a document that establishes the steps that need to be taken to achieve that goal. It is believed that this message can be conveyed in a concise document, and this will be submitted to the Audit Committee in June/July 2017.
- 2.6.3. From the standpoint of an Operations Manual, there is a danger that this could encourage "box ticking" rather than a change in mind-set. In order to promote appropriate action, the Risk Subgroup has already contributed pages on Risk Management to the Council's "Performance Handbook" which will be published shortly. We believe that this is a step forward in satisfying this improvement opportunity.

## **2.7 Training officers and Members on risk management as part of a wider awareness raising initiative**

- 2.7.1. This issue is already being dealt with. For years the Insurance and Risk Unit, in conjunction with the Learning and Development Unit, prepared an "Identifying Threats and opportunities" course on managing business risk. The two units have been in recent discussions in order to consider how this course can be updated to cover Ffordd Gwynedd principles, and reflect better the risk management arrangements.
- 2.7.2. Secondly, the Learning and Development Unit are developing a Managers' Resource on the Council staff intranet site. We have already established the principle that Risk Management guidelines will be a core part of this resource.
- 2.7.3. It is expected that these measures will be in place by summer 2017.

## **3. RECOMMENDATION**

- 3.1 The Committee is requested to receive this report as a detailed explanation of the steps the Council will take in order to take advantage of the opportunities for improvement outlined in the letter from the Wales Audit Office.

# Agenda Item 11

COMMITTEE	<b>AUDIT COMMITTEE</b>
DATE	<b>9 FEBRUARY 2017</b>
TITLE	<b>OUTPUT OF THE INTERNAL AUDIT SECTION</b>
PURPOSE OF REPORT	<b>TO OUTLINE THE WORK OF INTERNAL AUDIT FOR THE PERIOD TO 27 JANUARY 2017</b>
AUTHOR	<b>LUNED FÔN JONES – AUDIT MANAGER</b>
ACTION	<b>TO RECEIVE THE REPORT, COMMENT ON THE CONTENTS AND SUPPORT THE ACTIONS THAT HAVE ALREADY BEEN AGREED WITH THE RELEVANT SERVICES</b>

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## **1. INTRODUCTION**

1.1 The following report summarises the work of the Internal Audit Section for the period from 21 November 2016 to 27 January 2017.

## **2. WORK COMPLETED DURING THE PERIOD**

2.1 The following work was completed in the period to 27 January 2017:

<b>Description</b>	<b>Number</b>
Reports on Audits from the Operational Plan	5
Grant Reviews	1
Follow-up Audits	2

Further details regarding this work are found in the body of this report and in the enclosed appendices.

## 2.2 Audit Reports

2.2.1 The following table shows the audits completed in the period to 27 January 2017, indicating the relevant opinion category and a reference to the relevant appendix.

TITLE	DEPARTMENT	SERVICE	OPINION	APPENDIX
Sale of Diesel	Economy and Community	Maritime and Country Parks	C	Appendix 1
Business Continuity Arrangements	Adults, Health and Wellbeing	Across the Department	B	Appendix 2
Bryn Blodau	Adults, Health and Wellbeing	Residential and Day	B	Appendix 3
Support Workers (Derwen)	Children and Family Support	Children and Families	C	Appendix 4
Animal Health	Regulatory	Public Protection	B	Appendix 5

2.2.2 The opinion categories within the reports affirm the following:

- Opinion "A" Assurance of financial propriety can be expressed as the controls in place can be relied upon and have been adhered to.
- Opinion "B" Controls are in place, and partial assurance of financial propriety can be expressed as there are aspects where some procedures can be strengthened.
- Opinion "C" Assurance of financial propriety cannot be expressed as the controls in place cannot be relied upon, but losses/fraud due to these weaknesses were not discovered.
- Opinion "CH" Assurance of financial propriety cannot be expressed as acceptable internal controls are not in place; losses/fraud resulting from these weaknesses were discovered.

## 2.3 Grants

2.3.1 There is a requirement for local authorities to provide 'evidence of appropriate expenditure' of the allocations in respect of sixth forms and adult continuing education. The 'Local Authority Audit Guidance for Welsh Government Funding' states that on an annual basis, the Local Authority will provide to the Welsh Government the following information:

- a) a list of all internal audit reports completed in that year that involve any school or community learning where all or part of the costs are covered by Welsh Government grants;
- b) for those reports, the main audit opinion is to be given together with any significant weaknesses identified plus the action plan / management comments to address those weaknesses;
- c) a copy of the Head of Internal Audit's (or equivalent) annual report; and
- d) a copy of the external audit management letter relating to the particular financial year after it has been presented to the Council. (This will be the audit certificate from your 2015-16 audited annual accounts).

2.3.2 The above information and the related checklists were sent to the Welsh Government on 11 January 2017, within the deadline for submission which was 31 January 2017.

## 2.4 Follow-up Audits

2.4.1 The following table summarises the follow-up work completed during the period:

TITLE	DEPARTMENT	SERVICE	FOLLOW-UP OPINION
Catering – Ysgol Ardudwy, Harlech	Education	Catering	Acceptable
Catering – Ysgol y Gader, Dolgellau	Education	Catering	Acceptable

2.4.2 The conclusion of follow-up work is placed in one of four categories:

- Excellent** - all recommendations implemented as expected.
- Acceptable** - most recommendations implemented as expected.
- Unsatisfactory** - several recommendations not implemented.
- Unacceptable** - most recommendations not implemented, and no evidence of efforts to improve internal controls.

2.4.3 The list below shows the 'C' or 'CH' opinion category reports presented to the Audit Committee as appendices to the quarterly reports, where a report to the Committee regarding the follow-up remains outstanding. The list shows the target completion date for each of these follow-up audits:

**Completion Target: Quarter ending 31 March 2017**

Plas y Don

Plas Hedd

Maintenance of Buildings and Sites

**3. WORK IN PROGRESS**

3.1 The following work was in progress as at 27 January 2017.

- Supporting Ffordd Gwynedd Reviews (*Corporate*)
- Safeguarding Arrangements – Disclosure and Barring Service Checks (*Corporate*)
- Health and Safety – Trees (*Corporate*)
- Safeguarding Arrangements – Employees' Awareness of the Policy (*Corporate*)
- Safeguarding Arrangements – Establishments (*Corporate*)
- Information Management – Establishments (*Corporate*)
- Use of Credit Cards (*Corporate*)
- National Fraud Initiative (*Corporate*)
- The Arrangements for Safeguarding and Protecting Children (*Education*)
- Statistics and Census – Secondary Schools (*Education*)
- Schools – General (*Education*)
- Benefits – Review of Key Controls (*Finance*)
- Storiell – Governance and Management Arrangements (*Economy and Community*)
- Youth Club Accounts (*Economy and Community*)
- Hafan (*Economy and Community*)
- Deprivation of Liberty (*Adults, Health and Wellbeing*)
- Support Workers - Adults (*Adults, Health and Wellbeing*)
- Social Services Complaints Procedures (*Adults, Health and Wellbeing*)
- Direct Payments (*Adults, Health and Wellbeing*)
- Fleet Management (*Highways and Municipal*)
- Commercial Waste (*Highways and Municipal*)
- Recruitment and Selection (*YGC*)

#### **4. RECOMMENDATION**

- 4.1 The Committee is requested to accept this report on the work of the Internal Audit Section in the period from 21 November 2016 to 27 January 2017, comment on the contents in accordance with members' wishes, and support the actions agreed with the relevant service managers.

## **SALE OF DIESEL ECONOMY AND COMMUNITY**

### **1. Background**

1.1 Harbours provide services to the public, such as moorings for boats, vessel launch locations, red diesel sales and other services. Each harbour has a Harbour Master, responsible for the day-to-day management of the harbour, and staff under his control.

### **2. Purpose and Scope of Audit**

2.1 The purpose of the audit was to ensure that there was an appropriate procedure to administrate and receive income from diesel expenditure at Aberdyfi, Barmouth and Porthmadog Harbours and look into the possibility of introducing a new system enabling customers to pay for a maritime service at the three harbours by using credit/debit cards.

### **3. Main Findings**

3.1 The main findings of the audit were that controls have been established by the Maritime Service, but these controls need to be tightened as they currently cannot be depended upon. Fields in need of attention are detailed below:

3.1.1 Cases were seen at each of the Harbours where the income collected had not been banked weekly as expected. A delay of over a month was found at Barmouth Harbour and a delay of over three weeks at Porthmadog Harbour.

3.1.2 It was seen that income from red diesel sales at the Harbours, which at times included the additional duty of £0.4681, was directed to short code D 'Diesel Sales', which means that additional duty is treated as income including VAT. The additional duty does not include VAT. This means that 5% of income collected in additional duty is unnecessarily paid to HM Revenue and Customs.

3.1.3 Cases were seen at Barmouth and Porthmadog Harbours where correct fees had not been charged for diesel sales. A procedure is in place where the Senior Maritime and Country Parks Officer sends an e-mail to Harbour Masters to inform them when there are changes in fuel prices following the purchase of new stock and Harbour Masters are expected to act on this.

3.1.4 It was found that a good system was in place at the three Harbours ensuring that customers completed a statement detailing what % of diesel purchased is used for commercial and domestic purposes. Of the audited sample, it was found that statements existed for all sales; however, cases were seen at Barmouth and Porthmadog Harbours where customers had not always signed the statements.

3.1.5 When auditing Aberdyfi Harbour's list of customers who receive credit from the Council to purchase diesel, it was found that customer number 016785 had debts for the costs of electricity and water dating back to 2010. Following further discussions regarding the matter with the Senior Maritime and Country Parks Officer, he stated that an arrangement was needed to write-off the debts due to the business



circumstances of the customer at the time.

- 3.1.6 The Maritime Service had a good system for recording the details of diesel sold, the diesel stock purchased as well as details of the diesel stock in hand for every Harbour. However, errors were found in the figures of stock in hand on Porthmadog Harbour's spreadsheet for the months of June 2016 and July 2016; errors have now been rectified.
- 3.1.7 It was seen that Barmouth Harbour Master had a system of allowing customers to receive credit but instead of raising an invoice for them every month, they were allowed credit for a longer period than a month and they were then allowed to pay the debt when it was convenient. It was found that one customer had been given up to three months' credit before the customer had paid his/her debts. This system is only administrated by the Harbour Master. This system affects the Council's cash flow. It is understood that the Senior Maritime and Country Parks Officer intends to terminate the system of raising invoices on customers when the new system of paying with cards will be established at the three Harbours.
- 3.1.8 When auditing Barmouth's spreadsheet details of diesel sales and purchases and the receipt and banking books, several errors were found such as incorrect income collected from the customer and receipt numbers had been inserted in the wrong places on spreadsheets.
- 3.1.9 It is understood that the Maritime Service had considered the possibility of installing card machines at the Harbours, but it had not undertaken any research work on the matter thus far. The Income Service could provide guidance for the Maritime Service once the Maritime Service has identified what type of machines are required at every Harbour.

#### **4. Audit Opinion**

**(C) The Audit Opinion is that the propriety of the arrangements for Sale of Diesel at Aberdyfi, Barmouth and Porthmadog Harbours cannot be stated with certainty since the controls in place cannot be depended upon. The Service is committed to implement the following steps to alleviate the risks highlighted:**

- Banking on a weekly basis. The Harbour Masters will confirm banking dates by completing a weekly spreadsheet on i-Gwynedd where the spreadsheet will be monitored.
- Establish a short code for the 'Additional Duty' element. The Senior Maritime and Country Parks Officer will discuss with the Finance Unit in order to establish an appropriate income code.
- Harbour Masters will differentiate income and use an appropriate code for Tolls. This will be added to the spreadsheet reporting on diesel every month.
- Correct fees will be charged after a change is made to fuel prices (+ or -). A spreadsheet will be sent (as usual) to Harbour Masters at the end of each month confirming the correct fee.

- A file will be located near the diesel pump so that customers purchasing diesel do not have to visit the office to sign a statement. Commercial users will sign one form for the entire financial year and not sign on every occasion they receive red diesel.
- The debt of customer number 016785 will be written-off. At the time, the individual had become bankrupt and therefore, it was not possible to recover the debt. The Senior Maritime and Country Parks Officer will contact the Finance Unit to arrange this.
- Ensure that figures of stock in hand on diesel report spreadsheets are completed correctly and undertake random checks on the diesel stock. Harbour Masters will inspect the diesel tank at the end of each month to confirm an estimate of red diesel stock in the tank at the end of each month. This figure will be recorded on the sales report spreadsheet every month.
- Ensure that Barmouth Harbour does not continue to give credit without raising an Invoice with the aim of ending credit once payment machines are installed. Red diesel will not be given unless payment is immediately received either by means of a card payment or cash. It will need to be ensured that appropriate payment machines have been identified and authorised by the Income Unit before action can be taken.
- The administration of diesel sales needs to be tightened in Barmouth - ensure that correct income is collected and that spreadsheets are completed correctly. Managers (AFJ and BD) will discuss this with Harbour Masters. A payment machine using cards will reduce the risk.
- Contact the Income Unit to ensure that a modern arrangement is in place before Easter 2017.

## **BUSINESS CONTINUITY ARRANGEMENTS ADULTS, HEALTH AND WELL-BEING**

### **1. Background**

- 1.1 Business continuity plans detail schemes and actions that ensure that users are not left without a service they depend upon in cases when there would be an unexpected substantial interruption or a total failure to provide the service. When considering social services provided by the Adults, Health and Well-Being Department, business continuity is essential in order to sustain users' lives.

### **2. Purpose and Scope of Audit**

- 2.1 The purpose of the audit was to ensure that suitable arrangements are in place for the Council to be able to continue delivering a service for users, by reviewing the Department's processes and networking arrangements with external providers to verify the Council's control over the continuity of their services, including the Council's ability to find other providers that could meet the need in a case of service failure.
- 2.2 In order to achieve this, discussions were held with the Department's relevant officers to identify the level of the Council's readiness to act should a business failure occur. The Department's current business continuity plans were verified, ensuring that the necessary details had been included, such as the Department's operational matters, policies and mindset. In addition, agreements with external providers were audited to verify that clauses were in place to defend the Council's ability to ensure that users' needs were met.

### **3. Main Findings**

- 3.1 As a result of its proactive planning, the Adults, Health and Well-being Department had been placed in an advantageous position should service continuity be at risk as business continuity plans were in place, including additional arrangements that went beyond what is documented in the plans.
- 3.2 The principles of the business continuity plans are still relevant, but the details are out-of-date and it is believed that it is time for them to be reviewed and updated. In doing so, points raised in this report should be considered. This is also an opportunity to increase staff ownership of the plans, especially those who have been recently appointed.
- 3.3 It is fitting that there are differences between Services' plans, but there is room to share good practices across the Department. A number of useful additions were provided separately to individual plans, but including them formally as part of the arrangements would strengthen their effectiveness.
- 3.4 There was no clarity in terms of the role of core staff in the plans. Also, not all staff members had access to the plans. If there are expectations within the plan for staff to respond or act, an effort to communicate this plan with them was expected and that they had continuous access to them which would promote a clear awareness of it.

- 3.5 Staff contact details are key to the success of communication in cases where a business continuity plan will need to be implemented. It is accepted that storing the personal contact details of the Department's staff, and protecting them, is a contentious matter and it is appreciated that Services had agreed upon various arrangements for the storing of personal contact details, in the interests of the plans. Good practice was seen where contact details, resources and useful skills are noted for staff and other persons who could be of assistance in relevant cases.
- 3.6 When references are made to individuals in the plan, some are vague such as "registered manager" where it is not possible to work out who the officers are from the contact list. In cases where there will be a need to implement the plan, such contacts should be clear for any reader.
- 3.7 When planning in order to spur the instigation of a response, an instruction to respond must come from a team of Council Senior Officers or the Police, that could delay an early response which could be critical. In reality, when discussing with Services, managers are sufficiently qualified to be able to act initially at least, and there is evidence that this has worked in the past. National publications on the matter suggest that good practice is having criteria to start responding which has already been approved by Senior officers and agreed upon as powers to equip and empower managers to act.
- 3.8 It was seen that the interface of business continuity plans with wider schemes (such as the National Emergency Plan for Fuel) was weak and that there is no full awareness of these plans. Establishing contact with the Regional Emergency Planning Service is an opportunity to identify these schemes, and also to consider a collaborative response for business continuity.
- 3.9 The framework for contracts with external providers detail that a business continuity plan must be in place. It is anticipated that there will be potential barriers to ensure that these are complete and robust as a result of re-structuring and reduced resources within the Contracts and Monitoring Service.

#### **4. Audit Opinion**

**(B) The Audit opinion is that partial assurance can be expressed of the propriety of the Business Continuity Plans as there are controls in place but there are aspects where arrangements can be tightened. The service has committed to implement the following steps to alleviate the risks highlighted:**

- To discuss and share good practice at the Department's Management Team meetings, and the possibility of implementing them across the department.
- To refer to key additions in the plans and also considering access to them on the Council's computerised system as well as other forms in an emergency.
- Ensure that discussions are held with staff at every level at regular meetings when there are changes to the business continuity plans.

- Raise awareness of the plan in the department's newsletter and monitor the success of the communication.
- Refer to access to the contact details of Department officers in the business continuity plans.
- Clearly note the job titles of officers who operate in an emergency.
- Note in the business continuity plans that there are individual plans for registered organisations, and that these can be implemented for a proactive response.
- Discuss the possibility of empowering staff to be able to respond pro-actively to prevent situations from developing into emergencies at the department's Management Team meetings.
- Include emergency plans from outside the department (such as fuel) and the department's relevant plan, in the business continuity plans.
- Hold a discussion with the Regional Emergency Planning Service to add any relevant schemes to the business continuity plans.

**BRYN BLODAU, LLAN FFESTINIOG  
ADULTS, HEALTH AND WELL-BEING DEPARTMENT**

**1. Background**

1.1 Bryn Blodau residential home is located in the village of Llan Ffestiniog. The home has been registered to provide care for 41 people including 8 individuals with dementia/mental weakness. The home also offers day care to non-residents who wish to use the service.

**2. Purpose and Scope of Audit**

2.1 The purpose of the audit was to ensure that the management and maintenance arrangements of Bryn Blodau Residential Home are appropriate and in accordance with relevant regulations and standards.

2.2 The audit encompassed verifying that the home's arrangements were sufficient in terms of administration and staffing, budgetary control, procurement of goods and receiving income, health and safety, and monitoring performance along with ensuring that the service users and their property are safeguarded.

**3. Main Findings**

3.1 It was seen that robust internal controls are in place at Bryn Blodau Home, but that some aspects need to be tightened, mainly regarding staff training. Areas in need of attention are detailed below:

3.1.1 Only two out of a sample of 12 audited invoices had been stamped with the date on which they were received, the home had an old stamp, but it is understood that the Manager wanted a new one. It is important to note the date the invoice is received on the invoice, because that date is the one that the Clerk should record in the 'Tax Point' box on the TR252 coding slip.

3.1.2 The front door of the Home is kept closed and there is a need to ring a bell to access the Home and press a button to leave the Home. On the day of the visit, the door had not been locked during the day. However, the Manager explained that a Carer had brought a service user in a wheelchair into the Home for day care and had left without taking the door off the latch.

3.1.3 Three members of staff had not received medication training since 2013 and one since 2009. In accordance with the medication policy, there was an expectation to try to update this training every 2-3 years. *"Training will be updated, the target being to update every 2-3 years."* (page 21). The medication competence tests of three staff members were verified and the date of the latest ones was 2014 even though these needed to be undertaken every year.

3.1.4 It was found that two staff members administered medication but they had not signed the appropriate form to confirm that they had read and understood the Medication Policy for 2016. However, the Home Manager stated that he was certain that these staff members had read it but had forgotten to sign the sheet as he had

completed competence tests with both of them. He said that he would ensure that they signed the sheet to confirm this.

- 3.1.5 Bryn Blodau Home was issued with a 'Notice of Non-Compliance' from Care and Social Services Inspectorate Wales (CSSIW) in May 2016 due to a lack of staff training. It had become apparent that a lot of mandatory training had not been renewed for many years and therefore, there was no certainty that the staff here were qualified. Many training courses had taken place since the publication of this report. When verifying the Home's training records, it can be seen that many staff members still needed to renew their training and attend courses. The Home Manager is aware of the need to continue renewing training to ensure that they comply with requirements and he explained that courses had been arranged for the near future.

#### **4. Audit Opinion**

**(B) The Audit's opinion is that partial assurance can be expressed of propriety in the administration of Bryn Blodau Residential Home, Llan Ffestiniog as controls have been established, but there are aspects where some arrangements can be tightened. The establishment has committed to implement the following steps to mitigate the risks highlighted:**

- Manager to get a new 'received' stamp or to sign and date invoices when they arrive at the home to confirm the date they have been received.
- Ensure that all members of staff who provide medication sign to express that they have read and understood the Medication Policy.
- Continue to work on renewing staff training to ensure that every member of staff is qualified and has received the latest training.

## **SUPPORT WORKERS CHILDREN AND FAMILIES**

### **1. Background**

- 1.1 Derwen's Integrated Team provides support for young people with disabilities. Derwen Support Workers help the young people to be included in community activities and life and increase their skills to make them more independent. Derwen can also provide overnight respite periods at home for families.

### **2. Purpose and Scope of Audit**

- 2.1 The purpose of the audit was to ensure that appropriate internal controls are in place for meeting the needs of users as outlined in their Care Plans. The audit encompassed ensuring that arrangements for the recruitment of Support Workers, training, monitoring of activities and administration of employment and cost repayments were appropriate.

### **3. Main Findings**

- 3.1 A report was published by Care and Social Services Inspectorate Wales (CSSIW) on 30/11/16 following a visit at short notice to Derwen on 26/07/16. The purpose of the audit was to consider the quality and lives of young people who receive the service. Although the scope of this audit overlapped the CSSIW inspection, audit tests were not reduced so that progress since the inspection could be verified. CSSIW reported that no areas of non-compliance were discovered, but recommendations were proposed in order to improve the service. In response to the report, Derwen drew up an action plan to meet the recommendations.
- 3.2 The Person Specification for the post of a Support Worker states that it is 'essential' that workers have a 'NVQ Level 3 Health and Social Care - Childcare Pathway' qualification or are willing to work towards it. The Service's training database and purposeful spreadsheet were verified for a sample of workers and a variety of different qualifications were seen, some with a lot and some with not many. An example was seen of a Support Worker providing a service to a client where there was no evidence that 'Respect' training had been received, in accordance with the risk assessment. It was found that not many workers had the NVQ Level 3 qualification. Workers are required to work a minimum number of hours as part of the qualification which makes it difficult for casual workers to qualify. There is also not as much financial support for workers aged 25+ to train to NVQ level. In addition, it was stated that qualified workers tend to move on to other posts after they qualify which makes it difficult to appoint and keep hold of workers who have qualified in NVQ Level 3.
- 3.3 It was found that a variety of training courses were available for workers should they wish to attend them. However, workers without an office-base such as Support Workers currently do not have access to i-Gwynedd and the Policy Centre, but this is



expected to change once Learning and Development's Integrated System is in place (Summer 2017), which will allow all workers to have access to Learning and Development systems at any time via personal devices.

- 3.4 Support Workers are expected to have a full driving licence and use of a car. When appointing, Derwen will ask for a copy of the driving licence, MOT and insurance certificates to be kept on file and will note the details on a spreadsheet. However, the spreadsheet was not complete and up-to-date. In addition, there is no continuous arrangement to ensure that workers' licences have not accumulated penalty points that can increase risks for clients.
- 3.5 The Service has relied on the Support Service (Corporate Support Department) to inform Support Workers when their Disclosure and Barring Service certificates should be renewed. As the job system was verified, it was found that there were delays between expiry and renewal dates. The CSSIW report reinforces this by recommending that Derwen is more proactive and devises a robust system of issuing workers with early warnings.
- 3.6 The travelling costs of a sample of workers were verified, which were traced back to their time-sheets, session reports and client care plans. It appears that travelling costs are appropriate, and that no unreasonable journeys had been claimed, whether it was location or distance. However, an inconsistency was found in relation to claiming costs, such as refreshments. Support Workers can claim up to specific amounts towards the costs of refreshments depending on time of day, but claims exceeding this threshold were found.
- 3.7 Of the sample of time-sheets verified, the signature of the client/Case Manager was usually not seen on them, despite it being a requirement for them to sign it after every session.
- 3.8 For the sample of Support Workers, travelling costs forms and timetables were verified in order to select a client, which then traced the session report back to the Care Plan to see whether or not they matched. Generally, it was found that session reports were in accordance with the Care Plans, such as going swimming, going for a walk etc. However, an example was seen of a client visiting cafés, although the Care Plan specifically noted that the client was not allowed to eat anything while in the company of Support Workers. From the sample of Support Workers that was verified, it was found that they had not signed their client's Care Plan, therefore, there is no evidence that their contents were known to the Workers.
- 3.9 From what can be found from session reports, it appears that Support Workers meet the requirements and needs of clients. However, consideration must be given to the fact that session reports do not provide the full picture, and that it is not possible for the audit to encompass the soft skills of Support Workers that are key to meet the client's needs.
- 3.10 When verifying Care Plans and risk assessments, it was found that a number of them were now out-of-date. The Social Services and Well-being Act (Wales) 2014 states the need to review plans on a regular basis. Also, one Plan was found referring to a client several times using the wrong name, this can suggest that Plans are not often read or

that "cut & paste" is used from another plan. As part of the action plan of CSSIW's audit, Derwen agreed to review and update Care Plans, client profiles and risk assessments.

- 3.11 Support Workers are expected to receive four supervision sessions every year. However, CSSIW's audit highlighted that sessions are not spread throughout the year, as expected. A spreadsheet is now in place to monitor dates. However, it is premature to see how robust the new arrangements are at the time of this audit.

#### **4. Audit Opinion**

**(C) The Audit Opinion is that assurance cannot be given of propriety in the arrangements of Support Workers as the controls in place cannot be depended upon. The Service is committed to implement the following steps to alleviate the risks highlighted:**

- Ensure that Support Workers have received specialist training that corresponds with the risk assessment requirements of clients.
- Consider an arrangement of undertaking up-to-date licence checks.
- Continue with the arrangement of devising a system to issue early warnings to renew Disclosure and Barring Service certificates, in accordance with the action plan already in place.
- Remind Support Workers of rules in relation to claiming costs.
- Send a letter to remind Support Workers again of the need to sign timetables, noting the intention to return any unsigned timetables.
- Keep a copy of Care Plans, profiles and risk assessments signed by everyone involved with the client, including the Support Workers.
- Adopt an arrangement to regularly update Care Plans, profiles and risk assessments.
- Continue with the system of undertaking supervision sessions on a quarterly basis.

## **ANIMAL HEALTH REGULATORY**

### **1. Background**

- 1.1 The Trading Standards unit is part of the Public Protection service, which is within the Regulatory Department. One of the duties of Trading Standards is to address the health and welfare of animals in agricultural establishments such as farms, markets and collection points. A grant by Welsh Government has been available in the past, which contributed towards funding the service provided in terms of Animal Health, but it came to an end during 2015/16. The provision is now fully funded from the budget of the Trading Standards.

### **2. Purpose and Scope of Audit**

- 2.1 The purpose of the audit was to assess the effectiveness of provision in the area of animal health and welfare, to ensure that the Service continues to manage to achieve its objectives following the end of the grant.
- 2.2 The audit encompassed verifying arrangements in terms of planning, maintaining the work, monitoring and use of resources, to ensure that the Service is provided in accordance with the Animal Health and Welfare Framework 2015-2017.

### **3. Main Findings**

- 3.1 Six officers work in the Animal Health and Welfare. However, officers' duties are not limited to this area alone, as they also undertake work in areas such as agriculture and animal food, food hygiene - basic production and fair trading.
- 3.2 It was found that collaboration was proceeding within the area, on a regional and national level, and that joint schemes had been established which contribute towards ensuring the efficiency of the provision. This is essential in a climate where an inevitable reduction in resources is seen. For example, a Welsh Government grant has reduced over the years (from being approximately £83,000 in 2011/12), and it has now ended completely.
- 3.3 The service is required to prioritise visits based on the risk of the agricultural establishment (low, moderate or high), which is assessed in accordance with the National Risk Assessment Scheme. In the work timetable for the current year, there are approximately 730 establishments that need to be visited; approximately 30 high risk establishments, 510 with a moderate risk and 190 with a low risk.
- 3.4 As well as undertaking usual visits, officers are required to undertake responsive work, deal with complaints and service requests. They also offer an 'out of hours' service for emergency cases. This can lead to slippage in the audit programme for establishments that have a low risk as a result of a lack of resources.
- 3.5 With over 2,000 agricultural establishments in Gwynedd, as well as a reduction in resources as already mentioned, it is therefore essential that officers use their knowledge and understanding when undertaking their day-to-day work.

- 3.6 The outcomes of visits are recorded in a computerised system, Civica Flare, but no visit form is necessarily attached to the system for establishments that fully comply. No doubt had arisen during the course of the audit that officers do not keep full records for visits where an offence had been found or rules had been breached. However, after a discussion with the Manager, it is considered that it would be good practice to keep a full electronic record of every visit.
- 3.7 The service does not achieve the performance measure regarding the number of visits to new businesses. However, the team is fully aware of this, and as mentioned in the above points, prioritising based on risk in the current climate is essential.
- 3.8 The Trading Standards unit does not necessarily receive direct information about new businesses that are established. Therefore, the possibility of receiving information from other Council services, for example Revenues – Rates and Benefits service (Business Rates) was discussed.
- 3.9 Evidence was received that the service achieves the performance measure regarding visiting 100% of establishments that have a high risk. Due attention is also given to complaints and cases of misconduct in establishments.

#### **4. Audit Opinion**

**(B) The Audit's opinion is that partial assurance can be given of the propriety of Animal Health arrangements as controls have been established, but there are aspects where some arrangements can be tightened. The service is committed to implement the following to alleviate the risks highlighted:**

- Ensure that the visit form given to the establishment being inspected is attached to the Civica system for every visit, whether the outcome indicates that they fully comply or not.
- Establish an arrangement of receiving information from other Council services, or from Welsh Government, regarding new businesses, and review arrangements for visits depending on the number and nature of those businesses.

# Agenda Item 12

COMMITTEE	<b>AUDIT COMMITTEE</b>
DATE	<b>9 FEBRUARY 2017</b>
TITLE	<b>INTERNAL AUDIT PLAN 2016/17</b>
PURPOSE OF REPORT	<b>TO GIVE THE COMMITTEE AN UPDATE ON PROGRESS AGAINST THE 2016/17 AUDIT PLAN</b>
AUTHOR	<b>LUNED FÔN JONES – AUDIT MANAGER</b>
ACTION	<b>FOR INFORMATION</b>

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## **1. INTRODUCTION**

1.1 This report is a progress report on completion of the 2016/17 Internal Audit Plan.

## **2. SUMMARY OF PROGRESS AGAINST THE PLAN**

2.1 The 2016/17 internal audit plan is included in Appendix 1 with the status of the work as at 27 January 2017 noted, together with the time spent on each project. The status of the work in the operational plan at that date was as follows:

<b>Audit Status</b>	<b>Number</b>
Planned	4
Field work started	17
Manager Review	2
Final Report Issued	49
<b>Total</b>	<b><u>72</u></b>
Cancelled due to a shortage of resources	10
Audits cancelled to undertake others	8

2.2 The performance target for 2016/17 is to have 95% of the audits in the plan to be either closed or with the final report released by 31 March 2017. The quarterly profile of this indicator is as follows:

End of quarter 1	8%
End of quarter 2	20%
End of quarter 3	50%
End of quarter 4	95%

- 2.3 As seen from the table above, Internal Audit's actual achievement up to 27 January 2017 was **68.06%** - out of **72** individual audits contained in the 2016/17 plan, **49** had been released in a finalised version.

### 3. AMENDMENTS TO THE PLAN

- 3.1 It was reported to the Committee in December that one member of the Team left the Council at the end of October 2016 and that there was a high probability that the cancellation of further audits will be inevitable to reflect the shortage in resources. By now, another member has left her post and another member will terminate employment in February. This means that the Plan has to be modified to reflect a shortage of 120 productive days. Arrangements are in hand to appoint officers to these posts.

- 3.2 The audits that have been selected not to be carried out are detailed below along with an explanation for the decision:

- **Health and Safety - Trees** (10 days) – The procedure in respect of trees is currently being updated and following that, the new procedure will need to be communicated to the relevant departments.
- **Safeguarding Arrangements – the Operational Structure** (20 days) – a number of reviews have been carried out by Internal Audit in this area and the Safeguarding Officer (Education) has been commissioned to conduct a review of this area.
- **Council Tax System – Advantage Digital Portal** (10 days) – the audit has slipped to 2017/18 as the development is yet to be introduced.
- **Storiol – Project Closure Arrangements** (5 days) – the audit will be conducted in quarter 1, 2017/18.
- **Housing Support** (15 days) – the audit has slipped to 2017/18
- **Gyda'n Gilydd Project** (15 days) – the project has now come to an end, therefore there is no purpose in conducting the audit.
- **Flare System** (15 days) – following a discussion with the Head of Regulatory, it was explained that arrangements had changed significantly since the meeting to discuss the 2016/17 Audit Plan in January 2016.
- **Capital Schemes - Property** (15 days) – major projects e.g. Plas Heli, Ysgol Hafod Lon, have been the subject of an audit and Ysgol Glancegin will be the subject of an audit in 2017/18.
- **Project Plans YGC** (15 days) – following a meeting with the Head of YGC to discuss the Draft Internal Audit Plan 2017/18, it was stated that this area was not a priority.

### 4. RECOMMENDATION

- 4.1 The Committee is asked to note the contents of this report as an update on progress against the 2016/17 audit plan, and offer comments thereon, approve the amendments, and accept the report.



# Internal Audit Plan 2016/17

Audit Code	Audit Name	Original Plan	Adjustment	Revised Plan	Actual Days	Audit Status
<b>CORPORATE</b>						
1-CORFF-09/2017	Supporting Ffordd Gwynedd Reviews	20.00	0.00	20.00	10.60	Field Work Started
1-CORFF-09/2017dep	Managing Early Departures	20.00	-20.00	0.00		Cancelled
1-CORFF-11/2017DBS	Safeguarding Arrangements - Disclosure and Barring Service Checks	10.00	0.00	10.00	10.24	Manager Review
1-CORFF-14/2017coed	Health and Safety - Trees	10.00	0.00	10.00	2.72	Cancelled
1-CORFF-19/2017/001	Safeguarding Arrangements - Employees' Awareness of Policy	10.00	0.00	10.00	6.82	Field Work Started
1-CORFF-19/2017/002	Safeguarding Arrangements - the Operational Structure	20.00	0.00	20.00		Cancelled
1-CORFF-19/2017/003	Safeguarding Arrangements - Establishments	0.00	4.00	4.00	0.94	Field Work Started
1-CPGV-01/2017cor	Corporate Assessment	10.00	-10.00	0.00		Cancelled
1-CPGV-02/2017	Proactive Prevention of Fraud and Corruption	20.00	0.00	20.00	2.26	Planned
2-ADN CGC-DPA/2017	Information Management	10.00	0.00	10.00	15.51	Final Report Issued
2-ADN CGC-DPA/2017cy	Information Governance - Establishments	0.00	6.00	6.00	1.95	Field Work Started
AO-ARL-01/2017	Use of Credit Cards	20.00	0.00	20.00	16.27	Field Work Started
AO-ARL-05/2017	National Fraud Initiative	50.00	0.00	50.00	19.39	Field Work Started
<b>Emergency Planning</b>						
BC-PER-01/2017tan	Fuel Supplies - Local and Regional Plans	12.00	0.00	12.00	12.51	Final Report Issued
<b>EDUCATION</b>						
<b>Resources</b>						
4-DAT-X-ADD/2017GAD	Pupil Deprivation Grant	5.00	7.00	12.00	18.61	Final Report Issued
4-DAT-X-ADD/2017GGA	Education Improvement Grant for Schools	20.00	-7.00	13.00	13.34	Final Report Issued
4-DAT-X-ADD/2017ol16	Post-16 Provision in Schools Grant	2.00	0.00	2.00	2.45	Final Report Issued
EADDA03/2017	The Arrangements for Safeguarding and Protecting Children	25.00	0.00	25.00	11.76	Field Work Started
<b>Across the department</b>						
EADDA06/2017hlon	Dwyfor Meirionnydd Special School	15.00	0.00	15.00	18.81	Final Report Issued
<b>Schools</b>						
EADDA15/2017	Statistics and Census - Secondary School	15.00	20.00	35.00	6.36	Field Work Started

<b>Audit Code</b>	<b>Audit Name</b>	<b>Original Plan</b>	<b>Adjustment</b>	<b>Revised Plan</b>	<b>Actual Days</b>	<b>Audit Status</b>
EADDA18/2017	Budgetary Control - Primary Schools	25.00	-25.00	<b>0.00</b>		Cancelled
EADDA18/2017/2010	Budgetary Control - Ysgol Beddgelert	0.00	4.10	<b>4.10</b>	<b>7.86</b>	Final Report Issued
EADDA18/2017/2048	Budgetary Control - Ysgol Bro Plenydd	0.00	4.20	<b>4.20</b>	<b>8.23</b>	Final Report Issued
EADDA18/2017/2104	Budgetary Control - Ysgol Eifion Wyn	0.00	4.20	<b>4.20</b>	<b>7.59</b>	Final Report Issued
EADDA18/2017/2210	Budgetary Control - Ysgol Talsarnau	0.00	4.10	<b>4.10</b>	<b>8.10</b>	Final Report Issued
EADDA18/2017/3029	Budgetary Control - Ysgol Tregarth	0.00	4.20	<b>4.20</b>	<b>7.90</b>	Final Report Issued
EADDA18/2017/3300	Budgetary Control - Ysgol Santes Helen	0.00	4.20	<b>4.20</b>	<b>8.47</b>	Final Report Issued
EADDA35/2017	School - General	10.00	0.00	<b>10.00</b>	<b>10.48</b>	Field Work Started
EADDAYC/2017	Information Governance in Schools	25.00	-25.00	<b>0.00</b>		Cancelled
EADDAYC/2017/2008	Information Governance - Ysgol Abererch	0.00	2.80	<b>2.80</b>	<b>3.20</b>	Final Report Issued
EADDAYC/2017/2028	Information Governance - Ysgol Penybryn	0.00	2.80	<b>2.80</b>	<b>3.41</b>	Final Report Issued
EADDAYC/2017/2039	Information Governance - Ysgol Crud y Werin	0.00	2.80	<b>2.80</b>	<b>3.32</b>	Final Report Issued
EADDAYC/2017/2085	Information Governance - Ysgol Penisarwaen	0.00	2.80	<b>2.80</b>	<b>3.37</b>	Final Report Issued
EADDAYC/2017/2089	Information Governance - Ysgol Bro Lleu	0.00	2.80	<b>2.80</b>	<b>3.59</b>	Final Report Issued
EADDAYC/2017/2103	Information Governance - Ysgol Sarn Bach	0.00	2.70	<b>2.70</b>	<b>3.32</b>	Final Report Issued
EADDAYC/2017/2187	Information Governance - Ysgol Dinas Mawddwy	0.00	2.70	<b>2.70</b>	<b>3.40</b>	Final Report Issued
EADDAYC/2017/2192	Information Governance - Ysgol Edmwnd Prys	0.00	2.80	<b>2.80</b>	<b>3.54</b>	Final Report Issued
EADDAYC/2017/2213	Information Governance - Ysgol Bro Hedd Wyn	0.00	2.80	<b>2.80</b>	<b>3.24</b>	Final Report Issued

## **CORPORATE SUPPORT**

### **Procurement and Efficiency**

BE-POL-08/2017	E-proc System - Tolerance Levels	10.00	0.00	<b>10.00</b>	<b>8.82</b>	Final Report Issued
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### **Registration**

BB-YSG-05/2017	Coroner	10.00	0.00	<b>10.00</b>	<b>10.08</b>	Final Report Issued
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## **FINANCE**

### **Across the department**

AW-TG-12/2017tg	IT System Security	30.00	0.00	<b>30.00</b>		Planned
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### **Financial**

AD-DY-01/2017	Debtors System - "Cancelled" Invoices	12.00	0.00	<b>12.00</b>	<b>11.88</b>	Final Report Issued
AE-TAL-01/2017tro	Review of Checking Limits	10.00	0.00	<b>10.00</b>	<b>8.73</b>	Final Report Issued



<b>Audit Code</b>	<b>Audit Name</b>	<b>Original Plan</b>	<b>Adjustment</b>	<b>Revised Plan</b>	<b>Actual Days</b>	<b>Audit Status</b>
<b>Accountancy</b>						
AN-ACY-09/2017	Coding Structure	8.00	0.00	<b>8.00</b>	<b>8.70</b>	Final Report Issued
<b>Revenue</b>						
AB-BD-01/2017dhp	Discretionary Housing Payments	10.00	0.00	<b>10.00</b>	<b>9.89</b>	Final Report Issued
AB-BD-01/2017kc	Benefits - Review of Key Controls	12.00	0.00	<b>12.00</b>	<b>9.88</b>	Field Work Started
AC-TR-01/2017dis	Council Tax - Reductions and Exemptions (People)	12.00	0.00	<b>12.00</b>	<b>10.95</b>	Final Report Issued
AC-TR-01/2017ipo	Council Tax System – Advantage Digital Portal	10.00	0.00	<b>10.00</b>		Cancelled
AC-TR-11/2017dis	Business Rates - Charitable Reductions	8.00	0.00	<b>8.00</b>	<b>8.28</b>	Final Report Issued
<b>ECONOMY AND COMMUNITY</b>						
<b>Community Regeneration</b>						
EADDZ-01/2017	Welsh Church Fund	5.00	-5.00	<b>0.00</b>		Cancelled
<b>Record offices, museums and the arts</b>						
EDIW-MU-03/2017	Storiol - Governance and Management Arrangements	15.00	0.00	<b>15.00</b>	<b>8.53</b>	Field Work Started
EDIW-MU-03/2017/002	Storiol - Project Closure Arrangements	0.00	5.00	<b>5.00</b>		Cancelled
<b>Leisure</b>						
E-DGCO-01/2017	Leisure Centres	40.00	-40.00	<b>0.00</b>		Cancelled
EHAMAC6404/2017	Bangor Aquatics and Healthy Lifestyles Centre	0.00	10.00	<b>10.00</b>	<b>12.46</b>	Final Report Issued
EHAMAC6405/2017	Plas Silyn Leisure Centre	0.00	10.00	<b>10.00</b>	<b>10.56</b>	Final Report Issued
EHAMAC6422/2017	Dwyfor Leisure Centre	0.00	10.00	<b>10.00</b>	<b>18.28</b>	Final Report Issued
EHAMAC6448/2017	Bro Dysynni Leisure Centre	0.00	10.00	<b>10.00</b>	<b>10.15</b>	Final Report Issued
<b>Libraries</b>						
EADDI01/2017	Youth Club Accounts	15.00	0.00	<b>15.00</b>	<b>14.54</b>	Manager Review
<b>Maritime and country parks</b>						
EHAMM-01/2017	Hafan	10.00	0.00	<b>10.00</b>	<b>3.29</b>	Planned
EHAMM-02/2017	Sale of Diesel	10.00	0.00	<b>10.00</b>	<b>16.72</b>	Final Report Issued
EHAMT-01/2017	Beaches - Income Collection	10.00	0.00	<b>10.00</b>	<b>13.75</b>	Final Report Issued
<b>ADULTS, HEALTH AND WELLBEING</b>						
<b>Across the department</b>						
5-GOF-GCY-ARALW/2017	Business-Service Continuity Plans	20.00	0.00	<b>20.00</b>	<b>22.19</b>	Final Report Issued

<b>Audit Code</b>	<b>Audit Name</b>	<b>Original Plan</b>	<b>Adjustment</b>	<b>Revised Plan</b>	<b>Actual Days</b>	<b>Audit Status</b>
5-GOF-X-CYLL/2017	Budgetary Control - Provider	15.00	0.00	<b>15.00</b>	<b>14.26</b>	Final Report Issued
GCC-02/2017	Deprivation of Liberty	15.00	0.00	<b>15.00</b>	<b>19.93</b>	Field Work Started
GDAPR-GC05/2017	Support Workers - Adults	15.00	0.00	<b>15.00</b>	<b>7.22</b>	Field Work Started
<b>Business</b>						
5-GOF-CWYN/2017	Social Services Complaints Procedures	15.00	0.00	<b>15.00</b>	<b>8.74</b>	Field Work Started
<b>Supporting People</b>						
GDAPR-SP01/2017	Supporting People Grant	0.00	15.00	<b>15.00</b>	<b>10.42</b>	Final Report Issued
<b>Community Care</b>						
GDAPR-GC02/2017gw	Holidays of Community Carers	10.00	0.00	<b>10.00</b>	<b>13.19</b>	Final Report Issued
<b>Adults</b>						
GCC-07/2017	Direct Payments	15.00	0.00	<b>15.00</b>	<b>10.55</b>	Field Work Started
GGWAS-C01/2017	Personal Independence Payments	15.00	0.00	<b>15.00</b>	<b>0.20</b>	Cancelled
<b>Residential and Day</b>						
5-GOF-CART1340/2017	Plas Pengwaith, Llanberis	12.00	0.00	<b>12.00</b>	<b>12.28</b>	Final Report Issued
5-GOF-CART1344/2017	Plas Gwilym, Penygroes	12.00	0.00	<b>12.00</b>	<b>13.46</b>	Final Report Issued
5-GOF-CART1355/2017	Bryn Blodau, Blaenau Ffestiniog	12.00	0.00	<b>12.00</b>	<b>13.19</b>	Final Report Issued
5-GOF-CART1357/2017	Llys Cadfan, Tywyn	12.00	0.00	<b>12.00</b>	<b>16.51</b>	Final Report Issued
GDAPR-D07/2017	Housing Support	15.00	0.00	<b>15.00</b>	<b>1.08</b>	Cancelled
<b>CHILDREN AND FAMILY SUPPORT</b>						
<b>Children and Families</b>						
5-GOF-X-PL/2017	Grants	24.00	-24.00	<b>0.00</b>		Cancelled
5-GOF-X-PL/2017CI	Youth Justice Core Grant	0.00	12.00	<b>12.00</b>	<b>16.42</b>	Final Report Issued
5-GOF-X-PL/2017DD	Flying Start Revenue Grant	0.00	12.00	<b>12.00</b>	<b>17.20</b>	Final Report Issued
5-GOF-X-PL/2017pgg	Gyda'n Gilydd Project	15.00	0.00	<b>15.00</b>	<b>0.34</b>	Cancelled
GGWAS-P03/2017	Support Workers	15.00	0.00	<b>15.00</b>	<b>16.77</b>	Final Report Issued
GGWAS-PLANT4/2017	Adoption	20.00	-20.00	<b>0.00</b>	<b>2.94</b>	Cancelled
<b>HIGHWAYS AND MUNICIPAL</b>						
<b>Fleet</b>						
PGW-TR-02/2017	MOT Fees	10.00	0.00	<b>10.00</b>	<b>5.70</b>	Final Report Issued

<b>Audit Code</b>	<b>Audit Name</b>	Original Plan	Adjustment	Revised Plan	Actual Days	Audit Status
PPR-GW03/2017	Fleet Management	12.00	0.00	<b>12.00</b>	<b>4.34</b>	Planned
<b>Waste Management and Streets</b>						
PBW-05/2017	Commercial Waste	15.00	0.00	<b>15.00</b>	<b>7.24</b>	Field Work Started
<b>REGULATORY</b>						
<b>Public Protection</b>						
2ADN-GGYC-GYC/2017fl	Flare System	15.00	0.00	<b>15.00</b>		Cancelled
2ADN-GGYC-GYC/2017ia	Animal Health	15.00	0.00	<b>15.00</b>	<b>13.57</b>	Final Report Issued
<b>Council Land and Property</b>						
BA-EID-05/2017	Capital Schemes - Property	15.00	0.00	<b>15.00</b>		Cancelled
<b>GWYNEDD CONSULTANCY</b>						
<b>Buildings and Environmental</b>						
PYM01/2017	Recruitment and Selection	10.00	0.00	<b>10.00</b>	<b>10.20</b>	Field Work Started
<b>Across the department</b>						
PYMG-CON/2017gor	Overtime	15.00	0.00	<b>15.00</b>	<b>15.69</b>	Final Report Issued
PYMG-CON/2017pp	Project Plans	15.00	0.00	<b>15.00</b>		Cancelled

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COMMITTEE	<b>AUDIT COMMITTEE</b>
DATE	<b>9 FEBRUARY 2017</b>
TITLE	<b>DRAFT INTERNAL AUDIT PLAN 2017/18</b>
PURPOSE OF THE REPORT	<b>TO PRESENT THE DRAFT INTERNAL AUDIT PLAN FOR THE YEAR 1 APRIL 2017 – 31 MARCH 2018</b>
AUTHOR	<b>LUNED FÔN JONES – AUDIT MANAGER</b>
ACTION	<b>TO APPROVE THE PLAN IN THE APPENDIX</b>

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## **1. INTRODUCTION**

- 1.1 The draft work plan for Internal Audit for the financial year 2017/18 is presented to the Audit Committee for comment and approval.
- 1.2 This report explains the factors that were considered and the process used to produce the plan that is presented to the Committee.

## **2. INTERNAL AUDIT'S PURPOSE**

- 2.1 The purpose of the Internal Audit service is:

***To give confidence to the citizen and the Council on the Council's control environment and governance arrangements through independent and objective reporting to the Head of Finance and the Audit Committee***

- 2.2 When preparing this plan, therefore, consideration was given to what the service needs to do in order to achieve this purpose.
- 2.3 The Unit only has limited resources; the staffing resource of the Unit is 7 full-time posts. This makes it increasingly important that the service is directing its resources to the right place.
- 2.4 Therefore, in order to ensure that we are reviewing the right things, consideration was first given to the Corporate Risk Register and to departmental risk registers. This is to ensure that the Council's key controls in order to deal with its main risks are addressed. In that regard, we have worked closely with the Insurance and Risk Unit, which as part of their role ensure that these registers are updated regularly.

2.5 The result of this was to prepare an initial draft plan, which has been discussed with each Head of Department (or departmental management team in some cases). This was an opportunity to refine the plan further, before preparing the draft plan that is presented to the Audit Committee.

2.6 During 2017/18, Internal Audit will also give appropriate consideration to the following:

- Ensuring that the service contributes to Ffordd Gwynedd reviews, as the need arises, in order to ensure the success of the Council's culture change.
- Will be aware at all times of the potential occurrence of fraud or corruption. We will therefore take advantage of the National Fraud Initiative, and undertake proactive fraud prevention work.
- Continue to address specific grants, particularly where the conditions of the grant expect an Internal Audit review.

This has been reflected in the plan.

### **3. RESOURCES AVAILABLE**

3.1 It is projected that approximately 880 days of audit resources will be available to complete the 2017/18 audit plan. This is on the basis of analysis of the staffing resources available, including reasonable allowances for “unproductive” work such as holidays, illness, management and meetings and after considering the following provisions:

	2017/18	2016/17
Provision for advising on controls and propriety	55 days	55 days
Provision for responsive work	30 days	65 days
Provision for follow-up	80 days	45 days

3.2 The increase in the provision for follow-up work will ensure that all agreed actions will receive attention rather than only the agreed actions contained in reports that received a ‘C’ opinion.

### **4. RECOMMENDATION**

4.1 The Committee is requested to approve the draft audit plan for the period 1 April 2017 to 31 March 2018.

## DRAFT INTERNAL AUDIT PLAN 2017/18

Audit	Reason	Days
<b>CORPORATE</b>		
Supporting Ffordd Gwynedd Reviews	To provide advice and support to staff and managers on issues regarding risk management and internal control. (A "Ffordd Gwynedd" attitude will be taken towards all Internal Audit work)	20
Proactive Prevention of Fraud and Corruption	Work is to be undertaken to ensure that robust arrangements are in place for dealing with the risks of fraud and corruption.	20
National Fraud Initiative	The Council participates in this initiative, which is run by the Wales Audit Office.	40
IT System Security	A range of audits will be undertaken on specific issues within this area.	30
Safeguarding Arrangements – Ymwybyddiaeth Gweithwyr Maes o'r Polisi	This audit has been commissioned by the Safeguarding Operational Panel. Originally, the audit was planned for 2016/17 but a request was made by the Panel to undertake a review of awareness of employees with an e-mail address so that responses could be compared over three years.	35
Obtaining References	Safeguarding is a high risk area on the corporate risk register and the Safeguarding Children and Adults Policy and the Recruitment and Appointments Policy states the requirement to obtain two references on every occasion. The audit will not encompass verifying references for Schools.	15
Safeguarding Arrangements – Establishments	Provision for conducting "Safeguarding" reviews when visiting establishments.	4
Disposal of Confidential Waste – The Use of Red Sacks and Shredders	Information security is noted on the corporate risk register and the Information Governance Project is in the Strategic Plan.	10
Information Management – Establishments	Provision for conducting "Information Management" reviews when visiting establishments.	6
Culture and Conduct	A review to ascertain whether the workforce demonstrates an understanding	15

<b>Audit</b>	<b>Reason</b>	<b>Days</b>
Awareness of the Whistleblowing Policy	of the organisation's core values and expectations. The results will denote the Council's culture.	15
i-Gwynedd Project	A value for money review.	10
Self-service Travelling Expenses	A review of checks made on travelling expenses paid through self-service.	5

## **EDUCATION**

### ***Resources***

Post-16 provision in Schools Grant	Requirement under the financial terms and conditions.	3
Pupil Deprivation Grant	The PDG has not been incorporated in the Education Improvement Grant; therefore it will be necessary to carry out a separate audit.	10
Education Improvement Grant for Schools	This grant is a combination of several previous grants that were paid by the Welsh Government.	15

### ***GwE***

Business Arrangements	Included at the request of the Interim Managing Director.	20
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### ***Schools***

Awareness of the Whistleblowing Policy – Primary and Secondary	The Council's policy does not incorporate schools.	25
Schools - General	Annual provision for work involving providing advice and support.	10
School Meals Income	A new project in underway to introduce a new method of paying for school meals – which will be introduced in September 2017.	20
Health and Safety – Primary Schools	Health and Safety has been indentified as a risk area in the department's risk register.	25

## **NORTH AND MID WALES TRUNK ROAD AGENCY**

Health and Safety	A review to ensure that adequate checks are conducted.	25
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## **CORPORATE SUPPORT**

### ***Democracy***

Training New Members	Local election will be held in May 2017, and	10
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<b>Audit</b>	<b>Reason</b>	<b>Days</b>
	it is expected that a comprehensive training programme will be established.	
<b>Training</b>		
Learning and Development Integrated System	A new development.	10
<b>FINANCE</b>		
<b>Financial</b>		
Debt Recovery Arrangements and Legal Action	This area has not been addressed by Audit for some time.	15
<b>Accountancy</b>		
Precepts	The last audit was carried out in 2009/10.	5
<b>Revenue</b>		
Benefits – Review of Key Controls	It is expected that the review will be of assistance to the external auditors when conducting their review of the Subsidy claim.	12
Council Tax System - Advantage Digital Portal	A new development which will be introduced in 2017/18.	10
<b>Pensions and Payroll</b>		
Death Grants	The last audit was carried out in 2009/10.	15
Pension Fund	General provision.	15
<b>ECONOMY AND COMMUNITY</b>		
<b>Community Regeneration</b>		
Welsh Church Fund	An independent check will be needed if the fund's income is over £25,000.	5
<b>Record Offices, Museums and the Arts</b>		
Storiell – Closing the Project	Removed from the 2016/17 plan because of a reduction in resources.	5
Storiell – Unannounced Visit	Unannounced visit to conduct an income reconciliation.	1
<b>Leisure</b>		
Leisure Centres	A review of both administrative and financial arrangements within specific centres.	40
Membership Direct Debit Payments	A review of the arrangements to ensure there is no loss of income.	10
<b>Maritime and Country Parks</b>		
Victoria Dock	The last audit was carried out in 2009/10.	10



<b>Audit</b>	<b>Reason</b>	<b>Days</b>
<b>Major Projects</b>		
Caernarfon Waterfront and Town Centre Regeneration Initiative – Governance Arrangements	An initiative led by Gwynedd Council and delivered through a multi-agency partnership that consists of Cadw, Arts Council for Wales, Antur Waunfawr, Gisda, Ffestiniog & Welsh Highland Railways, Caernarfon Harbour Trust and Galeri Caernarfon.	15
<b>ADULTS, HEALTH AND WELLBEING</b>		
<b>Across the Department</b>		
Commissioning Arrangements	A review of the commissioning arrangements including joint-commissioning.	30
<b>Supporting People</b>		
Supporting People Grant	Requirement under the terms of the grant.	15
<b>Adults</b>		
Teleofal	New arrangements will be introduced in 2017/18.	10
<b>Residential and Day</b>		
Adult Placement Scheme (Shared Lives Scheme)	It is timely to conduct an audit in this area.	15
Plas Ogwen, Bethesda	All Council homes to be audited within a 3 year cycle (2017/18 is the first of three).	12
Plas Maesincla, Caernarfon	All Council homes to be audited within a 3 year cycle (2017/18 is the first of three).	12
Plas Hafan, Nefyn	All Council homes to be audited within a 3 year cycle (2017/18 is the first of three).	12
Learning Disabilities Hostels	A new model of service provision.	20
Housing Support	Removed from the 2016/17 plan because of a reduction in resources.	15
<b>Housing Management</b>		
Housing Waiting List	This area has not been addressed by Audit for some time.	12
<b>CHILDREN AND SUPPORTING FAMILIES</b>		
<b>Children and Families</b>		
Grants	A review of specific grants.	24

<b>Audit</b>	<b>Reason</b>	<b>Days</b>
Arrangements for Children Leaving Care	Ensure compliance with the Children Leaving Care Act.	20
Care and Support Plans (Children) under Part 4 – Social Services and Wellbeing Act (Wales) 2014	A review of the arrangements following the introduction of the new Act.	20
<b>HIGHWAYS AND MUNICIPAL</b>		
<b><i>Highways Works</i></b>		
Depots	Monitoring progress against the action plan established as a result of an internal review following an incident.	15
<b><i>Waste Management and Streets</i></b>		
Recycling Targets	This area has been identified as high risk (without control measures) in the department's risk register.	10
Garden Waste Collection	New arrangement since January 2017.	15
<b>REGULATORY</b>		
<b><i>Public Protection</i></b>		
Licensing	The Licensing Unit have been subject of a "Ffordd Gwynedd" review.	8
Food Hygiene	Included at the request of the Head of Department – a review of the current arrangements.	8
<b><i>Transportation and Street Care</i></b>		
Concessionary Fares	Included at the request of the Head of Departments – an area of risk.	8
<b><i>Council Land and Property</i></b>		
School Schemes – Ysgol Glancegin	Assurance is required that the grant's terms and conditions are complied with and the general administration of the scheme.	10
Smallholdings	The last audit was carried out in 2011/12.	8
<b>YGC</b>		
<b><i>Across YGC</i></b>		
Accreditations	Included at the request of the Head of Department.	15
Employment Status	A review of the employment status of YGC staff.	10

**TOTAL NUMBER OF DAYS**

**880**

# Agenda Item 14

<b>MEETING</b>	AUDIT COMMITTEE
<b>DATE</b>	9 <sup>th</sup> February 2017
<b>TITLE</b>	Hafan Pwllheli
<b>PURPOSE</b>	Provide an update on programmed work
<b>RECOMMENDATION</b>	To receive and note the contents of the report
<b>AUTHOR</b>	Llŷr Jones, Economy and Community Senior Manager
<b>CABINET MEMBER</b>	Cllr Mandy Williams-Davies

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## 1. INTRODUCTION

- 1.1 During its meeting on 1<sup>st</sup> December 2016 the Audit Committee considered the second quarter review of the revenue budget for 2016/7. A discussion was held on Hafan Pwllheli and decided to ask the Economy and Community Department (with support from the Finance Department) to present information to the Committee on Hafan Pwllheli.
- 1.2 The purpose of this report is to offer an update on work which has already been programmed by the Department.

## 2. CURRENT SITUATION

- 2.1 Hafan Pwllheli was developed in the early 1990s by Dwyfor District Council and transferred to Gwynedd Council following local government reorganisation in 1996. It was developed with European funding, and by now offers 410 pontoon berths, offices, changing rooms, showers, toilets, safe area for boat storage, 50 tonne crane, boat transfer and parking provision.
- 2.2 Since its construction, the Hafan has evolved into one of the best sailing destinations in Britain, and takes advantage of the outstanding sailing waters in Tremadog Bay. However, over recent years a number of challenges have become evident which could undermine the success of the Hafan.
- 2.3 The Economy and Community Department has already identified the need to carry out a comprehensive review of the Hafan, and to consider and assess different management models for its future. At present, Hafan Pwllheli is managed directly by Gwynedd Council, and the review is intended to consider a wide range of management and governance structures.

- 2.4 It is also evident that marinas are influenced by external factors which will also be considered. Such factors include changes in the economic climate, changes in the physical environment, as well as changes within maritime sectors and markets.
- 2.5 The work to review Hafan Pwllheli has been identified as one of the priorities for the Economy and Community Department during the 2017/8 period. The Department will also identify the work as a possible matter to be considered by the relevant Scrutiny Committee following the establishment of the new Council in May. Of course, it would be possible to present further details to the Audit Committee later in the year should the Committee wish.

### **3. RECOMMENDATION**

- 3.1 Based on the above, the Audit Committee is recommended to
- i) To receive and the contents of the report
  - ii) Support the Economy and Community Department's intention to carry out a review of the management and governance arrangements for Hafan Pwllheli, and the proposed timescale for doing so.