



# Complete Agenda

Democratic Services  
Swyddfa'r Cyngor  
CAERNARFON  
Gwynedd  
LL55 1SH

Meeting

## **AUDIT COMMITTEE**

Date and Time

**10.30 am, THURSDAY, 16TH JULY, 2015**

Location

**Siambr Hywel Dda - Council Offices**

Contact Point

**Bethan Adams**

**01286 679020**

**BethanAdams@gwynedd.gov.uk**

(DISTRIBUTED: 8/7/15)

## **AUDIT COMMITTEE**

### **MEMBERSHIP (19)**

#### **Plaid Cymru (8)**

Councillors

Edward Thomas Dogan  
Charles Wyn Jones  
Gethin Glyn Williams

Aled Ll. Evans  
Dilwyn Morgan  
John Wyn Williams

Christopher Hughes  
Michael Sol Owen

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

Councillors

Trevor Edwards  
John Brynmor Hughes  
Angela Russell

Thomas G. Ellis  
John Pughe Roberts

#### **Llais Gwynedd (3)**

Councillors

Anwen J. Davies  
Robert J. Wright

Aeron M. Jones

#### **Labour (2)**

Councillors

Sion W. Jones

Glyn Thomas

#### **Lay Member**

John Pollard

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

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**

1 - 6

The Chairman shall propose that the minutes of the meeting of this committee, held on 30 June 2015, be signed as a true record.

## **5. STATEMENT OF ACCOUNTS 2014/15**

7 - 118

To submit, for information, the statutory financial declarations (subject to audit) for 2014/15.

## **6. TREASURY MANAGEMENT 2014/15**

119 - 132

To submit, for information, the report of the Investment Manager on the results of the Council's actual borrowing and investment during the financial year that ended 31 March 2015.

## **7. OUTPUT OF INTERNAL AUDIT**

133 - 146

To submit the report of the Audit Manager outlining the work of Internal Audit for the period between 1 April and 30 June 2015.

## **8. INTERNAL AUDIT PLAN 2015/16**

147 - 152

To submit the report of the Audit Manager on the progress made on the 2015/16 Internal Audit Plan.

## **9. EXTERNAL AUDIT REPORTS**

153 - 158

To submit the report of the Head of Corporate Support.

## **10. RESPONDING TO SIGNIFICANT FINANCIAL STRESS**

159 - 166

To submit the report of the Head of Finance.

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## AUDIT COMMITTEE 17/2/15

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**Present:** Councillor John Pughe Roberts (Chairman)  
Councillor Robert J. Wright (Vice-chairman)

**Councillors:** Anwen Davies, Eddie Dogan, Tom Ellis, John B. Hughes, Charles Wyn Jones, Dilwyn Morgan, Michael Sol Owen, Angela Russell, John Wyn Williams and Peredur Jenkins (Cabinet Member for Resources).

**Also in attendance:** Dafydd Edwards (Head of Finance Department), William E. Jones (Senior Finance Manager), Dewi Morgan (Senior Manager Revenue and Risk), Luned Fôn Jones (Audit Manager), Amanda Hughes (Local Manager, Wales Audit Office), Caroline Lesley Roberts (Investment Manager), Iwan Evans (Head of Legal Services) and Bethan Adams (Member Support and Scrutiny Officer).

**Apologies:** Councillors Trevor Edwards, Aled Ll. Evans, Aeron M. Jones, Sion Wyn Jones and Mr John Pollard.

### 1. DECLARATION OF PERSONAL INTEREST

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

### 2. MINUTES

The Chairman signed the minutes of the meeting of this committee held on 18 December 2014, as a true record.

### 3. 2015/16 BUDGET AND 2015/16 – 2017/18 FINANCIAL STRATEGY

Submitted – the report of the Cabinet Member for Resources on the budget, providing an opportunity for the Audit Committee to scrutinise the information in terms of its financial propriety prior to the report being submitted to the Cabinet on 19 February.

The Cabinet Member for Resources set out the background and context of the report. He noted that it was recommended to consider increasing the Council Tax between 3.5% and 4.5% in 2015/16 to minimise the cuts in 2016/17. He added that increasing the Council Tax and using £2m from the general balances would enable an inclusive consultation on the possible cuts to be conducted prior to implementation.

The Head of Finance Department took the opportunity to thank members who had attended the seminars involving the Financial Strategy. He emphasised that if there was no increase in the council tax, the cuts would have to be increased in 2016/17.

Members were given an opportunity to ask questions and offer their observations. During the discussion the following main points were highlighted:-

- The seminars which had been held on the Financial Strategy had been of assistance;
- The responsible decision would be to increase the Council Tax by 4.5%;
- An increase in the Council Tax was difficult for those who were working as wages were not increasing and an increase in the Council Tax should be restricted;
- People living in the countryside questioned what they were receiving in terms of services to justify increasing the Council Tax;
- The whole of Gwynedd was rural and the cost per head of services was lower in more urban areas;

- There was a safety net for the individuals receiving assistance (benefits) towards their Council Tax, but there was concern for those on incomes that were slightly above the threshold for receiving assistance;
- The cuts should be identified before deciding on increasing the Council Tax;
- The Council Tax was not increasing in England. It was questioned whether the Welsh Government received money to this end also in Wales;
- Using the balances only deferred the pain, but the member accepted the procedure and hoped that there would be consensus in terms of the cuts;
- It was questioned whether schools could be requested to use their balances to assist the financial situation.

With regard to freezing the Council Tax in England, it was noted that these matters were beyond the Council's control and the Welsh Government had decided to give the money received from this to the Health Service.

It was noted that school reserves and school budgets were the responsibility of Governors and the Council had no right as an Authority to enforce this, although it directed schools to reduce their balances and use them for the children's education.

The Cabinet Member for Resources reported that a full list of the possible cuts would be brought before members in the next few months in order to discuss them.

**RESOLVED to recommend the report to the Cabinet and that the Committee's opinion to increase the Council Tax by 4.5% is reasonable.**

**4. TREASURY MANAGEMENT – TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION STRATEGY AND ANNUAL INVESTMENT STRATEGY FOR 2015/16**

Submitted – the report of the Head of Finance Department requesting the committee to recommend to the Council on 5 March to adopt the Treasury Management Policy Statement, the Treasury Management Strategy Statement and the Annual Investment Strategy for 2015/16, the Prudential Indicators, the Minimum Revenue Provision Strategy and the merger arrangements with the Pension Fund in terms of investing daily cash flow.

The Head of Finance Department set out the context and the Investment Manager elaborated on the content of the report.

The opportunity for Members of the Committee to ask questions of the officers and of the expert consultant from the Arlingclose company at a briefing meeting held on 30 January, 2015, was noted with gratitude.

**RESOLVED to recommend to the Full Council on 5 March to adopt the Treasury Management Policy Statement (Appendices A, B and C), the Treasury Management Strategy Statement and the Annual Investment Strategy for 2015/16 (Appendix CH), the Prudential Indicators (Appendix D), the Minimum Revenue Provision Statement (Appendix DD) and the merger arrangements with the Pension Fund for the investment of daily cash flow.**

**5. PROPOSED CHANGES TO THE CONSTITUTION ARISING FROM THE PUBLIC SERVICE PENSIONS ACT 2013 AND THE LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) (GOVERNANCE) REGULATIONS 2014**

Submitted – the report of the Head of Finance Department and the Head of Legal Services on the proposed changes to sections of the Constitution to ensure that the Council, as an

Administrative Authority for the Gwynedd Local Government Pension Fund, complied with the requirements of the Public Service Pensions Act 2013 and the Local Government Pension Scheme (Amendment) (Governance) Regulations 2014 relating to the creation of a Local Pension Board.

It was agreed that there should not be an over-reaction to the requirements or commitment to unnecessary substantial costs when establishing a Pension Board.

It was noted that the proposed amendments, which were recommended to the full Council, defined the functions, membership and operational structure of the Gwynedd Pension Board. It was explained that in addition to the recommendation noted in the report, delegated powers were requested to make minor amendments to the governance arrangements of the Local Pension Board should the need arise.

**RESOLVED to recommend to the Council:**

- (i) To review sections of the Constitution that relates to the LGPS, to ensure that the Council, as the Administrating Authority for the Gwynedd Local Government Pension Scheme, complies with the Public Service Pensions Act 2013 and the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015.**
- (ii) Establish the Gwynedd Pension Fund Pension Board in accordance with the report, the Terms of Reference and Governance, with delegated powers to the Head of Finance Department, in consultation with the Head of Legal Services, to make minor amendments to the governance arrangements of the Local Pension Board should the need arise.**

**6. REVENUE BUDGET 2014/15 - THIRD QUARTER REVIEW (DECEMBER 2014)**

Submitted - the Head of Finance Department's monitoring report on the latest financial situation.

The Cabinet Member for Resources set out the context and the Senior Finance Manager elaborated on the content of the report. Reference was made to the likely overspend of the Adults, Health and Well-being Department and it was noted that there was a substantial reduction in the overspend level anticipated at the end of the second quarter. It was explained that the likely overspend of the Department had nearly halved and steps had been taken to try to strengthen financial management.

Members were given an opportunity to ask questions and offer their observations. During the discussion the following main points were highlighted:-

- It was heartening that Departments were underspending but this money was planned savings and would not be available in the future;
- There was a risk for the Adults, Health and Well-being Department.

In response to members' observations, the Cabinet Member for Resources noted that the way in which services were provided had to be changed quite soon or the Council could not undertake its duties. The Head of Finance Department added that growth in expenditure had to be avoided by taking financial and managerial steps.

**RESOLVED to note the situation and the relevant risks in the context of the Council's budgets and those of its departments.**

**7. CAPITAL PROGRAMME 2014/15 – END OF THIRD QUARTER REVIEW (31 December 2014)**

Submitted - the report of the Head of Finance Department, providing details of the revised programme and the relevant sources of finance.

Attention was drawn to the fact that re-profiling in the capital programme from 2014/15 to 2015/16 did not mean a loss of grant.

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

## 8. REPORT OF THE CONTROLS IMPROVEMENT WORKING GROUP

Submitted - the report of the Chairman of the Audit Committee, providing information on the meeting of the above working group that had been held on 16 January 2015, to consider the capital scheme of Pont Briwet, the follow-up report on 'Harbours', which had received an unsatisfactory opinion category and two audits which had received a 'C' Opinion Category during the period between 13 September 2014 and 30 November 2014, namely.

- a) Food Hygiene, Health and Safety Inspection Programmes
- b) Leisure Centres

Senior Managers had been invited to attend the meeting to discuss the matters arising from the audits and the work that had been completed since the audit reports had been published to strengthen the internal controls in question.

It was noted that assurance had been received from the Working Group that the issues highlighted by the Internal Audit Section were receiving due attention and that steps were being taken.

It was noted that with regard to the Food Hygiene, Health and Safety Inspection Programmes, that it was heartening that 'Which?' magazine had placed Gwynedd Council amongst the best in Wales regarding food enforcement work in a performance table of local authorities and this should be publicised.

A member noted that it was extremely important that the Working Group had considered the Pont Briwet capital scheme because of the possible risks.

**RESOLVED to accept the report.**

## 9. INTERNAL AUDIT OUTPUT

The Chairman explained the changes to the staffing structure of the Internal Audit Section and he noted that Luned Fôn Jones was the Audit Manager and she would be responsible for the work of the Internal Audit Section from now on. It was noted that the Senior Manager – Revenue and Risk would be responsible for supervising the work of the Internal Audit Section. The Senior Manager – Revenue and Risk was thanked for his work and both the officers were wished well in their new posts.

### **The work of the Internal Audit Section for the period up to 31 January 2015**

Submitted - the report of the Senior Manager - Revenue and Risk, outlining the Internal Audit Section's work during the period between 1 December 2014 31 January 2015. In submitting the information on the work completed during the period, the officer referred to -

- 8 reports on audits of the action plan with the relevant opinion category shown
- 1 other report (memoranda etc.)
- 2 grant reviews
- 4 follow-up audits

Consideration was given to all the reports individually.



**RESOLVED to accept the reports on the work of the Internal Audit Section for the period 1 December 2014 until 31 January 2015 and to support the recommendations that have already been submitted to the managers of the relevant services for implementation.**

#### **10. DISCLOSURE ARRANGEMENTS – AWARENESS OF THE WHISTLE BLOWING POLICY**

Submitted – the report of the Senior Manager – Revenue and Risk, summarising the results of a review on staff awareness and their attitude towards the Council’s Whistle Blowing Policy. It was noted that it was crucially important, in light of recent cases such as Rotherham, that individuals were sufficiently confident in the arrangements to be able to express concern.

It was reported that the questionnaire was restricted to office staff only as it was an on-line questionnaire but it was proposed to hold a similar exercise with manual workers in 2015/16.

Members were given an opportunity to ask questions and to offer their observations. During the discussion the following main points were highlighted:-

- It would be easier for individuals to come forward if there was an independent person as an initial contact point rather than a line manager. In response, the Senior Manager – Revenue and Risk noted that the policy stated that individuals could approach the Head of Department or the Internal Audit Section directly;
- Surprise that the survey showed that 12% of Line Managers were unaware of the policy or 18% of the Human Resources Department;
- It was important to increase awareness of the policy;
- It was crucially important that Council staff had easy access to the policy on the internet;
- There was a need to establish a procedure for Councillors;
- There was a need to ensure that individuals were completely confident to use the procedure;
- Should the Working Group consider the matter; ?
- Councillors should receive training on the Policy.

In relation to the observation regarding holding a Working Group to consider the matter, the Senior Manager – Revenue and Risk suggested that they should wait to see the results of the survey of the manual workers in 2015/16 and if needed both surveys could be examined together at that time.

**RESOLVED:**

- (i) the Senior Manager – Revenue and Risk to consider members’ observations in relation to strengthening the arrangements further;**
- (ii) that the Committee considers addressing the Whistleblowing Policy at a meeting of the Controls Improvement Working Group after receipt of the manual workers’ survey results.**

#### **11. INTERNAL AUDIT PLAN 2014/15**

Submitted - the report of the Senior Manager – Revenue and Risk, providing an update on the current situation in terms of completing the 2014/15 internal audit plan.

He provided details of the situation as at 31 January 2015 along with the time spent on each audit to date. The following table was highlighted, which revealed the current status of the work in the operational plan:-

<b>Audit Status</b>	<b>Number</b>
Planned	12
Field Work Started	19
Field Work Ended	2
Awaiting Review	4
Draft Report	3
Final Report	48
Closed	2
Total	90
Cancelled	12

Attention was drawn to the audits that had been withdrawn from the Plan as a result of the loss of 120 days of audit resources. There were fewer days available than planned at the beginning of the year as three posts had been deleted from the structure earlier than the proposed date of 31 March 2015.

It was noted that achieving the target of 95% appeared unlikely now, but all the service's staff were committed to finish as near as possible to the target for the year and they were aware of the expectations.

**RESOLVED to note the contents of the report as an update of progress against the 2014/15 audit plan.**

## **12. DRAFT INTERNAL AUDIT PLAN 2015/16**

Submitted – the report of the Senior Manager – Revenue and Risk providing details of the draft plan of the Internal Audit Section's work for the 2015/16 financial year in order for members to voice their opinions on it and approve it, subject to further discussions with officers.

The Senior Manager – Revenue and Risk added that he would bring a final plan before the committee in June after discussing the draft plan with the departments.

**RESOLVED to approve the draft Audit Plan for the period 1 April 2015 to 31 March 2016, subject to amendments derived from further discussions with officers.**

The meeting commenced at 2.00pm and concluded at 4.35pm.

# Agenda Item 5

MEETING:	<b>AUDIT COMMITTEE</b>
DATE:	<b>16 July 2015</b>
TITLE:	<b>STATEMENT OF ACCOUNTS 2014/15</b>
PURPOSE / RECOMMENDATION:	<b>To receive the statutory Statement of Accounts (pre-audit draft) for information</b>
AUTHOR:	<b>Dafydd L Edwards, Head of Finance</b>
CABINET MEMBER:	<b>Councillor Peredur Jenkins</b>

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## **1. INTRODUCTION**

- 1.1 This report introduces the statutory Statement of Accounts for the 2014/15 financial year, which provides details of the Council's financial activities during the year which ended on 31 March 2015.
- 1.2 The following document is the draft Statement of Accounts in its statutory format, 108 pages long in each language. A link to the Statement was sent to all elected members and chief officers of the Council on 30 June 2015.
- 1.3 The draft accounts presented here have yet to be audited, so it is possible that some changes may be necessary before a final version is submitted for approval at the 24 September 2015 meeting of the Audit Committee.
- 1.4 The basic form and content of these Statements is prescribed under the Accounts and Audit (Wales) Regulations 2014, as well as other national regulations and standards. Several requirements of the IFRS (International Financial Reporting Standards) are based on Code of Practice on Local Authority Accounting and apply to the Council's Statement of Accounts for 2014/15. As the regulations require statements in a standard format, comparisons with other bodies' accounts are facilitated, but the statements have now become technically complex and difficult to understand.
- 1.5 Simple summary "outturn" reports regarding the 2014/15 accounts were presented to the Cabinet meeting of 2 June 2015 and also to the Audit Committee on 30 June 2015. That report was more useful for internal / management purposes, while the Statement of Accounts is more suited for external / governance purposes.

## **2. ACTION REQUIRED**

- 2.1 The Audit Committee are “those charged with governance” on behalf of the Council, and approved the draft (subject to audit) statement of accounts prior to 2009/10. However, revisions in 2010 to the Accounts and Audit Regulations gave the Statutory Finance Officer (the Head of Finance in Gwynedd Council) responsibility for approving and certifying the draft accounts before 30 June.
- 2.2 There is no longer any requirement for elected members to approve the draft version of the Council’s Statement of Accounts, but this is presented to the Audit Committee FOR INFORMATION as good practice.
- 2.3 Doubtless, the committee’s members will wish to consider and understand the content now, in preparation for approving the final version in September, and to equip themselves with information to consider relevant risks and other matters being audited in their context.

## **3. SUBSEQUENT STEPS**

- 3.1 Further to certification by the Head of Finance and consideration by the Audit Committee, the Statement of Accounts for 2014/15, with all other relevant statements, will be the subject of the annual audit process by the Wales Audit Office.
- 3.2 In accordance with the Accounts and Audit (Wales) Regulations 2014, the Council will also notify the public, via the local press, that the accounts are available for inspection for a 20 working day period. As part of the audit process, during the period from 04/08/15 until 01/09/15, local government electors also have the opportunity to question the external auditor about the Council’s accounts.
- 3.3 As noted in paragraph 1.3 (above), the final (audited) version of the Council’s 2014/15 Statement of Accounts will be submitted to the 24 September 2015 meeting of the Audit Committee FOR APPROVAL, along with a report on behalf of the Auditor General for Wales (Huw Vaughan Thomas).
- 3.4 Subsequently, it is the Finance Department’s intention to provide a link to the final Statement to all elected members and all chief officers of the Council, as well as other interested parties.

## **4. RECOMMENDATION**

- 4.1 The Audit Committee is asked to receive and note the Council’s Statement of Accounts (subject to audit) for 2014/15.

**STATEMENT OF  
ACCOUNTS  
2014/15**

**SUBJECT TO AUDIT**

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# **EXPLANATORY FOREWORD**

## **INTRODUCTION**

Gwynedd Council's accounts for the year 2014/15 are presented here on pages 8 to 108.

The Accounts consist of:-

- **Movement in Reserves Statement** - This statement shows the movement in year on the different reserves held by the Authority, analysed into 'usable reserves' and 'unusable reserves'. The taxation position is reflected in the Movement in Reserves Statement.
- **Comprehensive Income and Expenditure Statement** - This is the Council's main revenue account. This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
- **The Balance Sheet** - Sets out the financial position of the Council on 31 March 2015.
- **The Cash Flow Statement** - This statement summarises the flow of cash to and from the Council during 2014/15 for revenue and capital purposes.
- **The Gwynedd Pension Fund Accounts and Balance Sheet.**
- **The Welsh Church Fund and FMG Morgan Trust Fund Accounts.**

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

## REVENUE EXPENDITURE IN 2014/15

- The Comprehensive Income and Expenditure Statement on page 9 shows that the Council's gross revenue expenditure on 'Cost of Services' level was £350m during 2014/15, with the net position as £227m.
- The financial out-turn position for 2014/15 was reported to the Cabinet at its meeting on 2 June 2015. The members of the Cabinet approved the carry forward of net service underspends of £447k for the year.

### TABLE I – Budget and Actual Comparison Summary (Net)

Table I provides a budgetary performance comparison at a summary level, and which is detailed further in Table 2.

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Net Expenditure on Operations	243,061	243,049	(12)
Departmental Carry Forward at year end	0	447	447
	<hr/>	<hr/>	<hr/>
	243,061	243,496	435
Financed by -			
Council Tax Income	(68,090)	(68,525)	(435)
Share of National Non-Domestic Rate	(38,991)	(38,991)	0
General Government Grants	(135,980)	(135,980)	0
	<hr/>	<hr/>	<hr/>
	0	0	0

- The Movement in Reserves Statement and the Comprehensive Income and Expenditure Statement on page 8 and 9 detail the actual analysis in movements for the year.



**TABLE 2 – Transposition movement between ‘Budget and Actual Comparison Summary (Net)’ (Table 1) to the Income and Expenditure format reflecting Departmental Management Structure.**

Department	Performance Report	Transposition Adjustment	Income & Expenditure Statement
	£'000	£'000	£'000
Human Resources	31	0	31
Education	92,758	(345)	92,413
North & Mid Wales Trunk Road Agency	16	(86)	(70)
Finance	1,360	87	1,447
Economy and Community	14,118	(439)	13,679
Adults, Health and Wellbeing	50,956	50	51,006
Children and Families	14,353	(100)	14,253
Highways and Municipal	26,816	(1,645)	25,171
Regulatory (Planning, Transport and Public Protection)	11,760	120	11,880
Strategic and Improvement	731	11	742
Gwynedd Consultancy	1,236	(10)	1,226
Corporate Management Team	621	0	621
Corporate	14,262	448	14,710
Reserves	281	0	281
<b>Cost of Services</b>	229,299	(1,909)	227,390
Other (Contains Centralised and Corporate Adjustment)	14,197	1,909	16,106
<b>Total</b>	243,496	0	243,496

Transposition Adjustment - Adjustments in the transposition column relate to the net contribution to and from reserves and the required adjustments relating to insurance.

- Full standard Income and Expenditure format analysis is contained on page 9.
- Full analysis of amounts reported for resource allocation decisions is contained within Note 28, page 52.
- Service Reporting Code of Practice (SeRCOP) Analysis is contained within Appendix A.
- **Material Items of Income and Expenditure**

Related items include:-

- A movement of £74m on pensions, on the remeasurements of the net defined benefit liability/(assets), relating to pensions, in line with Gwynedd Council's Actuary's assessment (Note 24).
- A net increase of £28m following full revaluation of the Council's Land and Buildings on 1 April 2014 (Note 15 & 24).
- A reduction of £11m in the value of asset impairment, relating to the level of expenditure on capital schemes in 2014/15 in comparison with 2013/14 (Note 15).

- **Impact of Current Economic Climate**

There have been unprecedented problems in the global financial situation in recent years. Due to this general situation, it has been necessary for the Authority to take these circumstances into account in its financial plans, and also keep a prudent level of balances and reserves.

## CAPITAL EXPENDITURE IN 2014/15

Capital expenditure for 2014/15 amounted to £32.4m. The following table gives an analysis of this expenditure and the way it was financed.

<b>SUMMARY OF CAPITAL EXPENDITURE AND FINANCING</b>		
<b>2013/14</b>		<b>2014/15</b>
<b>£'000</b>		<b>£'000</b>
35	Human Resources	3
8,630	Education	4,905
38	Finance	788
5,199	Economy and Community	4,746
8,536	Customer Care	0
3,377	Social Services, Housing and Leisure	0
0	Adults, Health and Wellbeing	4,355
8,690	Highways and Municipal	6,164
6,360	Regulatory	10,993
14	Strategic and Improvement	0
582	Gwynedd Consultancy	464
<b>41,461</b>		<b>32,418</b>
	<b>FINANCED BY -</b>	
10,664	Borrowing	8,594
18,904	Grants and Contributions	15,520
1,377	Capital Receipts	1,873
10,516	Revenue and Other Funds	6,431
<b>41,461</b>		<b>32,418</b>

There was a change to the Departmental structure between 2013/14 and 2014/15, and consequently there is a change to the comparative breakdown figures to reflect the current Departments

- Revenue Expenditure Funded from Capital Under Statute of £4,832,784 is included in the above table. This has been charged to the Income and Expenditure Account in the year. Total expenditure on Non-current Assets and Assets Held for Sale was £27,427,780 as shown in Note 15 and 20 on pages 33 to 35 and 45.
- The Council's Loan Debt on 31 March 2015 was £112m – a reduction of £1.1m (from £113.1m) during the year. Repayments of £1.18m were made in accordance with the terms of individual loans.

### Provisions and Reserves

In addition to General Balances of £6.3m, the Council had other provisions (as defined) of £12.3m, earmarked reserves of £48.6m and school balances of £3.5m, totalling £70.7m. These are detailed in the Balance Sheet, Movement in Reserves Statement and in Notes 10 and 22.

### Pension Fund

The Council (as an employer) has a net liability from its share of the assets and liabilities of the Gwynedd Pension Fund, which has been calculated in accordance with International Accounting Standard 19. The Balance Sheet contains an assessment by the Fund's Actuary, Hymans, of the Council's share of the Pension Fund liability. This net liability has increased by £77m to £248.7 in 2014/15. Refer to Note 40 for further information.

The net pension liability is a position at one point in time. Market prices can move substantially up or down in the short term and it is therefore not possible to quantify the long term effect such movements in market prices will have on the Pension Fund.

### **Gwynedd Pension Fund**

The Gwynedd Pension Fund Accounts (pages 74 to 104) show an increase during the year of £187.8m in the market value of the net assets of the Fund, to £1,497.4m. The book value of the net assets at 31 March 2015 was £1,077.7m (2014: £994.4m).

### **Accounting Policies**

The accounting policies adopted by the Council comply with all relevant recommended accounting practices and are fully explained in the Accounting Policies set out in Note 1 of the Accounts on page 12.

### **Changes in Accounting Policies and to the Statement of Accounts**

There were no significant changes to accounting practices during 2014/15.

## **FURTHER INFORMATION**

The Statement of Accounts is available on Gwynedd Council's website [www.gwynedd.gov.uk](http://www.gwynedd.gov.uk).

Further information relating to the accounts is available from:

William E Jones  
Senior Finance Manager  
01286 679406

or

Ffion Madog Evans  
Finance Manager - Resources and Corporate  
01286 679133

Finance Department  
Gwynedd Council  
Council Offices  
Caernarfon  
Gwynedd  
LL55 1SH

This is part of the Council's policy of providing full information relating to the Council's affairs. In addition, interested members of the public have a statutory right to inspect the accounts before the audit is completed. The availability of the accounts for inspection is advertised in the local press at the appropriate time.

# **GWYNEDD COUNCIL**

## **STATEMENT OF ACCOUNTS**

### **STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS**

#### **THE AUTHORITY'S RESPONSIBILITIES**

Gwynedd Council is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Gwynedd Council, that officer is the Head of Finance. It is also the Authority's responsibility to manage its affairs to secure economic, efficient and effective use of its resources, to safeguard its assets, and to approve the Statement of Accounts.

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#### **THE HEAD OF FINANCE'S RESPONSIBILITIES**

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

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

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

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#### **RESPONSIBLE FINANCIAL OFFICER'S CERTIFICATE**

I certify that the Statement of Accounts has been prepared in accordance with the arrangements set out above, and presents a true and fair view of the financial position of Gwynedd Council and the Pension Fund at 31 March 2015 and the Council's income and expenditure for the year then ended.



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

**29 June 2015**

## MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves'. The Surplus or Deficit on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Note	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Total Reserves held by Schools £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
<b>Balance 31 March 2013 carried forward</b>	<b>(8,051)</b>	<b>(49,894)</b>	<b>(3,813)</b>	<b>(1,727)</b>	<b>(2,240)</b>	<b>(1,890)</b>	<b>(67,615)</b>	<b>(35,236)</b>	<b>(102,851)</b>
<b>Movement in reserves during 2013/14</b>									
(Surplus)/Deficit on provision of services	1,419	0	0	0	0	0	1,419	0	1,419
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	(1,679)	(1,679)
<b>Total Comprehensive Income and Expenditure</b>	<b>1,419</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,419</b>	<b>(1,679)</b>	<b>(260)</b>
Adjustments between accounting basis and funding basis under regulations	9 62	0	0	0	(167)	(2,363)	<b>(2,468)</b>	<b>2,468</b>	<b>0</b>
<b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>	<b>1,481</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(167)</b>	<b>(2,363)</b>	<b>(1,049)</b>	<b>789</b>	<b>(260)</b>
Transfers to/from Earmarked Reserves	10 (1,832)	69	36	1,727	0	0	<b>0</b>	<b>0</b>	<b>0</b>
<b>(Increase)/Decrease in 2013/14</b>	<b>(351)</b>	<b>69</b>	<b>36</b>	<b>1,727</b>	<b>(167)</b>	<b>(2,363)</b>	<b>(1,049)</b>	<b>789</b>	<b>(260)</b>
<b>Balance 31 March 2014 carried forward</b>	<b>(8,402)</b>	<b>(49,825)</b>	<b>(3,777)</b>	<b>0</b>	<b>(2,407)</b>	<b>(4,253)</b>	<b>(68,664)</b>	<b>(34,447)</b>	<b>(103,111)</b>
<b>Movement in reserves during 2014/15</b>									
(Surplus)/Deficit on provision of services	4,290	0	0	0	0	0	4,290	0	4,290
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	46,269	46,269
<b>Total Comprehensive Income and Expenditure</b>	<b>4,290</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,290</b>	<b>46,269</b>	<b>50,559</b>
Adjustments between accounting basis and funding basis under regulations	9 (708)	0	0	0	(321)	1,676	<b>647</b>	<b>(647)</b>	<b>0</b>
<b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>	<b>3,582</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(321)</b>	<b>1,676</b>	<b>4,937</b>	<b>45,622</b>	<b>50,559</b>
Transfers to/from Earmarked Reserves	10 (1,530)	1,249	281	0	0	0	<b>0</b>	<b>0</b>	<b>0</b>
<b>(Increase)/Decrease in 2014/15</b>	<b>2,052</b>	<b>1,249</b>	<b>281</b>	<b>0</b>	<b>(321)</b>	<b>1,676</b>	<b>4,937</b>	<b>45,622</b>	<b>50,559</b>
<b>Balance 31 March 2015 carried forward</b>	<b>(6,350)</b>	<b>(48,576)</b>	<b>(3,496)</b>	<b>0</b>	<b>(2,728)</b>	<b>(2,577)</b>	<b>(63,727)</b>	<b>11,175</b>	<b>(52,552)</b>

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT – 2014/15

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2013/14				2014/15		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000	Note	£'000	£'000	£'000
17,598	(7,203)	10,395		17,682	(7,474)	10,208
28,711	(10,501)	18,210		26,688	(9,372)	17,316
16,245	(11,660)	4,585		10,531	(5,486)	5,045
125,423	(22,033)	103,390		112,039	(19,358)	92,681
18,050	(2,412)	15,638		21,550	(4,944)	16,606
28,817	(10,980)	17,837		32,912	(14,325)	18,587
43,063	(38,123)	4,940		42,982	(38,325)	4,657
61,650	(15,399)	46,251		62,688	(16,907)	45,781
12,096	(2,311)	9,785		12,698	(1,709)	10,989
8,433	(3,865)	4,568		9,136	(4,279)	4,857
308	0	308		663	0	663
<b>360,394</b>	<b>(124,487)</b>	<b>235,907</b>		<b>349,569</b>	<b>(122,179)</b>	<b>227,390</b>
19,144	(288)	18,856		20,151	0	20,151
14,238	(651)	13,587		13,960	(474)	13,486
0	(266,931)	(266,931)		0	(256,737)	(256,737)
<b>393,776</b>	<b>(392,357)</b>	<b>1,419</b>		<b>383,680</b>	<b>(379,390)</b>	<b>4,290</b>
		1,429				(24,403)
		0				(25)
		(3,108)				70,697
		<b>(1,679)</b>				<b>40,269</b>
		<b>(260)</b>				<b>50,559</b>

## BALANCE SHEET – 31 MARCH 2015

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

<b>31 March 2014</b>	<b>Note</b>	<b>31 March 2015</b>
<b>£'000</b>		<b>£'000</b>
378,869	15	413,012
111		110
100	16	247
2,526	15	2,644
77	17	1,190
4,449	17	4,862
<b>386,132</b>		<b>422,065</b>
27,083	17	37,236
2,488	20	1,040
1,455		1,467
52,134	18	42,357
20,886	19	18,480
<b>104,046</b>		<b>100,580</b>
(19,496)	19	(21,397)
(1,884)	17	(904)
(63,291)	21	(66,353)
(479)	22	(284)
(1,775)	33	(2,735)
<b>(86,925)</b>		<b>(91,673)</b>
(100)	17	(49)
(10,824)	22	(12,020)
(111,215)	17	(111,108)
(171,689)	40	(248,721)
(2,372)	36	(2,253)
(3,942)	33	(4,269)
<b>(300,142)</b>		<b>(378,420)</b>
<b>103,111</b>		<b>52,552</b>
(68,664)	23	(63,727)
(34,447)	24	11,175
<b>(103,111)</b>		<b>(52,552)</b>

## CASH FLOW STATEMENT – 2014/15

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing Activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2013/14 £'000		Note	2014/15 £'000
1,419	Net (Surplus) or Deficit on the Provision of Services		4,290
(32,017)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	25a	(48,561)
1,514	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	25b	2,190
(29,084)	Net cash flows from Operating Activities		(42,081)
28,063	Investing Activities	26	45,188
935	Financing Activities	27	1,200
(86)	Net (increase) / decrease in cash and cash equivalents		4,307
(1,304)	Cash and cash equivalents at the beginning of the reporting period	19	(1,390)
<b>(1,390)</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	19	<b>2,917</b>



# **NOTES TO THE ACCOUNTS**

## **NOTE I – ACCOUNTING POLICIES**

### **1.1 General Principles**

The Statement of Accounts summarises the Authority's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (Wales) Regulations 2014, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15* and the Service Reporting Code of Practice 2014/15, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued in the 2014 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

In relation to a policy regarding capitalisation of expenditure, our practice is to operate on the basis of the nature of expenditure rather than a prescribed level of expenditure.

### **1.2 Accruals of Expenditure and Income**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received.

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### **1.3 Cash and Cash Equivalents**

Where the Authority has short-term investments readily convertible into known amounts of cash and subject to insignificant risk of changes in value, these are classified as cash equivalents and included in Cash and Cash Equivalents on the Balance Sheet. The investments included in this definition are short-term deposits with financial institutions which are immediately available at the Balance Sheet date.

### **1.4 Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet, but disclosed in a note to the accounts.

### **1.5 Corporate and Democratic Core**

The Corporate and Democratic Core heading includes items relating to the Democratic Representation and Management and Corporate Management. The Democratic Representation and Management include corporate

## **NOTE 1 – ACCOUNTING POLICIES (continued)**

policy making and member activities while the Corporate Management includes costs that relate to the general running of the Authority.

### **1.6 Employee Benefits**

#### **1.6.1 Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### **1.6.2 Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept redundancy voluntarily and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the Council Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

#### **1.6.3 Post Employment Benefits**

Employees of the Authority are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by the Capita Teachers' Pensions on behalf of the Westminster Government's Department for Education
- The Local Government Pensions Scheme, administered by the Gwynedd Pension Fund at Gwynedd Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees when they worked for the Authority.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the Authority. The scheme is therefore accounted for as if it were a defined contributions scheme and no liability for future payment of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to The Teachers' Pensions Scheme in the year.

#### **1.6.4 The Local Government Pension Scheme**

All other staff, subject to certain qualifying criteria, are entitled to become members of the Local Government Pension Scheme. The pension costs charged to the Authority's accounts in respect of this group of employees is determined by the fund administrators and represents a fixed proportion of employees' contributions to this funded pension scheme.

The Local Government Scheme is accounted for as a defined benefit scheme:

The liabilities of the Gwynedd Pension Fund attributable to the Authority are included in the balance sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions such as mortality rates, employee turnover rates, etc., and projections of earning for current employees.

## NOTE 1 – ACCOUNTING POLICIES (continued)

Liabilities are discounted to their value at current prices, using a discount rate of 3.2% calculated as a weighted average of 'spot yields' on AA rated corporate bonds.

The assets of the Gwynedd Pension Fund attributable to the Authority are included in the balance sheet at their fair value as determined by the Fund's actuary.

The change in the net pensions liability is analysed into the following components:

Service cost comprising:

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.
- Net interest on the net defined benefit/(asset), i.e. the net interest expense for the authority – the change during the period in the net defined benefit liability/(asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/(asset) at the beginning of the period – taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments.

Remeasurements comprising:

- The return on plan assets – excluding amounts included in net interest on the net defined benefit liability/(asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Gwynedd Pension Fund – cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the Council Fund balance to be charged with the amount payable by the Authority to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the Council Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

International Accounting Standard (IAS) 19 governs how the long term liabilities which exist in relation to pension costs should be reported. Local councils in Wales and England are required to produce their financial statements in accordance with IAS 19.

### 1.6.5 Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## **NOTE I – ACCOUNTING POLICIES (continued)**

### **1.7 Events after the Reporting Period**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect (where it is possible to estimate the cost).

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### **1.8 Prior Period Adjustments, changes in Accounting Policies, Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### **1.9 Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Thus the term financial instrument covers both financial assets and financial liabilities.

In accordance with the requirements the Council's financial assets and liabilities have been reviewed in order to categorise them and determine their treatment. The financial instruments identified as a result of this review were:

#### Financial liabilities

- Trade payables and other payables (creditors).
- Long term borrowings including deferred premiums and discounts on early settlement of such loans.
- Financial guarantees.

#### Financial assets

- Bank deposits
- Trade receivables (debtors)
- Loans receivable
- Investments

The Council values its financial liabilities at amortised cost using the effective interest rate method. The interest charged to the Comprehensive Income and Expenditure Statement is calculated using the effective interest rate. As the Council's long term borrowing is all at fixed rates the interest charged is the amount accrued in the year.

Gains or losses arising on the repurchase or early settlement of borrowing are treated as extinguishment of the financial liability unless strict conditions are met when the transaction may be treated as a modification of the existing loan terms and any gain or loss adjusts the carrying amount of the loan debt received.

The majority of the Council's financial assets are classified as loans and receivables and as such are valued at amortised cost using the effective interest rate method.

## **NOTE 1 – ACCOUNTING POLICIES (continued)**

Where the Authority has short-term investments readily convertible into known amounts of cash and subject to insignificant risk of changes in value, these are classified as cash equivalents and included in Cash and Cash Equivalents on the Balance Sheet. The investments included in this definition are short-term deposits with financial institutions which are immediately available at the Balance Sheet date.

Short duration Payables and Receivables with no stated interest rate are measured at original invoice amount. This includes all trade payables and trade receivables.

The Local Authorities (Capital Financing and Accounting) (Wales) (Amendment) Regulations 2007 allow the effect of the restatement of financial instruments to be adjusted through the Movement in Reserves Statement and the resulting adjustments are shown in the Financial Instrument Adjustment Account and the Available for sale Financial Instruments Reserve on the Balance Sheet. The adjustment allowed by statute means that the net effect on the Council's balances is equivalent to the transfer under this policy.

### **1.10 Government Grants and Other Contributions**

Grants and contributions relating to capital and revenue expenditure are accounted for on an accruals basis, and recognised immediately in the relevant service line in the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition that the Authority has not satisfied.

Grants and contributions funding capital expenditure that have been credited to the Comprehensive Income and Expenditure Statement are not proper income charges due to the capital control regime requirements to finance capital expenditure as part of the Capital Financing Requirement. Therefore, the authority accounts for these amounts as follows:

- Where a capital grant or contribution has been received, and conditions remain outstanding at the Balance Sheet date, the grant is recognised as a Capital Grant Receipt in Advance on the Balance Sheet. Once the condition has been met, the grant or contribution is transferred to the Comprehensive Income and Expenditure Statement.
- Where a capital grant or contribution has been recognised as income in the Comprehensive Income and Expenditure Statement, and the expenditure to be financed from that grant or contribution has been incurred at the Balance Sheet date, the grant or contribution is transferred from the General Fund to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure. This transfer is reported in the Movement in Reserves Statement.

### **1.11 Heritage Assets**

Heritage assets are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held by the Authority principally for their contribution to knowledge or culture. The Council has identified the following categories of heritage assets:

- Pictures and Paintings
- Civic Regalia
- Library Collections/Archives
- Museums and Art Gallery Collections
- Historic Buildings and Scheduled Monuments
- Parks and Local Nature Reserves

The Council employed an external valuer (Bonhams) to provide estimated valuations of its civic regalia and paintings and pictures. Any item over the di-minimis threshold of £10,000 is shown separately in the accounts; all other items are grouped under general civic regalia and paintings and pictures. For consistency, the Council has applied the same di-minimis levels for valuation purposes to Heritage Assets as its other long term assets – see policy 1.19.

The Council considers that heritage assets held by the Council will have indeterminate life and high residual value; hence, the Council does not consider it appropriate to charge depreciation for the assets. Heritage assets recognised in the accounts will be assessed annually for any impairment.

### **1.12 Inventories and Long Term Contracts**

Stocks and work in progress should be shown in the balance sheet at the lower of cost or net realisable value, in accordance with the provisions of the Code of Practice. Due to the practicalities of the Council's main stock

## **NOTE I – ACCOUNTING POLICIES (continued)**

systems, the majority of stock is shown in the accounts at average cost. The difference from the basis of valuation is not material.

### **1.13 Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

### **1.14 Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership of the property, plant or equipment to the lessee. All other leases are classified as operating leases.

#### **The Authority as Lessee:**

Amounts held under finance leases are initially recognised, at the commencement of the lease, at fair value (or, if lower, the present value of the minimum lease payments), with a matching liability for the lease obligation to the lessor. Lease payments are apportioned between a finance charge (charged directly to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement) and a charge applied to write down the lease liability. The related asset is treated in accordance with the policies applied generally to such assets and is subject to depreciation charges as appropriate.

Operating lease payments are charged to the Comprehensive Income and Expenditure Statement as an expense of the relevant service on a straight-line basis over the lease term.

#### **The Authority as Lessor:**

The Authority currently has no Finance Leases where the Authority is the lessor.

Rental income from property granted under an operating lease is recognised on a straight-line basis in the Comprehensive Income and Expenditure Statement, and the asset is retained in the Balance Sheet.

### **1.15 Surplus Assets**

The Authority classifies Surplus Assets separately on the Balance Sheet. These assets are shown at their fair value based on existing use value.

### **1.16 Overheads and Support Services**

Charges for services provided by the Central Support Departments are derived from a combination of pre-determined fixed charges, actual recorded staff time, transaction logging and pre-determined formulae.

The only unallocated residual costs are those of corporate management and support service costs which the Code of Practice specifies should not be allocated. The allocation complies with the Service Reporting Code of Practice (SeRCOP) 2014/15.

### **1.17 Long Term Assets**

The Council's assets as recorded on the Property Services database are revalued at least every 5 years. This is in accordance with the Code and the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors. The last complete revaluation was effective from 1<sup>st</sup> April 2014.

Land and Buildings are shown at fair value or Depreciated Replacement Cost (DRC) for specialised properties.

Investment Properties are shown at fair value.

Vehicles, Plant, Furniture and Equipment are shown at depreciated historical cost.

Infrastructure and community assets are shown at historical cost.

Assets in the course of construction are included at historical cost until such time as they are completed, when they are valued in accordance with the accounting policies and transferred to the appropriate category of asset.

## **NOTE I – ACCOUNTING POLICIES (continued)**

A di-minimis limit for valuation purposes of £20,000 is used for the Council's operational Land and buildings and £5,000 for single items of Vehicles, Plant, Furniture and Equipment.

Expenditure in year on new and existing assets is added annually, and then consideration is given as to whether this expenditure has increased the value of the asset. If there has been an increase, this is reflected through the Revaluation Reserve; if there is no increase it follows that there has been an impairment to the value of the asset (see below for the method for accounting for impairment). Specifically for assets categorised as Property (Land and Buildings) where expenditure of over £100,000 has been incurred on a single asset, the Council's Corporate Property Manager (M.R.I.C.S.) reviews the assets and re-values any one as appropriate.

### **Impairment and Depreciation**

#### **Impairment**

An impairment is the consumption of economic benefit that is specific to an asset. In line with International Accounting Standard 36 the Council reviews its assets each year in order to recognise any impairment or reduction in value due to the consumption of economic benefits. In addition, the residual values and useful lives of assets are reviewed annually and adjusted where appropriate.

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

#### **Depreciation**

The main element of IAS 16 is that buildings must be depreciated if they are not valued each year. In addition, each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. A di-minimis threshold, below which assets are disregarded for componentisation purposes needs to be established, which is based on potential material impacts on the financial statements. (For the 2014/15 financial year this has been set at £1.83m which is 1% of the total value of the buildings). The apportionment to be considered for the non-land element of assets above the di-minimis threshold is:

- a) plant and equipment and engineering services, and
- b) structure

The majority of the Council's buildings (over 75%) are valued using the DRC (Depreciated Replacement Cost) method, which is developed on a component approach, and the identification of the components are reflected in the details of the calculations. However, identified within the above are buildings which include material items of plant and equipment which are deemed to have shorter useful lives e.g. boilers and heating equipment within swimming pools and leisure centers. These components are recognised by adjusting the useful life of the building to take account of the shorter life components.

For the remaining buildings, based on a review of the nature and type of buildings which the Council owns, these are deemed to have no significant items of plant and equipment or engineering services that need to be componentised separately.

Depreciation is generally charged on the balance sheet value of assets to write them off as follows:

- (i) Vehicles, Plant Furniture and Equipment are depreciated over their estimated useful life (3–15 years)
- (ii) Infrastructure is depreciated over 40 years
- (iii) Revenue Expenditure funded from Capital under Statute is written down in the period in which it arises
- (iv) Land is not depreciated
- (v) Buildings are depreciated over their estimated useful lives (various)
- (vi) Investment Properties, Assets under Construction and Assets Held for Sale are not depreciated

## **NOTE 1 – ACCOUNTING POLICIES (continued)**

Depreciation is not charged in the year of acquisition.

The Local Authorities (Capital Finance and Accounting)(Wales)(Amendment) Regulations 2008 (SI 2008/588 (W.59)) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Welsh Ministers and local authorities are required to “have regard” to such Guidance under section 21(1B) of the Local Government Act 2003.

The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

*NB This does not preclude other prudent methods.*

MRP in 2014/15: Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) Non-HRA capital expenditure funded from borrowing. Methods of making prudent provision for unsupported Non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported Non-HRA capital expenditure if the Council chooses).

The MRP Statement was submitted to Council before the start of the 2014/15 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.

The Council applied Option 1 in respect of supported capital expenditure funded from borrowing, and Option 3 in respect of unsupported capital expenditure funded from borrowing.

MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice matches the annual principal repayment for the associated deferred liability.

The Authority will be reviewing this policy annually in light of the Asset Management Plan.

In accordance with the Code of Practice, revenue financing of capital expenditure on Council Fund Services is appropriated to the Capital Adjustment Account.

### **1.18 Non Distributed Costs**

The majority of central support services are allocated to the service divisions in accordance with the Service Reporting Code of Practice (SeRCOP) 2014/15. The items that are excluded from this treatment are defined as Non Distributed Costs and include the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on assets held for sale.

### **1.19 Provisions**

The Council sets aside provisions for specific obligations which are likely or certain to be incurred but the amount of which cannot yet be determined accurately. Provisions are also made for doubtful debts. Known uncollectable debts are written off against the relevant service. The Council classifies these provisions as long-term or short-term liabilities as appropriate according to the nature of each provision.

### **1.20 Reserves (and Balances)**

In accordance with the requirements of the Local Government Act 1992, the Council maintains a –

- General Fund which represents the general reserves (“balances”) of the Authority, namely a working balance to help cushion the impact of uneven cash flows and as a contingency to cushion the impact of unexpected events or emergencies.
- Number of capital and revenue Specific Reserves earmarked for specific purposes, namely, money accumulated to meet anticipated commitments. The Council undertakes a continuous review of the adequacy and use of specific reserves.



## **NOTE I – ACCOUNTING POLICIES (continued)**

The Council takes a risk-based approach to maintaining an adequate level of balances and reserves to meet future spending needs. When considering the annual budget and medium term financial strategy, the Council will set out their intention regarding the level of general balances and reserves, in the context of all relevant risks. Refer to the approval of the full policy in respect of reserves by the Council Cabinet on 23 June 2015.

- Certain reserves, namely “unusable reserves” are kept for the technical purpose of managing the accounting processes for non-current assets, financial instruments and employee benefits. These do not represent the usable resources of the Authority.

### **1.21 Revenue Expenditure Funded from Capital Under Statute**

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as an asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year’s Council Tax. This type of expenditure is valued at historical cost and written down over a year.

### **1.22 Value Added Tax**

Only in a situation when VAT is irrecoverable, will VAT be included or charged as ‘irrecoverable VAT’ in capital and revenue expenditure.

### **1.23 Debtors and Creditors**

The Council's Accounts are maintained on an accruals basis in accordance with the Code of Accounting Practice. The accounts reflect actual expenditure and income relating to the year in question irrespective of whether the payments or receipts have actually been paid or received in the year.

An exception to this principle relates to electricity and similar quarterly payments which are charged at the date of meter reading rather than being apportioned between financial years. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

### **1.24 Allocation of Interest Received**

The Authority invests surplus funds for periods varying from overnight to two years and the interest is credited to the General Fund, Gwynedd Pension Fund, Welsh Church Fund and other trust funds based on the level of their daily balances and the rate of interest earned.

### **1.25 Borrowing Costs**

The Authority does not capitalise borrowing costs attributable to the acquisition, construction or production of a qualifying asset as permitted by the Code.

Interest payable on external loans is included in the accounts in the period to which it relates on a basis which reflects the overall economic effect of the borrowings.

### **1.26 Interest in Companies and Other Entities**

In the Authority’s accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

### **1.27 Current Assets Held for Sale**

In order for an asset to be recognised as Held for Sale, the asset must be available for immediate sale in its present condition, the sale must be highly probable, the asset must be actively marketed and the sale completed within one year from the date of classification. The asset is recognised at the lower of its carrying value (market value) less costs to sell on reclassification.

### **1.28 Disposals**

When an asset is disposed of, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure as part of the gain or loss on disposal (i.e netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

## **NOTE 1 – ACCOUNTING POLICIES (continued)**

### **1.29 Capital Receipts**

When the Authority sells an asset, legislation prescribes the use of the proceeds received.

All capital receipts that belong to the Council's Fund are 100% usable and set aside is no longer necessary. The receipts are held in the Usable Capital Receipts Reserve until such time as they are used to finance capital expenditure.

### **1.30 Accounting for the costs of the Carbon Reduction Commitment Scheme**

The authority is subject to the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. Authorities participating in the scheme are required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. Gwynedd Council was below the relevant threshold in respect of 2014/15.

### **1.31 Cost Relating to Unequal Pay Claims**

A provision is contained within the Authority's Accounts in respect of the cost of Equal Pay Claims and reflects the best estimate of potential cost as at 31 March 2015.

### **1.32 Landfill Allowance Schemes**

The Landfill Allowances Scheme operates under the Landfill Allowances Scheme (Wales) Regulations 2004. Local Authorities are allocated annual allowances for the maximum amount of biodegradable municipal waste that can be sent to landfill. For each ton of biodegradable municipal waste sent to landfill in excess of the allowance a Local Authority may be liable to a penalty of £200 per ton. It is not a "cap and trade" scheme since landfill allowances are not tradable in Wales. For this reason, landfill allowances are not recognised as assets on the Balance Sheet. Gwynedd Council was within its landfill allowance in 2014/15.

### **1.33 Service Concession Arrangements**

Service Concession Arrangements, otherwise known as PFI Schemes, are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor for the duration of the contract but where the assets transfer to the Authority at the end of the period without any additional cost. The Authority controls the service that is provided and are able to control who else is able to use the facility. The cost of using the facility is agreed with the Company before setting the agreement through a Competitive Dialogue process.

### **1.34 Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet, the assets that it controls and the liabilities it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant and equipment that are jointly controlled by the Authority and other venturers. The joint venture does not involve the establishment of a separate entity. The Authority accounts only for its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of interests in the joint venture and income that it earns from the venture.

### **1.35 Other Policies**

Gwynedd Council has policies in respect of the following, but they are not considered material for the 2014/15 financial year:

- Intangible Assets
- Contingent Assets
- Foreign Currency Conversion.

## **NOTE 2 – CHANGE IN ACCOUNTING POLICY**

There are no changes in the accounting policies during the 2014/15 financial year.

### **NOTE 3 – PRIOR PERIOD ADJUSTMENTS**

There are no prior period adjustments during 2014/15.

### **NOTE 4 – ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED**

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 has introduced several changes in accounting policies which will be required from 1 April 2015. The changes are as follows:

#### **IFRS 13 Fair Value Measurement**

This standard provides a consistent definition of fair value and enhanced disclosure requirements. The adoption of this standard will require surplus assets (assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale) to be revalued to market value rather than value in existing use as at present. Operational property, plant and equipment assets are outside the scope of IFRS 13.

#### **IFRIC 21 Levies**

This standard provides guidance on levies imposed by government in the financial statements of entities paying the levy. The IFRIC specifies the obligating event as the activity that triggers the timing of the payment of the levy. The amount payable may be based on information relating to a period before the obligation to pay arises or the levy is payable only if the threshold is reached, or both.

**Annual Improvements to IFRSs 2011-2013 Cycle** - These improvements are minor, principally providing clarification.

It is not likely that the above changes will have a material effect on Gwynedd Council's Statement of Accounts.

### **NOTE 5 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

In applying the accounting policies set out in Note 1, the Authority has had to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The judgments, estimates and associated assumptions applied are based on historical experience and other factors, other factors being historical, and actual future projections and assumptions that are considered to be relevant.

All available and related information is sourced and applied in assessing and determining the position, which is particularly critical when considering such matters as earmarked reserves, provisions and contingent liability. Actual results may subsequently differ from those estimates. The estimates and underlying assumptions are continually reviewed.

### **NOTE 6 – ASSUMPTIONS MADE ABOUT FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because certain balances cannot be determined with certainty, actual results could be different from the assumptions and estimates.

The following items in the Authority's Balance Sheet at 31 March 2015 may be considered to be a significant risk (in terms of certainty in estimation of value), with the possibility of material adjustment in the forthcoming financial year.

- **Property, Plant and Equipment** – Assets are depreciated over useful lives in accordance with standard accounting practices. Any difference between the depreciation applied and actual deterioration to assets will be

## **NOTE 6 – ASSUMPTIONS MADE ABOUT FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY (continued)**

naturally reflected in future spending patterns. Information relating to Property, Plant and Equipment is contained in Note 15.

- **Provisions** – Various separate provisions, the basis of which have been individually assessed, are contained within these accounts as detailed in Note 22, and include Equal Pay, Landfill Sites and our insurance liability exposure.
- **Pension Liability** – The Pension Liability position as contained within the accounts is based on a number of complex assessments and judgments as provided by Actuaries engaged by the Council. Further details are contained in Note 39 and 40.
- **Doubtful Debts Impairment** – A certain impairment level of doubtful debts is contained within the accounts and is based on a specific policy. Any departure between the impairment level applied and the actual arrears position will be naturally reflected in future spending patterns. Doubtful Debts impairments are contained within the figures for Short Term Debtors contained in Note 18.

## **NOTE 7 – MATERIAL ITEMS OF INCOME AND EXPENSE**

Related items include:-

- A movement of £74m on pensions, on the remeasurements of the net defined benefit liability/(assets), relating to pensions, in line with Gwynedd Pension Fund's Actuary's assessment (Note 24).
- A net increase of £28m following full revaluation of the Council's Land and Buildings on 1 April 2014 (Note 15 & 24).
- A reduction of £11m in the value of asset impairment, relating to the level of expenditure on capital schemes in 2014/15 in comparison with 2013/14 (Note 15).

## **NOTE 8 – EVENTS AFTER THE BALANCE SHEET DATE**

There are no known post balance sheet events.

## NOTE 9 – ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

2014/15	Usable Reserves			
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
<b>ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS</b>				
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<b><u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u></b>				
Charges for depreciation and impairment of non current assets	(16,581)	0	0	16,581
Capital grants and contributions applied	13,990	0	1,676	(15,666)
Revenue expenditure funded from capital under statute	(4,833)	0	0	4,833
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(538)	0	0	538
<b><u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u></b>				
Revenue provision for the financing of supported capital investment	5,692	0	0	(5,692)
Revenue provision for the financing of unsupported capital investment	1,454	0	0	(1,454)
Capital expenditure charged against the General Fund and HRA balances	6,430	0	0	(6,430)
<b>Adjustments involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2	(2,192)	0	2,190
Use of the Capital Receipts Reserve to finance new capital expenditure	0	1,873	0	(1,873)
Principal repayment of debt	0	(2)	0	2
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	64	0	0	(64)
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited/credited to the Comprehensive Income and Expenditure Statement (Note 40)	(26,533)	0	0	26,533
Employer's pensions contributions and direct payments to pensioners payable in the year	20,198	0	0	(20,198)
<b>Adjustment primarily involving the Accumulated Absences Account:</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(53)	0	0	53
<b>Total Adjustments</b>	<b>(708)</b>	<b>(321)</b>	<b>1,676</b>	<b>(647)</b>

**NOTE 9 – ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS (continued)**

2013/14	Usable Reserves			
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
<b>ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS</b>				
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<b><u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u></b>				
Charges for depreciation and impairment of non current assets	(25,426)	0	0	25,426
Capital grants and contributions applied	21,352	0	(2,363)	(18,989)
Revenue expenditure funded from capital under statute	(6,222)	0	0	6,222
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	288	0	0	(288)
<b><u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u></b>				
Revenue provision for the financing of supported capital investment	5,731	0	0	(5,731)
Revenue provision for the financing of unsupported capital investment	966	0	0	(966)
Capital expenditure charged against the General Fund and HRA balances	10,516	0	0	(10,516)
<b>Adjustments involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	28	(1,542)	0	1,514
Use of the Capital Receipts Reserve to finance repayment of debt	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	1,377	0	(1,377)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	0	0	0	0
Principal repayment of debt	0	(2)	0	2
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	11	0	0	(11)
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited/credited to the Comprehensive Income and Expenditure Statement (Note 40)	(26,345)	0	0	26,345
Employer's pensions contributions and direct payments to pensioners payable in the year	19,727	0	0	(19,727)
<b>Adjustment primarily involving the Accumulated Absences Account:</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(564)	0	0	564
<b>Total Adjustments</b>	<b>62</b>	<b>(167)</b>	<b>(2,363)</b>	<b>2,468</b>

## NOTE 10 – TRANSFERS TO/FROM EARMARKED RESERVES

### School Balances

This sum is represented by the element of balances released under the delegation of budgets directly to schools which remained unspent at the end of the financial year:

2014/15	Balance		Transfers		Balance
	31 March 2014	between reserves	in	out	31 March 2015
	£'000	£'000	£'000	£'000	£'000
School Balances	3,777	0	994	(1,275)	3,496
<b>Total</b>	<b>3,777</b>	<b>0</b>	<b>994</b>	<b>(1,275)</b>	<b>3,496</b>

The note below sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2014/15.

**NOTE 10 – TRANSFERS TO/FROM EARMARKED RESERVES (continued)**

**Earmarked Reserves**

2014-15	Balance		Transfers		Balance
	31 March 2014 £'000	between reserves £'000	in £'000	out £'000	31 March 2015 £'000
Renewals Reserves	2,184	0	3,071	(2,471)	2,784
Capital Reserves	10,064	(88)	1,783	(749)	11,010
Insurance Reserves	3,463	(1,348)	789	(846)	2,058
Services Fund	4,973	(1,571)	1,838	(960)	4,280
Convergence Programme Fund	1,111	0	0	(313)	798
Redundancy Costs to Realise Savings Reserve	2,434	4,428	60	(1,141)	5,781
Central Training	612	(45)	0	(164)	403
Communication Centre Reserve	34	0	0	(15)	19
Education Services Reserves	1,125	0	495	(416)	1,204
Economy and Community Reserves	138	(55)	21	(9)	95
Highways and Municipal Reserves	2,159	(900)	250	(34)	1,475
Waste Developments Reserve	272	0	0	(122)	150
Gwynedd Consultancy Reserves	401	0	0	(16)	385
Regulatory Reserves	876	(103)	84	(99)	758
Major Maintenance Work on County Roads Fund	120	0	120	(120)	120
Care - Other Reserves	102	100	74	(10)	266
Ffordd Gwynedd Fund	244	0	54	0	298
Invest to Save Fund	2,534	(2,569)	166	(131)	0
Invest to Save Fund - Carbon Reduction Plan	1,145	0	14	(590)	569
Transformation Fund	7,185	(6,146)	154	(1,193)	0
Transformation / Invest to Save Fund	0	9,871	0	0	9,871
Committed Revenue Grants Fund	311	0	140	(158)	293
Capital Reserve to Realise Savings	209	(209)	0	0	0
Contracts Tendering Fund	674	0	0	(157)	517
Housing Water and Sewerage Services Fund	744	0	0	(63)	681
Housing Environmental Warranty	480	0	0	0	480
Savings Programme Reserve	946	(946)	0	0	0
Information Technology Reserve	374	0	41	(321)	94
Restoration Fund	346	(250)	0	(96)	0
Preparatory Work for European Grant Funding Schemes	150	0	0	0	150
Pension Deficit Reserve (Pre Housing Revenue Account)	1,727	0	0	0	1,727
Supporting the 2014/15 Financial Strategy Reserve	579	(579)	0	0	0
Welfare Fund	444	(244)	452	0	652
EDRMS Fund	288	0	0	(96)	192
Partnering Arrangements	0	514	360	(176)	698
Various Other Reserves	1,377	140	764	(1,513)	768
<b>Total</b>	<b>49,825</b>	<b>0</b>	<b>10,730</b>	<b>(11,979)</b>	<b>48,576</b>

The above figures reflect the earmarked reserves closing balance as at 31 March 2015, but does not reflect the level of commitments against them. Details are given below of the Council's main specific reserves.



## **NOTE 10 – TRANSFERS TO/FROM EARMARKED RESERVES (continued)**

- (i) The Renewals Reserve is used by the various departments of the Council to replace vehicles and equipment.
- (ii) The Capital Reserve represents resources already committed to finance part of the Council's Capital Programme.
- (iii) Gwynedd Council does not insure all risks with external insurers but instead it has established an internal reserve to meet those uninsured risks. The balance on the Insurance Reserve also includes an element relating to the relevant insurance requirements of the former Gwynedd County Council (pre 1996) and which is administered by Gwynedd Council.
- (iv) The Services Fund represents the element of slippages and underspend that service departments have the right to carry forward for use in the subsequent financial year, other relevant specific budgets and one-off budgets that extend over more than one year.
- (v) Convergence Programme Fund - fund created for corresponding capital or revenue contribution by the Council in relation to revenue and capital projects within the Convergence Programme.
- (vi) Redundancy Costs to Realise Savings Reserve – provision for financing redundancy costs to realise budgetary savings.
- (vii) Central Training – relates to the Council's staff training programme.
- (viii) Communication Centre Reserve – sums set aside towards developing the Communication Centre.
- (ix) Education Services Reserves – includes sums set aside to respond to related financial problems with 'Integration' requirements, changeable demands in 'Out of County – Special Educational Needs', 'Supporting Schools' and the 'Schools Loans Scheme'.
- (x) The Economy and Community Reserves include a number of balances relating to schemes mainly operating on a partnership basis, where the scheme balances must be accounted for separately.
- (xi) The Highways and Municipal Reserves mainly includes sums set aside to protect situations of uneven income and expenditure (equalisation accounts) and likely requirements from contracts.
- (xii) The Waste Developments Reserve is for relevant commitments and developments in the waste field including our commitment to the North Wales Waste Partnership.
- (xiii) Gwynedd Consultancy Reserves – includes amounts set aside to protect against situations of uneven expenditure on some works and possible employment requirements resulting from changes in the Consultancy Service's work programme.
- (xiv) Regulatory Reserves – includes a number of balances relating to schemes operating mainly on a partnership basis, and where the scheme balances must be accounted for separately, together with specific requirements relating to the Unitary Development Plan.
- (xv) Major Maintenance Work on County Roads Fund – to support the cost of large maintenance work on county roads.
- (xvi) Other Care Reserves – includes amounts set aside to protect against possible situations of uneven expenditure due to contract requirements.
- (xvii) Ffordd Gwynedd Fund – to aid the business transformation process, realise savings and assist in achieving the aims and objectives of "Ffordd Gwynedd".
- (xviii) Invest to Save Fund – provision for the investment in various plans to realise permanent financial savings, and now forms part of the Transformation / Invest to Save Fund.

## **NOTE 10 – TRANSFERS TO/FROM EARMARKED RESERVES (continued)**

- (xix) Invest to Save Fund – Carbon Reduction Plan – partly funding the Carbon Reduction Plan programme of works to reduce carbon emissions whilst generating monetary revenue savings for the Council.
- (xx) Transformation Fund – provision to change the Council’s internal procedures to be more effective and efficient, and now forms part of the Transformation / Invest to Save Fund.
- (xxi) Transformation / Invest to Save Fund – in order to transform the Council’s internal procedures to be more effective and efficient, and to invest in various schemes to realise permanent financial savings.
- (xxii) Committed Revenue Grants Fund – includes revenue grants received and committed for future use.
- (xxiii) Capital Reserve to realise savings – provision to support capital plans that will realise permanent financial revenue savings, and now forms part of the Transformation / Invest to Save Fund.
- (xxiv) Contracts Tendering Fund – in response to uneven spending situations as a result of the tendering process for contracts.
- (xxv) Housing Water and Sewerage Services Fund – amounts reserved for requirements relating to sewerage procedures, water piping and sewage treatment work on old council housing estates, which were not adopted by Welsh Water.
- (xxvi) Housing Environmental Warranty – reserved for possible implications as a result of giving environmental warranties to Cartrefi Cymunedol Gwynedd, in connection with specific and special circumstances that relate to environmental plans on the land of old council housing estates.
- (xxvii) Savings Programme Reserve – strategic financing provision to assist and give the Council some flexibility with regards to the essential savings programme in the future, and now forms part of the Transformation / Invest to Save Fund.
- (xxviii) Information Technology Reserve – renewals fund in order to respond to future uneven expenditure patterns.
- (xxix) Restoration Fund – provision towards the cost of the restoration work following flood damage to roads, bridges, etc.
- (xxx) Preparatory Work for European Grant Funding Schemes – provision towards the cost of preparing business cases to attract European funding sources and grants.
- (xxxi) Pension Deficit Reserve (Pre Housing Revenue Account) – provision set aside to reduce the unavoidable pension liability inherited in transferring the housing stock.
- (xxxii) Supporting the 2014/15 Financial Strategy Reserve – a fund established to assist and support the financial strategy for 2014/15.
- (xxxiii) Welfare Fund - provision to respond to uneven patterns in the related requirements.
- (xxxiv) Electronic Document and Records Management System (EDRMS) - provision for the work programme related to the purchase, implementation and develop the documents and records management system.
- (xxxv) Partnering Arrangements – includes amounts allocated in relation to various requirements of partnering and joint working.
- (xxxvi) Various Other Reserves – includes amounts set aside to meet a variety of other commitments.

**NOTE 11 – OTHER OPERATING EXPENDITURE**

<b>2013/14</b>		<b>2014/15</b>
<b>£'000</b>		<b>£'000</b>
1,507	<b>Community Councils Precepts</b>	1,599
	<b>Levies</b>	
10,908	Police & Crime Commissioner North Wales	11,305
5,508	North Wales Fire Authority	5,588
1,153	Snowdonia National Park Authority	1,053
68	Local Drainage Boards	68
17,637		18,014
(288)	(Gains)/losses on the disposal of non-current assets	538
<b>18,856</b>	<b>Total</b>	<b>20,151</b>

**NOTE 12 – FINANCING AND INVESTMENT INCOME AND EXPENDITURE**

<b>2013/14</b>		<b>2014/15</b>
<b>£'000</b>		<b>£'000</b>
6,476	Interest payable and similar charges	6,591
7,556	Net interest on the net defined benefit liability (asset)	7,369
(445)	Interest receivable and similar income	(474)
<b>13,587</b>	<b>Total</b>	<b>13,486</b>

**NOTE 13 – TAXATION AND NON SPECIFIC GRANT INCOME**

<b>2013/14</b>		<b>Note</b>	<b>2014/15</b>
<b>£'000</b>			<b>£'000</b>
(66,095)	Council Tax Income	<i>13a</i>	(68,525)
(38,209)	Non Domestic Rates	<i>13b</i>	(38,991)
(144,714)	Non-ringfenced Government Grants	33	(137,255)
(17,913)	Capital Grants and Contributions	33	(11,966)
<b>(266,931)</b>	<b>Total</b>		<b>(256,737)</b>

## NOTE 13a - COUNCIL TAX

The Council determines its expenditure requirement for the year and converts it to a Band D Council Tax by dividing this sum by a calculation of the number of properties in each Council Tax band converted into the equivalent number of properties in Band D (The Council Tax Base). The North Wales Police and Crime Commissioner's requirement is then added to this amount to establish the County's Council Tax.

The Council Tax Base for 2014/15 was calculated as follows:-

<b>CALCULATION OF THE COUNCIL TAX BASE FOR 2014/15</b>			
<b>Valuation Bands</b>	<b>Number of Properties following discounts</b>	<b>Statutory Multiplier</b>	<b>Equivalent Band D properties</b>
A*	9	5/9	4.72
A	7,230	6/9	4,820.04
B	13,236	7/9	10,294.80
C	10,535	8/9	9,364.80
D	9,209	1	9,209.32
E	7,315	11/9	8,940.08
F	3,560	13/9	5,142.58
G	1,165	15/9	1,940.83
H	162	18/9	324.50
I	54	21/9	126.00
<b>Total</b>			<b>50,167.67</b>
<b>Council Tax base after allowing for losses on collection</b>			<b>49,665.99</b>

An analysis of the net income accruing to the Council is given below:-

<b>2013/14</b>		<b>2014/15</b>
<b>£'000</b>		<b>£'000</b>
(66,493)	Council Tax raised	(68,873)
398	Less Provision for bad debts	348
<b>(66,095)</b>		<b>(68,525)</b>

## NOTE 13b - NATIONAL NON-DOMESTIC RATES

National Non-Domestic Rates ("Business Rates") are managed by the Government but local authorities are responsible for their collection and for paying them to a central pool run by the Welsh Government. They subsequently allocate amounts from the pool to Local Authorities, on a population basis.

## NOTE 13b - NATIONAL NON-DOMESTIC RATES (continued)

The Government sets the National Non-Domestic rate for the year (47.3p in 2014/15) which is then multiplied by the rateable value of the property. Subject to the effects of transitional arrangements and some other reductions, this is the amount payable by the ratepayer.

At the end of the 2014/15 financial year there were 7,338 properties on the local valuation list in Gwynedd, representing a rateable value of £99,361,487.

An analysis of the net income accruing to the Council from National Non-Domestic Rates is as follows:-

<b>2013/14</b>		<b>2014/15</b>
<b>£'000</b>		<b>£'000</b>
(34,716)	National Non-Domestic Rate raised	(34,516)
364	Cost of Collection allowance	368
284	Provision for Bad Debts	443
34,068	Sum paid to the National Pool	33,705
0		0
(38,209)	Receipts from the National Pool	(38,991)
(38,209)	<b>Net Income from Non Domestic Rates</b>	<b>(38,991)</b>

## NOTE 14 – BUILDING CONTROL INCOME AND EXPENDITURE ACCOUNT

This account shows the expenditure and income which relate to the building regulations checking and supervision function, including consideration of any enforcement action but not the service of notices under the provisions of the Building Act 1984.

The account is expected to break-even over a three year rolling period, and this requirement is reviewed annually. There was a small surplus in 2014/15 and it can be seen that there is an accumulated surplus over the 3 year period.

<b>2014/15</b>	<b>£'000</b>
Total charges income received (excluding VAT)	(479)
Total charges expenditure incurred	478
(Surplus) / Deficit for 2014/15	(1)
(Surplus) / Deficit for 2013/14	1
(Surplus) / Deficit for 2012/13	(10)
<b>(Surplus) / Deficit for the last three years</b>	<b>(10)</b>

## NOTE 15 – PROPERTY, PLANT AND EQUIPMENT

### Movements on Balances

Movements in 2014/15:

	Land and Buildings £'000	Infrastructure £'000	Vehicles, Plant and Equipment £'000	Community Assets £'000	Surplus Assets £'000	Assets under construction £'000	Total Property, Plant and Equipment £'000
<b>Value</b>							
Balance at 1.04.14	277,132	175,157	37,046	995	2,624	12,516	505,470
Additions	6,527	7,137	4,428	35	4	9,293	27,424
Additions - landfill aftercare	436	0	0	0	0	0	436
Sales	(1,093)	0	(6,548)	0	(101)	0	(7,742)
Transfers	4,609	0	0	0	(182)	(4,648)	(221)
Revaluation - to Revaluation Reserve	(19,206)	0	0	6	302	0	(18,898)
Revaluation - to Services	(1,694)	0	0	0	84	0	(1,610)
<b>Balance at 31.03.15</b>	<b>266,711</b>	<b>182,294</b>	<b>34,926</b>	<b>1,036</b>	<b>2,731</b>	<b>17,161</b>	<b>504,859</b>
<b>Depreciation</b>							
Balance at 1.04.14	15,236	24,901	21,922	7	35	2	62,103
Depreciation in year	4,524	4,555	3,050	1	24	0	12,154
Sales	(36)	0	(6,407)	0	(3)	0	(6,446)
Transfers	(2)	0	0	0	(23)	(2)	(27)
Revaluation	(14,267)	0	0	0	(12)	0	(14,279)
<b>Balance at 31.03.15</b>	<b>5,455</b>	<b>29,456</b>	<b>18,565</b>	<b>8</b>	<b>21</b>	<b>0</b>	<b>53,505</b>
<b>Impairment</b>							
Balance at 1.04.14	61,536	63	80	230	63	0	61,972
Impairment in year - to Revaluation Reserve	3,705	0	0	0	2	0	3,707
Impairment in year - to Services	2,822	0	0	0	2	0	2,824
Sales	(62)	0	(12)	0	(1)	0	(75)
Transfers	(20)	0	0	0	0	20	0
Revaluation	(32,730)	0	0	0	0	0	(32,730)
<b>Balance at 31.03.15</b>	<b>35,251</b>	<b>63</b>	<b>68</b>	<b>230</b>	<b>66</b>	<b>20</b>	<b>35,698</b>
<b>Net Book Value</b>	<b>226,005</b>	<b>152,775</b>	<b>16,293</b>	<b>798</b>	<b>2,644</b>	<b>17,141</b>	<b>415,656</b>
<b>31 March 2015</b>							
<b>Net Book Value</b>	<b>200,360</b>	<b>150,193</b>	<b>15,044</b>	<b>758</b>	<b>2,526</b>	<b>12,514</b>	<b>381,395</b>
<b>31 March 2014</b>							

## NOTE 15 – PROPERTY, PLANT AND EQUIPMENT (continued)

Comparative Movements in 2013/14:

	Land and Buildings	Infrastructure	Vehicles, Plant and Equipment	Community Assets	Surplus Assets	Assets under construction	Total Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Value</b>							
Balance at 1.04.13	254,200	166,267	34,077	991	819	12,157	468,511
Additions	15,720	8,865	4,303	4	0	5,100	33,992
Additions - GwyrAD	4,734	0	0	0	0	0	4,734
Sales	(579)	0	(1,334)	0	0	0	(1,913)
Transfers	3,280	25	0	0	1,805	(4,741)	369
Revaluation	(223)	0	0	0	0	0	(223)
<b>Balance at 31.03.14</b>	<b>277,132</b>	<b>175,157</b>	<b>37,046</b>	<b>995</b>	<b>2,624</b>	<b>12,516</b>	<b>505,470</b>
<b>Depreciation</b>							
Balance at 1.04.13	11,657	20,333	20,128	6	27	2	52,153
Depreciation in year	3,917	4,568	2,891	1	8	0	11,385
Sales	(23)	0	(1,097)	0	0	0	(1,120)
Transfers	(192)	0	0	0	0	0	(192)
Revaluation	(123)	0	0	0	0	0	(123)
<b>Balance at 31.03.14</b>	<b>15,236</b>	<b>24,901</b>	<b>21,922</b>	<b>7</b>	<b>35</b>	<b>2</b>	<b>62,103</b>
<b>Impairment</b>							
Balance at 1.04.13	46,196	63	200	230	58	0	46,747
Impairment in year - to Revaluation Reserve	1,588	0	0	0	0	0	1,588
Impairment in year - to Services	13,450	0	0	0	0	573	14,023
Sales	0	0	(120)	0	0	0	(120)
Transfers	543	0	0	0	5	(573)	(25)
Revaluation	(241)	0	0	0	0	0	(241)
<b>Balance at 31.03.14</b>	<b>61,536</b>	<b>63</b>	<b>80</b>	<b>230</b>	<b>63</b>	<b>0</b>	<b>61,972</b>
<b>Net Book Value</b>	<b>200,360</b>	<b>150,193</b>	<b>15,044</b>	<b>758</b>	<b>2,526</b>	<b>12,514</b>	<b>381,395</b>
<b>31 March 2014</b>							
<b>Net Book Value</b>	<b>196,347</b>	<b>145,871</b>	<b>13,749</b>	<b>755</b>	<b>734</b>	<b>12,155</b>	<b>369,611</b>
<b>31 March 2013</b>							

## NOTE 15 – PROPERTY, PLANT AND EQUIPMENT (continued)

The Council's operational Land and Buildings were revalued on 1 April 2014 by the Council's Corporate Property Manager (M.R.I.C.S) in accordance with the policies noted in section 1.17 of Note 1 of the Accounting Policies. Refer to this note also for the basis of depreciation on various categories of assets.

14 Church Schools are used in the education service and are not shown in the table above as they are not owned by the Council. The Council is responsible for their repair and maintenance but the amounts are not significant. For information purposes, the new Cae Top School in Bangor is currently regarded as a Council owned asset in our accounts, and not a church school. The legal status of this asset is subject to a legal review which may affect its treatment in future accounts.

The sources of finance for the assets acquired during the year are shown with the information on capital expenditure in the explanatory foreword.

Assets Under Construction reflect only Gwynedd Council's proportion of the construction costs of the Pont Briwet project (based on an estimated split of the road and the rail elements of the project. This split currently stands at 41% road element (£2.91m in 2014/15 and a total of £6.67m) and 59% rail element).

### Capital Commitments

Significant commitments under capital contracts at 31 March 2015 were as follows:

	<b>Sum</b>	<b>Payments</b>	<b>Balance</b>
	<b>£'000</b>	<b>to date</b>	<b>£'000</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
New Hafod Lon School	11,650	211	11,439
Briwet Bridge *	16,450	12,406	4,044
Bro Llifon School	3,795	1,544	2,251
Welsh National Sailing Academy	4,198	2,468	1,730

\* Since Gwynedd Council is lead body on this project (together with Network Rail), the capital commitment outstanding and equivalent funding reflects the total cost of this project and not just Gwynedd Council's element.



## NOTE 16 – INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2013/14	2014/15
	£'000	£'000
Rental income from investment property	0	6
Direct operating expenses arising from investment property	0	0
Net gain / (loss)	0	6

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	2013/14	2014/15
	£'000	£'000
<b>Balance 1 April</b>	<b>824</b>	<b>100</b>
Net gains /(losses) from fair value adjustments	0	16
<u>Transfers:</u>		
to/(from) Property, Plant and Equipment	(724)	131
<b>Balance 31 March</b>	<b>100</b>	<b>247</b>

## NOTE 17 – FINANCIAL INSTRUMENTS

### (a) Financial Instruments - Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

#### Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the Council.

The Council's non-derivative financial liabilities held during the year are measured at amortised cost and comprised:

- long-term loans from the Public Works Loan Board and commercial lenders
- overdraft with Barclays Bank plc
- trade payables for goods and services received

#### Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Council during the year are held under the following three classifications:

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising:

- cash
- bank accounts

## NOTE 17 – FINANCIAL INSTRUMENTS (continued)

- fixed term deposits with banks and building societies
- impaired investments in Icelandic banks
- trade receivables for goods and services delivered

Available for sale financial assets (those that are quoted in an active market) comprising:

- money market funds and other collective investment schemes
- certificates of deposit issued by banks and building societies
- bonds issued by multilateral development banks and UK companies

Assets held at fair value through profit and loss comprising:

- equity investment in a local waste company

### (b) Financial Instruments - Balances

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

Financial Liabilities	Long Term		Short Term	
	31 March 2014 £'000	31 March 2015 £'000	31 March 2014 £'000	31 March 2015 £'000
Loans at amortised cost:				
Principal sum borrowed	111,215	111,108	1,193	214
Accrued interest	0	0	691	690
<b>Total Borrowing</b>	<b>111,215</b>	<b>111,108</b>	<b>1,884</b>	<b>904</b>
Loans at amortised cost:				
Bank overdraft	0	0	19,496	21,397
<b>Total Cash Overdrawn</b>	<b>0</b>	<b>0</b>	<b>19,496</b>	<b>21,397</b>
Liabilities at amortised cost:				
Trade Payables	100	49	0	0
Finance leases	2,372	2,253	0	0
<b>Total other Long Term Liabilities</b>	<b>2,472</b>	<b>2,302</b>	<b>0</b>	<b>0</b>
Liabilities at amortised cost:				
Trade Payables	0	0	59,298	64,565
Finance Leases	0	0	112	119
Included within Creditors*	0	0	59,410	64,684
<b>Total Financial Liabilities</b>	<b>113,687</b>	<b>113,410</b>	<b>80,790</b>	<b>86,985</b>

\* The short term creditors line on the Balance Sheet includes £1,669,000 (£3,881,000 at 31 March 2014) creditors that do not meet the definition of a financial liability. See Note 21 for further information.

## NOTE 17 – FINANCIAL INSTRUMENTS (continued)

The financial assets disclosed in the Balance Sheet are analysed across the following categories:

Financial Assets	Long Term		Short Term	
	31 March 2014 £'000	31 March 2015 £'000	31 March 2014 £'000	31 March 2015 £'000
Loans and Receivables:				
Principal at amortised cost	17	17	27,000	37,002
Accrued interest	0	0	83	234
Available for sale investments:				
Principal at amortised cost	60	1,173	0	0
<b>Total Investments</b>	<b>77</b>	<b>1,190</b>	<b>27,083</b>	<b>37,236</b>
Loans and Receivables:				
Cash	0	0	61	60
Cash equivalents at amortised cost	0	0	20,825	18,420
<b>Total Cash and Cash Equivalents</b>	<b>0</b>	<b>0</b>	<b>20,886</b>	<b>18,480</b>
Loans and Receivables:				
Trade Receivables	4,449	4,862	20,021	18,161
Included in Debtors*	4,449	4,862	20,021	18,161
<b>Total Financial Assets</b>	<b>4,526</b>	<b>6,052</b>	<b>67,990</b>	<b>73,877</b>

\* The short term debtors line on the Balance Sheet includes £24,196,000 (£32,113,000 at 31 March 2014) debtors that do not meet the definition of a financial asset. See Note 18 for further information.

### Material Soft Loans

Local Authorities are allowed to make loans for policy reasons rather than as financial instruments and these loans may be interest free or at rates below prevailing market rates. Where loans are advanced at below market rates, they are classed as “Soft Loans”.

The fair values of such a soft loan are less than the amount of the cash lent. The fair value of a loan at nil interest rate or below the prevailing market rate is estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument. The sum by which the amount lent exceeds the fair value of the loan is charged to the Income and Expenditure Account. The 2014/15 Code of Practice sets out specific accounting and disclosure requirements for soft loans. During 2014/15 Gwynedd Council identified the following “soft loans”:

- Deferred Payments on charges due from people under care (amount outstanding at 31.03.15 £3,234,042)
- Car and Bike Loans to employees (amount outstanding at 31.03.15 £1,016,266)

It has been determined that the few “soft” loans that the Council has require no separate disclosure, as they are de minimis.

## NOTE 17 – FINANCIAL INSTRUMENTS (continued)

### Offsetting Financial Assets and Liabilities

Financial assets and liabilities are set off against each other where the Council has a legally enforceable right to set off and it intends to settle on a net basis, or to realise the assets and settle the liability simultaneously. The table below shows those instruments that have been offset on the balance sheet. The Council had no other financial assets or liabilities subject to an enforceable master netting arrangement or similar agreement.

	2013/14			2014/15		
	Gross assets (liabilities)	(Liabilities) assets set off	Net position on balance sheet	Gross assets (liabilities)	(Liabilities) assets set off	Net position on balance sheet
	£'000	£'000	£'000	£'000	£'000	£'000
Bank accounts in credit	50,206	(50,206)	0	3,119	(3,119)	0
<b>Total Financial Assets</b>	<b>50,206</b>	<b>(50,206)</b>	<b>0</b>	<b>3,119</b>	<b>(3,119)</b>	<b>0</b>
Bank overdraft	(69,702)	50,206	(19,496)	(24,516)	3,119	(21,397)
<b>Total Financial Liabilities</b>	<b>(69,702)</b>	<b>50,206</b>	<b>(19,496)</b>	<b>(24,516)</b>	<b>3,119</b>	<b>(21,397)</b>

### (c) Financial Instruments - Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consists of the following items:

	Financial Liabilities	Financial Assets	
	Liabilities measured at amortised cost	Loans and Receivables	Total 2014/15
	£'000	£'000	£'000
Interest expense	6,432	0	6,432
<b>Interest payable and similar charges</b>	<b>6,432</b>	<b>0</b>	<b>6,432</b>
Interest income	0	(418)	(418)
<b>Interest and investment income</b>	<b>0</b>	<b>(418)</b>	<b>(418)</b>
<b>Net (gain) / loss for the year</b>	<b>6,432</b>	<b>(418)</b>	<b>6,014</b>

### (d) Financial Instruments - Fair Values

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31<sup>st</sup> March 2015, using the following assumptions:

- PWLB loans have been discounted at the published interest rates for new PWLB certainty rate loans with an identical remaining term to maturity arranged on 31<sup>st</sup> March.
- other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31<sup>st</sup> March.
- no early repayment or impairment is recognised.

## NOTE 17 – FINANCIAL INSTRUMENTS (continued)

- the fair value of short-term instruments, including trade payables and receivables is assumed to approximate to the carrying amount.
- In the case of deferred liabilities (such as finance leases) the authority deems the carrying amount to be a reasonable approximation of the fair value.

	<b>Carrying Amount 31 March 2014 £'000</b>	<b>Fair Value 31 March 2014 £'000</b>	<b>Carrying Amount 31 March 2015 £'000</b>	<b>Fair Value 31 March 2015 £'000</b>
<b>Financial Liabilities:</b>				
Loans borrowed	(113,099)	(140,550)	(112,012)	(166,103)
Finance leases	(2,484)	(2,484)	(2,372)	(2,372)
Trade Payables	(59,298)	(59,298)	(64,565)	(64,565)
<b>Total Financial Liabilities</b>	<b>(174,881)</b>	<b>(202,332)</b>	<b>(178,949)</b>	<b>(233,040)</b>
<b>Financial Assets:</b>				
Long term investments	77	77	1,190	1,190
Short term investments	27,000	27,083	37,002	37,227
Trade Receivables	20,021	20,021	18,161	18,161
<b>Total Financial Assets</b>	<b>47,098</b>	<b>47,181</b>	<b>56,353</b>	<b>56,578</b>

The fair value of long-term liabilities is higher than the carrying amount because the authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

The Council's investment portfolio at the Balance Sheet date consisted almost entirely of term deposits with Banks and Building Societies, and call/notice account deposits. The maturity dates of these investments were all within 12 months of the Balance Sheet date. The Council has one longer dated covered bond maturing in 2018.

During 2008/09 the Council made a deposit of £4m with Heritable Bank which was a UK registered bank under Scottish Law. The company was placed in administration on 7 October 2008. The Council has received a return of £3,778,353 equating to 94% from the administrators up to 31 March 2014.

No distributions were received in 2014/15. Notice has been received that a further dividend will be paid in August 2015, although the amount is not yet known. The administration is ongoing, but it is likely that the full amount should eventually be recovered.

### (e) Financial Instruments - Risks

The Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with The Prudential Code for Capital Finance in Local Authorities (both revised in November 2011).

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Welsh Government's Investment Guidance for local authorities. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Strategy, together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The main risks covered are:

## NOTE 17 – FINANCIAL INSTRUMENTS (continued)

- *Credit Risk:* The possibility that one party to a financial instrument will fail to meet its contractual obligations, causing a loss to the Council.
- *Liquidity Risk:* The possibility that the Council might not have the cash available to make contracted payments on time.
- *Market Risk:* The possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

### Credit Risk: Investments

The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. During 2014/15 these include commercial entities with a minimum long-term credit rating of A-, the UK government, and other local authorities without credit ratings upon which the Council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial organisations for investment.

During 2014/15 a limit of 10% of the total portfolio was placed on the amount that can be invested with a single counterparty (reduced to £1m for some building societies). The Council also set a total group investment limit of 10% for institutions that are part of the same banking group. No more than £30m in total could be invested for a period longer than one year.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £37m cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2015 that this was likely to crystallise.

The Council does not hold collateral against any investments.

The tables below summarise the credit risk exposures of the Council's investment portfolio by credit rating:

Credit Rating	Short term	
	31 March 2014	31 March 2015
	£'000	£'000
AAA	0	0
AA+	0	0
AA	0	0
AA-	10,000	22,485
A+	0	7,000
A	37,825	24,937
A-	0	0
Unrated	0	1,000
<b>Total Investments</b>	<b>47,825</b>	<b>55,422</b>

## NOTE 17 – FINANCIAL INSTRUMENTS (continued)

Credit Rating	Long Term	
	31 March 2014	31 March 2015
	£'000	£'000
AAA	0	0
AA+	0	0
AA	0	0
AA-	0	0
A+	0	0
A	0	0
A-	0	1,121
Unrated	0	0
<b>Total</b>	<b>0</b>	<b>1,121</b>
<b>Investments</b>	<b>0</b>	<b>1,121</b>

### Trade Receivables

The Council also has a number of longer term debtors including car loans to employees and mortgages to members of the public. The car loans are considered to be low risk due to the ability to deduct repayments of car loans from employees' salaries, reciprocal arrangements with other local authorities for any staff transferring with outstanding car loans, specific arrangements for unpaid loans and normal debt recovery procedures for any employees who leave local government employment. The mortgages are low risk due to the first charge held by the Council on mortgaged properties.

A small number and value of long term loans to local companies and organisations were inherited by the Council from former councils. Only one of these loans is now outstanding and the payment record is excellent.

The Council has launched a Business Loan Fund for small and medium sized businesses within Gwynedd. The interest rates charged on such loans is commensurate with the higher credit risk involved in these types of loans.

### Liquidity Risk

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourable interest rates. This risk is managed by maintaining a spread of fixed rate loans and ensuring that no more than 25% of the Council's borrowing matures in any one financial year.

The maturity analysis of the principal sums borrowed is as follows:

Time to maturity (years)	31 March	31 March
	2014	2015
	£'000	£'000
Less than 1 year	1,193	214
Over 1 but not over 2	199	1,981
Over 2 but not over 5	4,625	4,657
Over 5 but not over 10	8,069	11,451
Over 10 but not over 20	39,305	34,003
Over 20 but not over 30	15,464	15,464
Over 30 but not over 40	0	0
Over 40	27,352	27,352
Uncertain date*	16,200	16,200
<b>Total</b>	<b>112,407</b>	<b>111,322</b>

## NOTE 17 – FINANCIAL INSTRUMENTS (continued)

\* The Council has £16.2m of “Lender’s option, borrower’s option” (LOBO) loans where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, in the unlikely event that the lender exercises its option, the Council is likely to repay these loans. The maturity date is therefore uncertain.

### Market Risks: Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense will rise.
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall.
- investments at variable rates – the interest income credited will rise.
- investments at fixed rates – the fair value of the assets will fall.

Investments classed as “loans and receivables” and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed as “available for sale” will be reflected in Other Comprehensive Income and Expenditure.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2015, 100% of net principal borrowed (*i.e.* debt net of investments) was exposed to fixed rates and 0% to variable rates.

If all interest rates had been 1% higher or lower (with all other variables held constant) the financial effect would be:

	1% higher £'000	1% lower £'000
Change in interest payable on variable rate borrowings	0	0
Change in interest receivable on variable rate investments	150	(71)
<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>150</b>	<b>(71)</b>
Decrease in fair value of fixed rate investment assets	0	0
<b>Impact on Other Comprehensive Income and Expenditure</b>	<b>0</b>	<b>0</b>
Decrease in fair value of fixed rate borrowings / liabilities*	(21,085)	21,085

\*No impact on the Surplus or Deficit on the Provision of Services, or Other Comprehensive Income and Expenditure

### Market Risks: Price Risk

The market prices of the Council’s fixed rate bond investments and its units in collective investment schemes are governed by prevailing interest rates, and the market risk associated with these instruments is managed alongside interest rate risk.

The Council does not invest in equity shares and therefore is not subject to any price risk. The Council has shares in a Local Authority Waste Disposal Company (LAWDC). The relevant activities have been internalised and the company is being wound up and has, therefore, been classified as an ‘available for sale asset’ and is shown at fair value in the Balance Sheet. A partial settlement payment for the fair value of the shares was received in 2008/09 and 2009/10 and the balance remains. This process cannot be fully completed until specific and related tax invoices are resolved with Her Majesty’s Revenue & Customs.

### Market Risks: Foreign Exchange Risk

The Council has no financial asset or liabilities denominated in a foreign currency. It therefore has no exposure to loss arising as a result of adverse movements in exchange rates.



## NOTE 18 – SHORT-TERM DEBTORS

	Debtors NET of impairment	
	31 March 2014	31 March 2015
	£'000	£'000
Welsh Government	19,660	14,402
Other Central Government Bodies	5,206	4,408
Other Local Authorities	6,152	6,338
National Health Service	2,113	1,129
Public Corporations and Trading	45	523
Council Tax	1,927	1,831
Other Entities and Individuals	17,031	13,726
<b>Total</b>	<b>52,134</b>	<b>42,357</b>

## NOTE 19 – CASH AND CASH EQUIVALENTS

Cash comprises cash in hand and demand deposits. Cash will also include bank overdrafts that are repayable on demand and that are integral to the authority's cash management.

Balances classified as 'Cash Equivalents' fit the definition of being short-term highly liquid investments, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The net balance of Cash and Cash Equivalents is made up of the following elements at the Balance Sheet date:

	31 March 2014	31 March 2015
	£'000	£'000
Cash in hand	14	13
Bank current accounts	47	47
Call Accounts	20,825	18,420
<b>Cash and Cash Equivalents</b>	<b>20,886</b>	<b>18,480</b>
Bank overdraft	(19,496)	(21,397)
<b>Total</b>	<b>1,390</b>	<b>(2,917)</b>

In order to maximise the returns from Short Term Investments and Cash Deposits, the Council invests any temporarily surplus funds in its bank accounts along with any surplus funds in the Gwynedd Pension Fund bank accounts. An appropriate share of the interest earned is paid to the Pension Fund and any losses on investment are shared with the Pension Fund in the same proportion. Due to the nature of the banking arrangements any surplus cash in the Pension Fund bank accounts is not transferred to the Council's bank accounts and therefore a proportion of the above Short Term Investments (Note 17) and the Call Accounts and Money Market Funds above represent money invested on behalf of the Pension Fund at the balance sheet date. As the Short Term Investments are made in the name of Gwynedd Council, they are shown in full on the Balance Sheet. The Pension Fund element of the Short Term Investments and Cash Deposits was £13.7m (£12.1m at 31 March 2014).

## NOTE 20 – ASSETS HELD FOR SALE

	2013/14	2014/15
	£'000	£'000
<b>Balance 1 April</b>	<b>2,905</b>	<b>2,488</b>
<u>Assets newly classified as held for sale:</u>		
Property, Plant and Equipment	1,199	283
Expenditure in year	16	2
Revaluation Losses	0	(6)
Revaluation Gains	0	0
Impairment Losses	(16)	(2)
<u>Assets declassified as held for sale:</u>		
Property, Plant and Equipment	(1,062)	(220)
Assets sold	(554)	(1,505)
Transfers from non-current to current	0	
<b>Balance 31 March</b>	<b>2,488</b>	<b>1,040</b>

## NOTE 21 – SHORT-TERM CREDITORS

	31 March 2014	31 March 2015
	£'000	£'000
Welsh Government	1,815	2,217
Other Central Government Bodies	4,307	4,667
Other Local Authorities	19,837	24,137
National Health Service	587	255
Public Corporations and Trading	136	135
Council Tax	1,012	1,170
Other Entities and Individuals	35,597	33,772
<b>Total</b>	<b>63,291</b>	<b>66,353</b>

## NOTE 22 – PROVISIONS

The Council sets aside provisions for specific obligations, the amount or timing of which cannot be determined accurately. It is not permitted, under accounting conventions, to make provisions for uneven patterns of expenditure. However, earmarked reserves may be established and these are disclosed in Note 10.

The details below are analysed into short term provisions (within 12 months) and long term provisions (over 12 months). However, the provision level on all related items is reviewed periodically.

	Balance at 31 March 2014 £'000	(Addition) / Reduction / Transfer £'000	Used during the year £'000	Balance at 31 March 2015 £'000
<b><u>Short Term Provisions</u></b>				
Waste Sites Provision	(452)	(308)	483	(277)
Other	(27)	0	20	(7)
	<b>(479)</b>	<b>(308)</b>	<b>503</b>	<b>(284)</b>
<b><u>Long Term Provisions</u></b>				
Council Tax Property Transfers	(250)	(250)	10	(490)
Equal Pay	(2,091)	(600)	21	(2,670)
Waste Sites Provision	(7,984)	(127)	0	(8,111)
Third Party Claims Provision	(188)	0	85	(103)
MMI Insurance Provision	(198)	0	0	(198)
Pension Provisions	0	(335)	0	(335)
Other	(113)	0	0	(113)
	<b>(10,824)</b>	<b>(1,312)</b>	<b>116</b>	<b>(12,020)</b>
<b>Total</b>	<b>(11,303)</b>	<b>(1,620)</b>	<b>619</b>	<b>(12,304)</b>

**Council Tax Property Transfers Provision** - Provision relating to the implications of properties transferring from Council Tax to National Non-Domestic Rates.

**Equal Pay Provision** – provision relating to the equal pay claims against the Council.

**Waste Sites Provision** – relates to the capping and aftercare requirements of all of the Council's waste disposal sites.

**Third Party Claims Provision** – relating to cases of third party claims against the Council.

**Municipal Mutual Insurance (M.M.I) Provision** – a provision in respect of the insurance liability this Authority inherited and is exposed to in relation to the insurance arrangements of its predecessor Authorities and Municipal Mutual Insurance.

**Pension Provision** – provision for future pension requirements

**Other Provisions** – All the other provisions relate to other minor issues.

## NOTE 23 – USABLE RESERVES

The Movement in Reserves Statement details the movements in the Authority's usable reserves.

## NOTE 24 – UNUSABLE RESERVES

31 March 2014		31 March 2015
£'000		£'000
41,009	Revaluation Reserve	63,451
60	Available For Sale Financial Instruments Reserve	85
169,777	Capital Adjustment Account	178,713
(948)	Financial Instruments Adjustment Account	(886)
4	Deferred Capital Receipts Reserve	2
(171,689)	Pensions Reserve	(248,721)
(3,766)	Accumulated Absences Account	(3,819)
<b>34,447</b>	<b>Total Unusable Reserves</b>	<b>(11,175)</b>

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost.
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2013/14		2014/15
£'000		£'000
<b>44,043</b>	<b>Balance 1 April</b>	<b>41,009</b>
263	Upward revaluation of assets	30,706
(1,692)	Downward revaluation of assets and impairment losses	(6,303)
<b>(1,429)</b>	<b>Surplus or deficit on revaluation of assets</b>	<b>24,403</b>
(1,066)	Difference between fair value depreciation and historical cost depreciation	(1,214)
(539)	Accumulated gains on assets sold	(747)
<b>(1,605)</b>	<b>Amount written off to the Capital Adjustment Account</b>	<b>(1,961)</b>
<b>41,009</b>	<b>Balance 31 March</b>	<b>63,451</b>

### Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

**NOTE 24 – UNUSABLE RESERVES (continued)**

2013/14 £000	2014/15 £'000
<b>60 Balance 1 April</b>	<b>60</b>
0 Upward revaluation of investments	33
0 Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(8)
0 Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	0
<b>60 Balance 31 March</b>	<b>85</b>

**Capital Adjustment Account**

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 9 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2013/14 £'000	2014/15 £'000
<b>163,466 Balance 1 April</b>	<b>169,777</b>
<u>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</u>	
(25,426) Charges for depreciation and impairment of non-current assets	(16,580)
(6,222) Revenue Expenditure funded from Capital under Statute	(4,833)
(686) Adjustment to non-current balance on the sale of assets	(1,980)
1,066 Transfer from Capital Revaluation Reserve	1,214
<u>Capital financing applied in the year:</u>	
1,377 Capital Receipts	1,873
18,989 Grants and contributions credited to Comprehensive Income and Expenditure Statement that have been applied to capital financing	15,666
5,731 Revenue provision for the financing of supported capital investment	5,692
10,516 Capital expenditure charged in year against the General Fund	6,430
966 Capital receipts set aside / Revenue provision for the financing of unsupported capital investment	1,454
<b>169,777 Balance 31 March</b>	<b>178,713</b>

## NOTE 24 – UNUSABLE RESERVES (continued)

### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account (FIAA) was established on 1 April 2007 when Financial Reporting Standards 25, 26 and 29 relating to Financial Instruments were adopted into the SORP (2007 SORP). The balance in the FIAA account at the end of the financial year represents the amount that should have been charged to the Comprehensive Income and Expenditure Statement in accordance with proper accounting practices under the Code of Practice, but which Statutory Provisions allow or require to be deferred over future years.

There is a requirement for all premiums and discounts arising from loan extinguishments from 1 April 2006 to be charged to Income and Expenditure in full. Where transactions meet the definition of a modification any premiums or discounts are added to the carrying value of the loan and are then amortised to the Comprehensive Income and Expenditure Statement over the life of the new loan. A modification exists where the terms of the new debt are not “substantially different” from those of the old debt.

In the case of premiums and discounts relating to transactions occurring prior to 1 April 2006, these are classified between those that are overhanging and those that are not overhanging. Overhanging premiums and discounts are those that cannot be associated with a continuing loan. These were written off in full as an adjustment to the General Fund Balances Brought Forward at 1 April 2007.

In the case of overhanging premiums or discounts, or those relating to loan extinguishments, Statutory Provisions exist to override the provisions of the Code of Practice. The charges are reversed out in the Movement in Reserves Statement and premiums and discounts are amortised to Revenue over a period of years. Where premiums and discounts are not overhanging or are linked to transactions meeting criteria of a loan modification the statutory provisions relating to the General Fund do not apply.

Premiums amortised under statutory provisions can be charged to the General Fund over either the remaining life of the original loan or the life of the replacement loan, whichever is the greater period. Discounts must be credited to the General Fund over 10 years or the life of the original loan, whichever is the shorter period.

The transactions reflected in the FIAA for 2014/15 are as follows:

<b>2013/14</b>		<b>2014/15</b>
<b>£'000</b>		<b>£'000</b>
<b>(959)</b>	<b>Balance 1 April</b>	<b>(948)</b>
46	Proportion of premiums incurred in previous years charged to General Fund in accordance with statute	46
(35)	Deferred credit for receipt of charges due from people under care	16
<b>(948)</b>	<b>Balance 31 March</b>	<b>(886)</b>

### Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

**NOTE 24 – UNUSABLE RESERVES (continued)**

2013/14 £'000	2014/15 £'000
<b>6 Balance 1 April</b>	<b>4</b>
(2) Principal repayment of Right To Buy Mortgages	(2)
<b>4 Balance 31 March</b>	<b>2</b>

**Pensions Reserve**

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2013/14 £'000	2014/15 £'000
<b>(168,179) Balance 1 April</b>	<b>(171,689)</b>
3,108 Re-measurements of the net defined benefit liability / (assets)	(70,697)
(26,345) Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(26,533)
19,727 Employer's pensions contributions and direct payments to pensioners payable in the year	20,198
<b>(171,689) Balance 31 March</b>	<b>(248,721)</b>

**Accumulated Absences Account**

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

**NOTE 24 – UNUSABLE RESERVES (continued)**

2013/14 £'000		2014/15 £'000
(3,201)	<b>Balance 1 April</b>	(3,766)
(565)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(53)
<b>(3,766)</b>	<b>Balance 31 March</b>	<b>(3,819)</b>

**NOTE 25a – CASH FLOW STATEMENT : ADJUSTMENTS TO NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES FOR NON-CASH MOVEMENTS**

2013/14 £'000		2014/15 £'000
(11,386)	Depreciation	(12,153)
(14,039)	Impairment and downward valuations	(4,426)
(1,031)	(Increase)/Decrease in Creditors	(7,853)
7,059	Increase/(Decrease) in Debtors	(9,626)
198	Increase/(Decrease) in Stock	12
(6,606)	Pension Liability	(6,618)
(1,226)	Carrying amount of non-current assets sold	(2,728)
(4,986)	Other non-cash items charged to net surplus/deficit on the provision of services	(5,169)
<b>(32,017)</b>		<b>(48,561)</b>

**NOTE 25b – CASH FLOW STATEMENT – ADJUST FOR ITEMS INCLUDED IN THE NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES THAT ARE INVESTING AND FINANCING ACTIVITIES**

2013/14 £'000		2014/15 £'000
1,514	Proceeds from sale of property, plant and equipment, investment property and intangible assets	2,190
<b>1,514</b>		<b>2,190</b>

**NOTE 25c – CASH FLOW STATEMENT – OPERATING ACTIVITIES**

The cash flows for operating activities include the following items:

2013/14 £'000		2014/15 £'000
(576)	Interest received	(323)
5,864	Interest paid	5,749



## NOTE 26 – CASH FLOW STATEMENT – INVESTING ACTIVITIES

2013/14		2014/15
£'000		£'000
31,469	Purchase of property, plant and equipment, investment property and intangible assets	31,042
6,554	Other payments for investing activities	5,249
(1,544)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,193)
(8,416)	Proceeds from short-term and long-term investments	11,090
<b>28,063</b>	<b>Net cash flows from investing activities</b>	<b>45,188</b>

## NOTE 27 – CASH FLOW STATEMENT – FINANCING ACTIVITIES

2013/14		2014/15
£'000		£'000
92	Cash payments for the reduction of the outstanding liability relating to Finance Leases	112
843	Repayments of short term and long term borrowing	1,088
<b>935</b>	<b>Net cash flows from financing activities</b>	<b>1,200</b>

## NOTE 28 – AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across departments. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to Departments.

This reconciliation shows how the figures in the analysis of departmental income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement and shows how the figures in the analysis of departmental income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

**NOTE 28 – AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS (continued)**

2014/15 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS	Expenditure			Total Expenditure	Income		Total Income	Net Expenditure
	Employees	Other	Support Services		Fees and other	Government Grants and Contributions		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Human Resources	2,695	274	(82)	2,887	(68)	(60)	(128)	2,759
Finance	6,791	2,086	3	8,880	(1,853)	(894)	(2,747)	6,133
Chief Executive Department	1,828	1,013	8	2,849	(169)	(512)	(681)	2,168
Strategic and Improvement	4,693	3,068	8	7,769	(80)	(2,920)	(3,000)	4,769
Education	79,990	22,992	218	103,200	(7,546)	(13,006)	(20,552)	82,648
Economy and Community	9,616	7,974	20	17,610	(6,274)	(3,736)	(10,010)	7,600
Highways and Municipal	16,732	22,784	(46)	39,470	(12,208)	(3,864)	(16,072)	23,398
Regulatory	8,081	8,416	0	16,497	(4,907)	(3,365)	(8,272)	8,225
Consultancy	2,158	502	0	2,660	(2,336)	(260)	(2,596)	64
Trunk Roads	0	0	(224)	(224)	0	0	0	(224)
Children and Families	6,248	10,232	102	16,582	(339)	(3,165)	(3,504)	13,078
Adults, Health and Wellbeing	27,614	41,037	280	68,931	(12,900)	(10,626)	(23,526)	45,405
<b>Total items within Departmental Control</b>	<b>166,446</b>	<b>120,378</b>	<b>287</b>	<b>287,111</b>	<b>(48,680)</b>	<b>(42,408)</b>	<b>(91,088)</b>	<b>196,023</b>
Corporate	1,168	22,074	23,319	46,561	(1,109)	(31,767)	(32,876)	13,685
<b>Total items within Departmental Control and Central Support Services</b>	<b>167,614</b>	<b>142,452</b>	<b>23,606</b>	<b>333,672</b>	<b>(49,789)</b>	<b>(74,175)</b>	<b>(123,964)</b>	<b>209,708</b>
<b>Items within net cost of services, not under departmental control:</b>								
Capital Charges	0	19,591	0	19,591	0	0	0	19,591
<b>Items under departmental control, not included in net cost of services:</b>								
Contributions to Reserves	(363)	(3,331)	0	(3,694)	0	0	0	(3,694)
Use of Reserves	0	0	0	0	1,785	0	1,785	1,785
<b>Net Cost of Services</b>	<b>167,251</b>	<b>158,712</b>	<b>23,606</b>	<b>349,569</b>	<b>(48,004)</b>	<b>(74,175)</b>	<b>(122,179)</b>	<b>227,390</b>
<b>Other Operating Expenditure</b>								
Precepts and Levies	0	19,613	0	19,613	0	0	0	19,613
(Gains)/Losses on the disposal of Non-current Assets	0	538	0	538	0	0	0	538
<b>Financing and Investment Income and Expenditure</b>								
Interest Payable and Similar Charges	0	6,591	0	6,591	0	0	0	6,591
Net Interest on the Net Defined Benefit Liability/(Asset)	0	0	7,369	7,369	0	0	0	7,369
Interest Receivable and Similar Income	0	0	0	0	(474)	0	(474)	(474)
<b>Taxation and non-specific grant income</b>								
Council Tax	0	0	0	0	(68,525)	0	(68,525)	(68,525)
Net income Non-domestic rates	0	0	0	0	(38,991)	0	(38,991)	(38,991)
Government Grants - Revenue	0	0	0	0	0	(137,255)	(137,255)	(137,255)
Grants and Contributions - Capital	0	0	0	0	(258)	(11,708)	(11,966)	(11,966)
<b>(Surplus)/ Deficit on the Provision of Services</b>	<b>167,251</b>	<b>185,454</b>	<b>30,975</b>	<b>383,680</b>	<b>(156,252)</b>	<b>(223,138)</b>	<b>(379,390)</b>	<b>4,290</b>

**NOTE 28 – AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS (continued)**

2013/14	Expenditure			Total Expenditure	Income		Total Income	Net Expenditure
	Employees	Other	Support Services		Fees and other	Government Grants and Contributions		
<b>AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS</b>								
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Human Resources	2,879	362	(23)	3,218	(56)	(59)	(115)	3,103
Finance	5,262	1,292	2	6,556	(1,686)	(920)	(2,606)	3,950
Democracy and Legal	1,764	741	1	2,506	(679)	(190)	(869)	1,637
Customer Care	6,175	2,220	129	8,524	(1,356)	(99)	(1,455)	7,069
Strategic and Improvement	4,401	4,063	7	8,471	(72)	(3,723)	(3,795)	4,676
Education	79,825	25,463	246	105,534	(6,761)	(15,827)	(22,588)	82,946
Economy and Community	4,731	10,440	19	15,190	(3,420)	(7,986)	(11,406)	3,784
Highways and Municipal	16,032	18,327	(7)	34,352	(7,922)	(3,867)	(11,789)	22,563
Regulatory	5,682	8,948	0	14,630	(3,969)	(4,591)	(8,560)	6,070
Consultancy	2,191	738	0	2,929	(2,685)	(226)	(2,911)	18
Trunk Roads	0	0	(106)	(106)	(142)	0	(142)	(248)
Social Services Housing and Leisure	35,256	49,510	265	85,031	(14,551)	(11,066)	(25,617)	59,414
<b>Total items within Departmental Control</b>	<b>164,198</b>	<b>122,104</b>	<b>533</b>	<b>286,835</b>	<b>(43,299)</b>	<b>(48,554)</b>	<b>(91,853)</b>	<b>194,982</b>
Corporate	1,729	19,921	24,857	46,507	(1,133)	(33,617)	(34,750)	11,757
Corporate Management Team	859	70	1	930	0	(5)	(5)	925
<b>Total items within Departmental Control and Central Support Services</b>	<b>166,786</b>	<b>142,095</b>	<b>25,391</b>	<b>334,272</b>	<b>(44,432)</b>	<b>(82,176)</b>	<b>(126,608)</b>	<b>207,664</b>
<b>Items within net cost of services, not under departmental control:</b>								
Capital Charges	0	29,744	0	29,744	0	0	0	29,744
<b>Items under departmental control, not included in net cost of services:</b>								
Contributions to Reserves	(329)	(3,293)	0	(3,622)	0	0	0	(3,622)
Use of Reserves	0	0	0	0	2,121	0	2,121	2,121
<b>Net Cost of Services</b>	<b>166,457</b>	<b>168,546</b>	<b>25,391</b>	<b>360,394</b>	<b>(42,311)</b>	<b>(82,176)</b>	<b>(124,487)</b>	<b>235,907</b>
<b>Other Operating Expenditure</b>								
Precepts and Levies	0	19,144	0	19,144	0	0	0	19,144
(Gains)/Losses on the disposal of Non-current Assets	0	0	0	0	(288)	0	(288)	(288)
<b>Financing and Investment Income and Expenditure</b>								
Interest Payable and Similar Charges	0	6,682	0	6,682	(206)	0	(206)	6,476
Net Interest on the Net Defined Benefit Liability (Asset)	0	0	7,556	7,556	0	0	0	7,556
Interest Receivable and Similar Income	0	0	0	0	(445)	0	(445)	(445)
<b>Taxation and non-specific grant income</b>								
Council Tax	0	0	0	0	(66,095)	0	(66,095)	(66,095)
Net income Non-domestic rates	0	0	0	0	(38,209)	0	(38,209)	(38,209)
Government Grants - Revenue	0	0	0	0	0	(144,714)	(144,714)	(144,714)
Grants and Contributions - Capital	0	0	0	0	(2,967)	(14,946)	(17,913)	(17,913)
<b>(Surplus)/ Deficit on the Provision of Services</b>	<b>166,457</b>	<b>194,372</b>	<b>32,947</b>	<b>393,776</b>	<b>(150,521)</b>	<b>(241,836)</b>	<b>(392,357)</b>	<b>1,419</b>

## NOTE 29 – AGENCY SERVICES

The Council operates on an agency basis to prepare some services, and also administers the North and Mid Wales Trunk Road Agency on behalf of the Welsh Government.

In terms of the North and Mid Wales Trunk Road Agency, the principal area of work is managing and maintaining the trunk road network in the North and Mid Wales Council's Partnership region that extends to 1,174 kilometres. The income transactions recovered during the year 2014/15 was £46.2m (£51.91m in 2013/14).

During 2014/15, Gwynedd Council acted as an agent to the Welsh Government's 'Houses into Homes' scheme, by providing interest free loans to owners of empty properties in order to bring the premises back into use, for sale or rent. During 2014/15, loans amounting to £166,200 were allocated and £242,250 was repaid, a net movement of (£76,050) (£159,000 in 2013/14).

## NOTE 30 – MEMBERS' ALLOWANCES

The Authority paid the following allowances and expenses to members of the Council during the year:

<b>2013/14</b>		<b>2014/15</b>
<b>£'000</b>		<b>£'000</b>
1,260	Allowances	1,260
65	Expenses	71
<b>1,325</b>		<b>1,331</b>

## NOTE 31 – OFFICERS’ REMUNERATION

**31a.** The Accounts and Audit (Wales) Regulations 2014, require the Council to disclose the following information relating to employees appointed as Senior Officers, and whose salary is between £60,000 and £150,000. In compliance with the defined requirements, the pensionable pay, employer’s pension contributions and other employer costs are included below, but the employer’s national insurance contributions are excluded. Included below is the related gross costs, where substantial savings have been made from senior management restructuring of the Council:

2013-14				Chief Officers		2013-14			
Salary	Employer's Pension Contributions	Other Employer Costs	Total			Salary	Employer's Pension Contribution	Other Employer Costs	Total
£	£	£	£			£	£	£	£
108,264	24,251	174,298	306,813	Chief Executive <sup>1</sup>	}	53,926	12,079	(20,546)	45,459
0	0	0	0	Chief Executive <sup>2</sup>		50,992	11,422	0	62,414
88,960	19,927	0	108,887	Corporate Director <sup>1</sup>		44,311	9,926	0	54,237
88,960	19,927	0	108,887	Corporate Director		89,022	19,941	0	108,963
41,144	9,216	0	50,360	Corporate Director		84,571	18,944	0	103,515
75,511	16,914	25,813	118,238	Head of Education <sup>3</sup>	}	32,795	7,021	437	40,253
0	0	0	0	Head of Education <sup>4</sup>		30,326	6,793	0	37,119
0	0	0	0	Head of Education <sup>5</sup>		20,915	4,685	0	25,600
73,578	16,482	0	90,060	Head of Highways and Municipal		73,618	16,490	0	90,108
70,263	15,739	0	86,002	Head of Finance		71,643	16,048	0	87,691
70,263	15,739	0	86,002	Head of Economy & Community		70,312	15,750	0	86,062
70,263	15,739	0	86,002	Head of Adults, Health and Wellbeing	}	70,312	15,750	0	86,062
0	0	0	0	Temporary Head of Adults, Health and Wellbeing <sup>6</sup>		5,587	1,252	0	6,839
70,263	15,739	0	86,002	Head of Regulatory	}	64,725	14,498	0	79,223
0	0	0	0	Temporary Head of Regulatory <sup>6</sup>		5,202	1,165	0	6,367
70,263	15,739	0	86,002	Head of Strategic & Improvement <sup>7</sup>		70,312	15,750	47,332	133,394
63,237	14,165	0	77,402	Head of Human Resources <sup>7</sup>		56,249	12,600	0	68,849
59,353	13,295	0	72,648	Head of Gwynedd Consultancy		59,394	13,304	0	72,698
56,210	12,591	99,834	168,635	Head of Democracy and Legal <sup>8</sup>		23,332	5,226	7,090	35,648
19,719	4,417	0	24,136	Head of Children and Families		65,039	14,569	0	79,608

• “Other Employer Costs” above - in accordance with the requirements, the related commitments as known to the Council as at 31 March 2015 are included.

• Other references to the above table:

- 1 Holder in post to end of September 2014
- 2 Holder in post from beginning of October 2014
- 3 Holder in post to end of August 2014
- 4 Holder in post from 21 July 2014 to end of December 2014
- 5 Holder in post from 5 January 2015
- 6 Temporary holder in post from 2 March 2015
- 7 Holder in post to end of March 2015
- 8 Holder in post to end of August 2014

**31b.** The Accounts and Audit (Wales) Regulations 2014 require the Authority to include a ratio of remuneration. During 2014/15 there have been two holders in the Chief Executive’s post (refer to note 31a for further details), therefore a combined annualised remuneration figure has been used for the calculation. The ratio of the Chief Executive to the median remuneration of all the Authority’s employees is 5:45 : 1.

## NOTE 31 – OFFICERS' REMUNERATION (continued)

31c. Other Authority employees receiving more than £60,000 remuneration for the year (excluding employer's pension and national insurance contributions), were paid the following amounts. The figures include termination benefits paid in 17 cases in 2014/15 and 4 cases in 2013/14. These posts would not appear below except for the termination benefits paid in the individual year.

Number of other employees who received more than £60,000 and includes remuneration and termination benefits:						
Number in 2013-14				Number in 2014-15		
Schools	Other	Total		Schools	Other	Total
7	0	7	£60,000 - 64,999	8	1	9
5	0	5	£65,000 - 69,999	4	3	7
1	0	1	£70,000 - 74,999	4	3	7
2	0	2	£75,000 - 79,999	1	1	2
0	1	1	£80,000 - 84,999	0	0	0
0	0	0	£85,000 - 89,999	0	1	1
1	1	2	£90,000 - 94,999	0	2	2
1	0	1	£95,000 - 99,999	1	0	1
1	0	1	£100,000 - 104,999	0	0	0
0	0	0	£105,000 - 109,999	0	1	1
0	0	0	£110,000 - 114,999	0	1	1
0	0	0	£115,000 - 119,999	0	1	1
0	0	0	£120,000 - 124,999	0	0	0
0	0	0	£125,000 - 129,999	0	0	0
0	0	0	£130,000 - 134,999	0	0	0
0	0	0	£135,000 - 139,999	0	1	1

## NOTE 32 – EXTERNAL AUDIT COSTS

The Authority has incurred the following costs relating to external audit.

2013/14		2014/15
£'000		£'000
272	Fees for External Audit Services	267
139	Fees for grant claims and returns	114
<b>411</b>		<b>381</b>

The 'Fees for External Audit Services' in 2014/15 includes £2,490 (£6,258 in 2013/14) audit fees relating to the Joint Committees and the Harbours' accounts

## NOTE 33 – GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2014/15:

	Note	2013/14 £'000	2014/15 £'000
<b>Credited to Taxation and Non Specific Grant Income</b>			
Outcome Agreement Grant (Non-ringfenced Government Grants)	13	1,290	1,275
Revenue Support Grant (Non-ringfenced Government Grants)	13	143,424	135,980
Government Capital Grants and Contributions -			
21st Century Schools		2,673	2,203
General Capital Grant		2,543	2,508
Other		9,730	6,997
	13	14,946	11,708
Other Capital Grants and Contributions	13	2,967	258
<b>Total</b>		<b>162,627</b>	<b>149,221</b>
<b>Grants and Contributions Credited to Services</b>			
Welsh Government -			
Supporting People Grant (SPG & SPRG)		5,925	5,703
Foundation Phase Grant (Education)		4,032	3,941
Sustainable Waste Management Grant		3,696	3,616
Post 16 Grant (Education)		3,310	3,027
Potential Grant		3,156	180
Other		17,167	15,600
		37,286	32,067
Other Government Grants and Contributions -			
Department for Work and Pensions		29,708	30,320
Other		14,853	11,787
		44,561	42,107
Other Grants and Contributions		1,097	2,776
		<b>82,944</b>	<b>76,950</b>

There has been a change to the comparative breakdown figures by amalgamation as the figures were not considered material in 2014/15.

## NOTE 33 – GRANT INCOME (continued)

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that could require the monies or property to be returned to the giver. The balances at the year end are as follows:

	31 March 2014 £'000	31 March 2015 £'000
<b>Grants Received in Advance</b>		
<b><u>Long Term</u></b>		
<b>Revenue Grants and Contributions : -</b>		
Regulatory (Planning, Transport & Public Protection) Grants	682	771
Adults, Health and Wellbeing Grants	426	245
	1,108	1,016
<b>Capital Grants and Contributions : -</b>		
Highways and Municipal Capital Contributions	1,956	1,956
Regulatory (Planning, Transport & Public Protection) Grants	878	1,297
	2,834	3,253
<b>Total Long Term</b>	<b>3,942</b>	<b>4,269</b>
<b><u>Short Term</u></b>		
<b>Revenue Grants and Contributions : -</b>		
Economy and Community Grants	306	761
Education Grants	261	82
Regulatory (Planning, Transport & Public Protection) Grants	251	506
Adults, Health and Wellbeing Grants	460	623
Children & Families Grants	0	26
Consultancy Grants	29	29
Corporate Management Team Grants	7	0
Highways and Municipal Grants	3	0
Finance Grants	0	402
	1,317	2,429
<b>Capital Grants and Contributions : -</b>		
Economy and Community Grants	215	275
Highways and Municipal Capital Contributions	146	0
Adults, Health and Wellbeing Grants	97	31
	458	306
<b>Total Short Term</b>	<b>1,775</b>	<b>2,735</b>
<b>Total</b>	<b>5,717</b>	<b>7,004</b>

There was a change to the Departmental structure between 2013/14 and 2014/15, and consequently there is a change to the comparative breakdown figures to reflect the current Departments



## NOTE 34 – RELATED PARTIES

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority. To conform to the requirements, this is done by completing a personal declaration by the Members and Senior Officers, as defined in the CIPFA Code of Practice.

### Welsh and Central Government

Welsh Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has within other parties (e.g. council tax bills, housing benefits). Grants received from the Welsh Government and other Government departments are set out in the subjective analysis in Note 28 on reporting for resources allocation decisions. The related position as at 31 March is provided in Note 33.

### Members

Members of the council have direct control over the Council's financial and operating policies. One member of the Council did not return a personal declaration. The total of members' allowances paid in 2014/15 is shown in Note 30.

The Authority appoints members to some external charitable or voluntary bodies or they have disclosed a link to organisations, public bodies and authorities. A breakdown of the payments and balances at 31 March 2015 made to these bodies under this heading during 2014/15 is as follows:

<b>Payments made</b>	<b>Amounts owed by the Authority</b>	<b>Amounts owed to the Authority</b>
<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
10,860	1,067	(2,854)

Members have declared an interest or relationship (as defined) in companies or businesses which may have dealings with the Authority. A breakdown of the payments and balances at 31 March 2015 made to these companies under this heading during 2014/15 is as follows:

<b>Payments made</b>	<b>Amounts owed by the Authority</b>	<b>Amounts owed to the Authority</b>
<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
2,469	102	(30)

### Officers

Senior Officers (as defined) have declared as required and where appropriate an interest or relationship (as defined) in companies, voluntary, charitable, or public bodies which receive payments from the Authority. A breakdown of the payments and balances at 31 March 2015 made to these bodies under this heading during 2014/15 is as follows:

<b>Payments made</b>	<b>Amounts owed by the Authority</b>	<b>Amounts owed to the Authority</b>
<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
3,687	345	(107)

### Other Public Bodies

The Authority is the administering authority for the Pension Fund. Details of transactions with the Pension Fund are shown in Note 40 on pages 66 to 70 and the Pension Fund Accounts on pages 74 to 104.

## NOTE 34 – RELATED PARTIES (continued)

### Welsh Joint Education Committee (WJEC)

Payments made	Amounts owed by the Authority	Amounts owed to the Authority
£'000	£'000	£'000
517	25	-

### Entities Controlled or Significantly Influenced by the Authority

Cwmni Cynnal Cyf. was established in 1996 to provide education support services under contract to maintained schools and the local education authorities as well as school inspection services to Estyn. The company is limited by guarantee and the Council's liability is limited to £1. The income of the company can only be applied towards promotion of its objectives. Copies of the financial statements are available from Cwmni Cynnal Cyf., Plas Llanwnda, Caernarfon, Gwynedd LL55 1SH. Payments and balances at 31 March 2015 to Cwmni Cynnal during 2014/15 for services to schools are as follows:

Payments made	Amounts owed by the Authority	Amounts owed to the Authority
£'000	£'000	£'000
1,325	60	(26)

Cwmni Gwastraff Môn-Arfon Cyf. was established as a Local Authority Waste Disposal Company in 1994. The Company operated two waste management sites in Anglesey and Gwynedd which were leased from the Local Authorities. The two Councils decided to close the company down during 2007/08 and to undertake the work in-house. The relevant operational assets and liabilities and the staff were transferred to the Council in January 2008. The remaining assets and liabilities will be divided between the two Councils when the Company is wound up. The Company's final accounts have not yet been completed but the investment on the Balance Sheet has been re-valued to reflect its true value when the final distribution of assets takes place. By now £1,193,580 has been received as part of the settlement, and the final payment of approximately £51,730 remains outstanding.

## NOTE 35 – CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

31 March 2014		31 March 2015
£'000		£'000
384,095	Non-current Assets	417,053
(41,009)	Revaluation Reserve	(63,451)
(169,777)	Capital Adjustment Account	(178,713)
<b>173,309</b>	<b>Capital Financing Requirement</b>	<b>174,889</b>

## NOTE 35 – CAPITAL EXPENDITURE AND CAPITAL FINANCING (continued)

The movement in the year is explained as follows:

<b>2013/14</b>		<b>2014/15</b>
<b>£'000</b>		<b>£'000</b>
<b>165,924</b>	<b>Capital Financing Requirement 1 April</b>	<b>173,309</b>
20,454	Land and Buildings	6,527
8,865	Infrastructure	7,137
4,303	Vehicles, Plant and Equipment	4,428
4	Community Assets	35
0	Surplus Assets	4
5,100	Assets under construction	9,293
16	Assets held for sale	2
6,222	Funded from capital under statute	4,833
0	Capitalisation of contribution to landfill aftercare provision	436
(1,377)	Capital Receipts used	(1,873)
(18,989)	Government Grants and other contributions	(15,666)
(10,516)	Capital expenditure charged to revenue	(6,430)
(5,731)	Revenue provision for the financing of supported capital investment	(5,692)
	Additional voluntary set aside :	
(966)	Revenue provision for the financing of unsupported capital investment	(1,454)
<b>173,309</b>	<b>Capital Financing Requirement 31 March</b>	<b>174,889</b>

## NOTE 36 – LEASES

### Authority as Lessee

#### Finance Leases

The Council did have some vehicles and equipment under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

<b>31 March</b>		<b>31 March</b>
<b>2014</b>		<b>2015</b>
<b>£'000</b>		<b>£'000</b>
4,734	Property, Plant and Equipment	4,485
<b>4,734</b>		<b>4,485</b>

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

**NOTE 36 – LEASES (continued)**

<b>31 March 2014 £'000</b>		<b>31 March 2015 £'000</b>
	Finance Lease Liabilities (net present value of minimum lease payments):	
112	current	119
2,372	non-current	2,253
0	Finance costs payable in future years	0
<b>2,484</b>	<b>Minimum lease payments</b>	<b>2,372</b>

The remaining asset shown above has been funded by a deferred credit (refer to Note 43),

The minimum lease payments will be payable over the following periods:

	<b>Minimum Lease Payments</b>		<b>Finance Lease Liabilities</b>	
	<b>31 March 2014 £'000</b>	<b>31 March 2015 £'000</b>	<b>31 March 2014 £'000</b>	<b>31 March 2015 £'000</b>
	No later than one year	112	119	112
Later than one year and not later than five years	521	553	521	553
More than five years	1,851	1,700	1,851	1,700
	<b>2,484</b>	<b>2,372</b>	<b>2,484</b>	<b>2,372</b>

In 2014/15, minimum lease payments were made by the Authority of £111,939 (2013/14 - £95,423) in respect of those assets held as a finance lease.

**Operating Leases**

	<b>31 March 2014 £'000</b>	<b>31 March 2015 £'000</b>
No later than one year	312	457
Later than one year and not later than five years	169	493
Later than five years	0	243
	<b>481</b>	<b>1,193</b>

The expenditure charged to the services within the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	<b>2013/14 £'000</b>	<b>2014/15 £'000</b>
Minimum lease payments	493	521
Contingent rents	0	0
	<b>493</b>	<b>521</b>

## NOTE 36 – LEASES (continued)

### Authority as Lessor

#### Finance Leases

Gwynedd Council has no Finance Leases where the Authority is the Lessor.

#### Operating Leases

The Authority leases out property under operating leases for the following purposes:

- for the provision of community services, such as sports facilities, tourism services and community centers
- for economic development purposes to provide suitable affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	<b>31 March</b>	<b>31 March</b>
	<b>2014</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
No later than one year	283	380
Later than one year and not later than five years	536	583
Later than five years	1,892	2,264
	<b>2,711</b>	<b>3,227</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2014/15 £930,248 minimum lease payments were receivable by the Authority (£1,017,925 in 2013/14).

## NOTE 37 – IMPAIRMENT LOSSES

Notes 15 and 20 show the movement by class of assets for impairment losses and reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure.

## NOTE 38 – EXIT PACKAGES

The number of exit packages with total cost per band, and total cost of the compulsory and other redundancies are set out in the table below. The cost in the table below reflects the related package cost to the employer, rather than the actual value of the payments to the individuals. In accordance with the requirements the related commitments as known to the Council as at 31 March 2015 are included. Included below are the related gross costs but not the financial savings to the Council, where appropriate.

(a) Exit package cost band (including special payments) £	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band		(e) Total cost of exit packages in each band £'000	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
0 - 20,000	58	61	7	0	65	61	382	431
20,001 - 40,000	7	20	1	1	8	21	211	558
40,001 - 60,000	3	12	0	2	3	14	165	669
60,001 - 80,000	1	2	1	0	2	2	125	132
80,001 - 100,000	0	3	1	0	1	3	100	278
100,001 - 150,000	0	1	0	0	0	1	0	114
150,001 - 200,000	0	0	1	0	1	0	174	0
Reflects adjustment to 2013/14 estimated costs	0	0	0	0	0	0	0	33
<b>Total</b>	<b>69</b>	<b>99</b>	<b>11</b>	<b>3</b>	<b>80</b>	<b>102</b>	<b>1,157</b>	<b>2,215</b>

## NOTE 39 – PENSIONS SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by the Government's Department for Education. The scheme provides teachers with specified benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Authority is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2014/15 the Council paid £5.99m (£6.04m in 2013/14) in respect of teachers' pension costs, which represented 13.71% (13.68% in 2013/14) of teachers' pensionable pay. In addition the Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms for the teachers' scheme. In 2014/15 these amounted to £1.17m (£1.27m in 2013/14) representing 2.66% (2.87% in 2013/14) of teachers' pensionable pay. These costs are accounted for on a defined benefits basis and are included in Note 40.

## NOTE 40 – PENSION COSTS

As part of the terms and conditions of employment of its officers and other employees, the Authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments. These need to be disclosed at the time that employees earn their future entitlement.

Gwynedd Council participates in two post employment schemes:

- a) **The Local Government Pension Scheme** administered locally by Gwynedd Council. This is a funded defined benefit scheme based on final salary for service up to 31 March 2014 and based on a career average salary from 1 April 2014. The authority and the employees pay contributions into the fund, calculated at a level intended to balance the pension liabilities with investment assets.
- b) **Arrangements for the award of discretionary post retirement benefits upon early retirement.** This is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

The Gwynedd Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pensions Committee of Gwynedd Council. Policy is determined in accordance with the Local Government Pensions Scheme Regulations. The investment managers of the fund are appointed by the committee.

The principal risks to the authority from the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (such as large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge the amounts required by statute as described in the accounting policies note to the General Fund.

### Transactions Relating to Post-employment Benefits

The authority recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge it is required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

## NOTE 40 – PENSION COSTS (continued)

Change in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liability	Period ended 31 March 2014			Period ended 31 March 2015		
	Assets	Liabilities	Net (liability) /asset	Assets	Liabilities	Net (liability) /asset
	£'000	£'000	£'000	£'000	£'000	£'000
Fair Value of Employer Assets	418,033	0	418,033	468,653	0	468,653
Present Value of Funded Liabilities	0	(559,752)	(559,752)	0	(613,043)	(613,043)
Present Value of Unfunded Liabilities	0	(26,460)	(26,460)	0	(27,299)	(27,299)
<b>Opening Position at 31 March</b>	<b>418,033</b>	<b>(586,212)</b>	<b>(168,179)</b>	<b>468,653</b>	<b>(640,342)</b>	<b>(171,689)</b>
Service Cost						
Current Service Cost*	0	(18,481)	(18,481)	0	(18,446)	(18,446)
Past Service Costs(including curtailments)	0	(308)	(308)	0	(718)	(718)
<b>Total Service Cost</b>	<b>0</b>	<b>(18,789)</b>	<b>(18,789)</b>	<b>0</b>	<b>(19,164)</b>	<b>(19,164)</b>
Net interest						
Interest Income on Plan Assets	18,923	0	18,923	20,231	0	20,231
Interest Cost on Defined Benefit Obligation	0	(26,479)	(26,479)	0	(27,600)	(27,600)
<b>Total Net Interest</b>	<b>18,923</b>	<b>(26,479)</b>	<b>(7,556)</b>	<b>20,231</b>	<b>(27,600)</b>	<b>(7,369)</b>
<b>Total Defined Benefit Cost Recognised in Profit/(Loss)</b>	<b>18,923</b>	<b>(45,268)</b>	<b>(26,345)</b>	<b>20,231</b>	<b>(46,764)</b>	<b>(26,533)</b>
Cashflows						
Plan participants contributions	4,803	(4,803)	0	4,987	(4,987)	0
Employer contributions	17,348	0	17,348	18,058	0	18,058
Contributions in respect of funded benefits	1,744	0	1,744	1,747	0	1,747
Benefits Paid	(16,538)	16,538	0	(19,324)	19,324	0
Unfunded Benefits Paid	(1,744)	1,744	0	(1,747)	1,747	0
<b>Expected Closing Position</b>	<b>442,569</b>	<b>(618,001)</b>	<b>(175,432)</b>	<b>492,605</b>	<b>(671,022)</b>	<b>(178,417)</b>
Re-measurements						
Change in demographic assumptions	0	(15,147)	(15,147)	0	0	0
Change in financial assumptions	0	(12,881)	(12,881)	0	(112,129)	(112,129)
Other experience	0	5,687	5,687	0	4,087	4,087
Return on Assets excluding amounts included in net interest	26,084	0	26,084	37,738	0	37,738
<b>Total remeasurements recognised in Other Comprehensive Income (OCI)</b>	<b>26,084</b>	<b>(22,341)</b>	<b>3,743</b>	<b>37,738</b>	<b>(108,042)</b>	<b>(70,304)</b>
Fair Value of Employer Assets	468,653	0	468,653	530,343	0	530,343
Present Value of Funded Liabilities	0	(613,043)	(613,043)	0	(750,818)	(750,818)
Present Value of Unfunded Liabilities	0	(27,299)	(27,299)	0	(28,246)	(28,246)
<b>Closing Position at 31 March</b>	<b>468,653</b>	<b>(640,342)</b>	<b>(171,689)</b>	<b>530,343</b>	<b>(779,064)</b>	<b>(248,721)</b>

\* The current service cost includes an allowance for administration expenses of 0.5% of payroll

### The Major Categories of Plan Assets as a Percentage of Total Plan Assets

The actuary has provided a detailed breakdown of Fund assets in accordance with the requirements of IAS19. This analysis distinguishes between the nature and risk of those assets and to further break them down between those with a quoted price in an active market and those that do not. The asset split for Gwynedd Council is assumed to be in the same proportion to the Fund's asset allocation as at 31 December 2014. The split is shown in the table below. The actuary estimates the bid value of the Fund's assets as at 31 March 2015 to be £1,486,000 based on information provided by the Administering Authority and allowing for index returns where necessary.



## NOTE 40 – PENSION COSTS (continued)

### Fair Value of Employer Assets

The asset values below are at bid value as required under IAS19.

Asset Category	At 31 March 2014				At 31 March 2015			
	Quoted Prices in Active Markets	Prices not quoted in Active Markets	Total		Quoted Prices in Active Markets	Prices not quoted in Active Markets	Total	
	£'000	£'000	£'000	%	£'000	£'000	£'000	%
<b>Equity Securities</b>								
Consumer	8,774	0	8,774	2	14,688	0	14,688	3
Energy and Utilities	11,220	0	11,220	2	10,923	0	10,923	2
Financial Institutions	3,916	0	3,916	1	8,271	0	8,271	2
Health and Care	20,770	0	20,770	4	22,077	0	22,077	4
Information Technology	13,074	0	13,074	3	15,419	0	15,419	3
Other	21,376	0	21,376	5	26,883	0	26,883	5
<b>Private Equity</b>								
All	0	22,428	22,428	5	0	22,429	22,429	4
<b>Real Estate</b>								
UK Property	0	40,332	40,332	9	0	50,873	50,873	10
Overseas Property	0	1,197	1,197	0	0	1,535	1,535	0
<b>Investment Funds and Unit Trusts</b>								
Equities	105,123	137,299	242,422	52	121,065	150,665	271,730	51
Bonds	0	69,659	69,659	15	0	73,443	73,443	14
Infrastructure	0	2,067	2,067	0	0	2,502	2,502	0
<b>Cash and Cash Equivalents</b>								
All	11,418	0	11,418	2	9,570	0	9,570	2
<b>Total</b>	<b>195,671</b>	<b>272,982</b>	<b>468,653</b>	<b>100</b>	<b>228,896</b>	<b>301,447</b>	<b>530,343</b>	<b>100</b>

### Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, life expectancy and salary levels. Life expectancy is based on fund specific projections called VitaCurves with long term improvement assumed to have already peaked and converging to 1.25% per annum.

Both the Gwynedd Pension Scheme and Discretionary Benefits liabilities have been estimated by Hymans Robertson, an independent firm of actuaries, estimates for the Gwynedd Pension Fund being based on the latest full valuation of the scheme as at 31 March 2013. The significant assumptions used by the actuary are as follows:-

**NOTE 40 – PENSION COSTS (continued)**

	<b>31 March 2014</b>	<b>31 March 2015</b>
<b>Financial Assumptions</b>	<b>% p.a.</b>	<b>% p.a.</b>
Pensions Increase Rate	2.8	2.4
Salary Increase Rate*	4.6	4.3
Inflation Rate	2.8	2.4
Discount rate	4.3	3.2
Long term expected rate of return on all categories of assets	4.3	3.2
<b>Take-up option to convert annual pension into retirement lump sum</b>		
for pre-April 2008 service	50	50
for post-April 2008 service	75	75
<b>Mortality assumptions</b>	<b>Years</b>	<b>Years</b>
Longevity at 65 for current pensioners		
Men	22	22
Women	24	24
Longevity at 65 for future pensioners		
Men	24.4	24.4
Women	26.6	26.6

\*Salary increases are assumed to be 1% p.a. until 31 March 2016 reverting to the long term assumption shown thereafter.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. In order to quantify the impact of a change in the financial assumptions used, the actuary has calculated and compared the value of the scheme liabilities as at 31 March 2015 on varying bases. The approach taken is consistent with that adopted to derive the IAS19 figures provided in this note.

To quantify the uncertainty around life expectancy, the actuary has calculated the difference in cost to the Council of a one year increase in life expectancy. For sensitivity purposes this is assumed to be an increase in the cost of benefits of broadly 3%. In practice the actual cost of one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages). The figures in the table below have been derived based on the membership profile of the Council as at 31<sup>st</sup> March 2013, the date of the most recent actuarial valuation. The approach taken in preparing the sensitivity analysis shown is consistent with that adopted in the previous year.

<b>Impact on the Defined Benefit Obligation in the Scheme</b>		
<b>Change in assumption</b>	<b>Approximate increase to Employer 31 March 2015</b>	<b>Approximate monetary amount 31 March 2015</b>
	%	£'000
0.5% decrease in real discount rate	11	88,886
1 year increase in life expectancy	3	23,372
0.5% increase in the salary increase rate	4	32,400
0.5% increase in the pension increase rate	7	54,022

## NOTE 40 – PENSION COSTS (continued)

### Impact on the Council's Cash Flows

One of the objectives of the scheme is that employer contributions should be kept at as constant a rate as possible. Gwynedd Council has agreed a strategy with the fund's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis.

The contributions paid by the Council are set by the Fund Actuary at each triennial valuation (the most recent being as at 31 March 2013), or at any other time as instructed to do so by the Administering Authority. The contributions payable over the period to 31 March 2017 are set out in the Rates and Adjustments certificate. For further details on the approach adopted to set contribution rates for the Council, please refer to the 2013 actuarial report dated 31 March 2014.

### Information about the Defined Benefit Obligation

	Liability Split		Duration
	£'000	%	
Active Members	440,439	58.7	24.9
Deferred Members	100,185	13.3	24.6
Pensioner Members	210,194	28.0	11.8
<b>Total</b>	<b>750,818</b>	<b>100.0</b>	<b>19.8</b>

The above figures are for funded obligations only and do not include unfunded pensioner liabilities. The durations are effective at the previous formal valuation as at 31 March 2013.

### Impact in Future Years

The total contributions expected to be made to the Local Government Pensions Scheme by the Council in the year to 31 March 2016 is £18.2m.

As the Actuary's report is based on estimates and due to timing issues, there is a variance of £393,157 in 2014/15 (£635,323 in 2013/14) between the deficit in the Scheme based on the Actuarial figures in comparison with the liability related to the defined benefit pension schemes in the Balance Sheet. This variance has been treated as Actuarial Gains and Losses on Pension Assets and Liabilities and therefore has been included in the Liability related to the defined benefit pension schemes in the Balance Sheet.

## NOTE 41 – CONTINGENT LIABILITIES

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

The position below relates to circumstances involving three specific contingent liabilities:

- Position in respect of Equal Pay Claims – a provision is contained within the Authority's Accounts and reflects the best estimate of potential cost as at 31 March 2015. The actual final position and liability will depend on the outcome of the outstanding claims.
- The capping and aftercare requirements for the Authority's landfill sites – the provision contained in the accounts is based on existing and known circumstances, in addition to relevant forecasts. However, the actual final cost may differ from the current estimated future cost.
- This Authority is exposed to a potential insurance liability relating to the insurance arrangements of its predecessor authorities, being, Gwynedd County Council, Arfon Borough Council, Dwyfor District Council,

## **NOTE 41 – CONTINGENT LIABILITIES (continued)**

and Meirionnydd District Council, and the closure of the Municipal Mutual Insurance (M.M.I) Fund on 30 September 1992.

M.M.I. made a scheme of arrangement with its creditors, by which, if M.M.I had insufficient funds to meet future claims, a claw-back clause would be triggered (i.e. Scheme of Arrangements) which could affect claims paid since 1992-93. On 13 November 2012, the directors of the Company concluded that the terms of the Scheme of Arrangement should be triggered and served notice on the Scheme Administrator and the Company to that effect. The decision is irrevocable. The initial levy was 15% of the payments made since 30 September 1992 payable by the authorities; this initial levy was paid during 2013/14.

However, in accordance with the scheme, a further levy may be raised should the original levy be insufficient to meet M.M.I's liabilities in the longer term. Gwynedd Council is of the opinion that it would be prudent to continue with the provision in the expectation that the original levy will be inadequate. The current related estimated maximum potential liability to this authority is in the order of, up to almost £850,000.

## **NOTE 42 – TRUSTS**

The Council acts as sole trustee for 173 bequests such as school prize funds, and comforts and improvements funds for numerous Council Establishments. The total balance of these Trusts on 31 March 2015 was £606,180 (£563,252 on 31 March 2014). They are fully invested to generate income.

As the sole trustee, the Council holds the property for each trust but makes no decision on its use. In every case, the funds do not represent the assets of the Authority and therefore they have not been included in the Balance Sheet.

Further details on the FMG Morgan Trust Fund and Welsh Church Fund are included in Appendices B and C of these accounts.

## NOTE 43 – SERVICE CONCESSION ARRANGEMENTS

Prosiect GwyrAD is a Service Concession Arrangement, otherwise known as a 'Private Finance Initiative' (PFI) scheme. The construction commenced in 2012/13 and the plant became operational in September 2013. It is a treatment plant for source segregated food waste from Gwynedd residents and businesses (mainly) using Anaerobic Digestion (AD) technology. The enterprise is assisting the Authority to meet its recycling targets, and to work within its allowances for landfilling of Biodegradable Municipal Waste for a period of 15 years.

The assets used to provide the service are recognised on the Authority's Balance Sheet. The Authority makes an agreed payment (gate fee) each year based on a minimum amount of tonnage which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year. The Authority has the right to increase the amount of tonnages over the agreed 7,500 tons to a maximum of 11,000 tons, and will pay a reduced gate fee for anything over 7,500 tons.

	<b>Payment for Services</b>	<b>Reimbursement of Capital Expenditure</b>	<b>Interest</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Paid in 2014/15	498	112	153	763
Payable in 2015/16	498	119	146	763
Payable within 2 to 5 years	1,991	553	507	3,051
Payable within 6 to 10 years	2,489	907	419	3,815
Payable within 11 to 15 years	1,700	793	113	2,606
<b>Total</b>	<b>7,176</b>	<b>2,484</b>	<b>1,338</b>	<b>10,998</b>

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable.

The contractor receives income from energy that is generated from the waste which has enabled them to keep the unitary payment low for the Authority. If the income is higher than what is in the contract, there is an arrangement for it to be shared between the contractor and Gwynedd Council.

The liability outstanding to be paid to the contractor for capital expenditure incurred is as follows:

	<b>2014/15</b>	
	<b>Lease Liability</b>	<b>Deferred Income</b>
	<b>£'000</b>	<b>£'000</b>
Balance outstanding at 1 April 2014	(2,484)	(2,102)
Repayment of principal during the year	112	0
Release of deferred income	0	146
Balance outstanding at 31 March 2015	(2,372)	(1,956)

## NOTE 44 – JOINT COMMITTEES

During 2014/15, Gwynedd Council participated in six joint-committees, collaborating in particular areas between Local Authorities. Separate accounts are required for joint-committees. The six joint-committees relating to Gwynedd are:

- Special Educational Needs Joint Committee (SEN)
- GwE
- Joint Planning Policy Committee
- Integrated Transport in North Wales (TAITH)
- Mid Wales Transportation (TRaCC)
- North Wales Residual Waste Treatment Project (NWRWTP)

The Joint Committee accounts follow the same timetable in terms of the statutory dates for the completion of the accounts. In the circumstances, Gwynedd Council's Accounts reflects the related actual net liability, although the subjective analysis position varies subject to the circumstances, and the reporting arrangements of the various joint committees. The figures and the share relating to Gwynedd have been included in the table below:

Joint Committee	Leading Council (for Finance)	Councils participating in the Joint Committees	Gwynedd Council's Share %	Value of Gwynedd's Share (Income and Expenditure Account) £'000
Special Educational Needs Joint Committee	Gwynedd Council	Gwynedd Council Isle of Anglesey County Council	61.4%	739
Joint Planning Policy Committee	Gwynedd Council	Gwynedd Council Isle of Anglesey County Council	50%	301
GwE	Gwynedd Council	Conwy County Borough Council Denbighshire County Council Flintshire County Council Gwynedd Council Isle of Anglesey County Council Wrexham County Borough Council	17.99%	641
TAITH	Flintshire County Council	Conwy County Borough Council Denbighshire County Council Flintshire County Council Gwynedd Council Isle of Anglesey County Council Wrexham County Borough Council	17.59%	10
TRaCC	Ceredigion County Council	Ceredigion County Council Gwynedd Council Powys County Council	33.3%	50
NWRWTP	Flintshire County Council	Conwy County Borough Council Denbighshire County Council Flintshire County Council Gwynedd Council Isle of Anglesey County Council	20%	85

The individual joint-committees accounts are available on the website of the leading council in respect of the finance and accountancy service.

## GWYNEDD PENSION FUND ACCOUNTS 2014/15

31 March 2014		Notes	31 March 2015
£'000			£'000
	<b>Dealings with members, employers and others directly involved in the Fund</b>		
65,700	Contributions receivable	7	67,748
17	Interest on deferred contributions		14
3	Income from divorce calculations		2
0	Interest on late payment of contributions		1
3,810	Transfers in from other pension schemes	8	2,015
<b>69,530</b>	<b>Total contributions received</b>		<b>69,780</b>
(45,167)	Benefits payable	9	(48,610)
(1,516)	Payments to and on account of leavers	10	(1,909)
<b>(46,683)</b>	<b>Total benefits paid</b>		<b>(50,519)</b>
<b>22,847</b>			<b>19,261</b>
<b>(8,118)</b>	Management Expenses	11	<b>(8,573)</b>
	<b>Returns on Investments</b>		
13,993	Investment income	14	12,993
(466)	Taxes on income	15	(687)
88,421	Profit and (losses) on disposal of investments and changes in the market value of investments	16	164,833
<b>101,948</b>	<b>Returns on investments net of tax</b>		<b>177,139</b>
<b>116,677</b>	<b>Increase in the net assets available for benefits during the year</b>		<b>187,827</b>
	<b>Net assets of the Fund</b>		
1,192,869	At 1 <sup>st</sup> April		1,309,546
116,677	Increase in net assets		187,827
<b>1,309,546</b>			<b>1,497,373</b>

## NET ASSETS STATEMENT AS AT 31 MARCH 2015

31 March 2014		Notes	31 March 2015
£'000			£'000
1,280,403	Investment assets	16	1,458,025
15,453	Cash deposits	16	22,082
<b>1,295,856</b>			<b>1,480,107</b>
(308)	Investment liabilities	16	(229)
17,450	Current assets	21	20,312
(3,452)	Current liabilities	22	(2,817)
<b>1,309,546</b>			<b>1,497,373</b>

The Financial Statements do not take into account the Fund's liability to pay pensions and other benefits to all the present contributors to the Fund after the scheme year end, but rather summarise the transactions and net assets of the scheme. The liabilities of the Fund are taken into account in the periodic actuarial valuations of the Fund (most recently as at 31 March 2013) and are reflected in the levels of employers' contributions determined at the valuation, so that the Fund will again be able to meet 100% of future liabilities. The actuarial present value of promised retirement benefits is shown in Note 20.



# **NOTES TO THE GWYNEDD PENSION FUND ACCOUNTS**

## **NOTE I – DESCRIPTION OF FUND**

The Gwynedd Pension Fund (“the Fund”) is part of the Local Government Pension Scheme and is administered by Gwynedd Council. The council is the reporting entity for this pension fund. The following description of the Fund is a summary only. For more detail, reference should be made to the Gwynedd Pension Fund Annual Report 2014/15 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

### **a) General**

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

- the Local Government Pension Scheme Regulations 2013 (as amended);
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended);
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

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

### **b) Membership**

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

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Resolution bodies, which are city, town and community councils. They have the power to decide if their employees can join the LGPS and pass a resolution accordingly.
- Admission bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

## NOTE 1 – DESCRIPTION OF FUND (continued)

The following bodies are active employers within the Pension Fund:

<b>Scheduled Bodies</b>	
Gwynedd Council	Snowdonia National Park
Conwy County Borough Council	Bryn Eilian School
Isle of Anglesey County Council	Emrys ap Iwan School
Police and Crime Commissioner for North Wales	Pen y Bryn School
Llandrillo – Menai Group	Eirias High School
<b>Resolution Bodies</b>	
Llanllyfni Community Council	Ffestiniog Town Council
Bangor City Council	Llandudno Town Council
Abergele Town Council	Llangefni Town Council
Colwyn Bay Town Council	Menai Bridge Town Council
Beaumaris Town Council	Towyn and Kinmel Bay Town Council
Holyhead Town Council	Tywyn Town Council
Caernarfon Town Council	Conwy Town Council (joined 1 November 2014)
<b>Admission Bodies</b>	
Coleg Harlech WEA	North Wales Society for the Blind
CAIS	Conwy Voluntary Services
Conwy Citizens Advice Bureau	Careers Wales North West
Ynys Môn Citizens Advice Bureau	Mantell Gwynedd
Cwmni Cynnal	Medrwn Môn
Cwmni'r Fran Wen	Menter Môn
Holyhead Joint Burial Committee	
<b>Community Admission Bodies</b>	
Cartrefi Conwy	Cartrefi Cymunedol Gwynedd
<b>Transferee Admission Body</b>	
Caterlink (joined 1 September 2013)	Jewsons

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 2.75% to 12.5% of pensionable pay for the financial year ending 31 March 2015. Employers also make contributions which are set based on triennial actuarial funding valuations. New employer contribution rates were applied for the three years from 1<sup>st</sup> April 2014 to 31 March 2017 following the actuarial valuation carried out as at 31 March 2013.

### d) Benefits

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

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

## NOTE 1 – DESCRIPTION OF FUND (continued)

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

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

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

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

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

## NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2014/15 financial year and its position at year-end as at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

## NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fund account – revenue recognition

#### a) Contribution Income

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

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

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

#### b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 8 and 10).

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

### **NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

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

#### **c) Investment income**

##### **i) Interest income**

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

##### **ii) Dividend income**

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

##### **iii) Distributions from pooled funds including property**

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

##### **iv) Movement in the net market value of investments**

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

#### **Fund account – expense items**

#### **d) Benefits payable**

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

#### **e) Taxation**

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

#### **f) Management expenses**

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

#### **Administrative expenses**

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

#### **Oversight and governance costs**

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

#### **Investment management expenses**

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

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

### **NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

In addition the Fund has negotiated with Fidelity International that an element of their fee be performance related. The cost of obtaining investment advice from external consultants is included in investment management charges.

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

#### **Net assets statement**

##### **g) Financial assets**

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

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

- i) **Market-quoted investments**  
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- ii) **Fixed interest securities**  
Fixed interest securities are recorded at net market value based on their current yields.
- iii) **Unquoted investments**  
The fair value of investments for which market quotations are not readily available is determined as follows:
  - Unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
  - Investments in unquoted property are valued at the net asset value or a single price advised by the Fund manager.
  - Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with IFRS guidelines. It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors.
- iv) **Pooled investment vehicles**  
Pooled investments vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

##### **h) Foreign currency transactions**

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

##### **i) Cash and cash equivalents**

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

## **NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **j) Financial liabilities**

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

### **k) Actuarial present value of promised retirement benefits**

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

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

### **l) Additional voluntary contributions**

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

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

## **NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

### **Unquoted private equity and infrastructure investments**

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure are valued by the investment managers using guidelines set out by IFRS accounting standards. The value of unquoted securities at 31 March 2015 was £71 million (£64 million at 31 March 2014).

### **Pension fund liability**

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

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

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

The items in the net assets statement at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

**NOTE 5 – ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY (continued)**

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The net pension liability would change if the assumptions used were changed. For instance, an increase in the discount rate assumption would result in a decrease in the pension liability, an increase in assumed earnings inflation would increase the value of liability in assumed life expectancy would increase the liability.
Debtors	At 31 March 2015, the Fund had a balance of sundry debtors of £8.3m. A review of significant balances suggested that it was not appropriate to make any impairment of the debts.	If collection rates were to deteriorate, it would be necessary to reconsider this decision.
Private equity and infrastructure	Private equity and infrastructure investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity and infrastructure investments in the financial statements are £71 million. There is a risk that this investment may be under or overstated in the accounts.

**NOTE 6 – EVENTS AFTER THE BALANCE SHEET DATE**

There have been no events since 31 March 2015, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

**NOTE 7 – CONTRIBUTIONS RECEIVABLE**

**By category**

2013/14		2014/15
£'000		£'000
50,908	Employers	52,502
14,792	Employees/Members	15,246
<b>65,700</b>		<b>67,748</b>

**By authority**

2013/14		2014/15
£'000		£'000
23,297	Gwynedd Council	24,251
38,065	Other scheduled bodies	38,992
1,722	Admission bodies	1,753
2,369	Community admission body	2,268
31	Transferee admission body	257
162	Resolution Body	173
54	Closed fund*	54
<b>65,700</b>		<b>67,748</b>

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

**NOTE 7 – CONTRIBUTIONS RECEIVABLE (continued)**

2013/14		2014/15
£'000		£'000
14,792	Employees normal contributions	15,246
39,711	Employers normal contributions	45,586
11,197	Employers deficit recovery contributions	6,916
<b>65,700</b>		<b>67,748</b>

**NOTE 8 – TRANSFERS IN FROM OTHER PENSION FUNDS**

2013/14		2014/15
£'000		£'000
3,810	Individual transfers	2,015
<b>3,810</b>		<b>2,015</b>

**NOTE 9 - BENEFITS PAYABLE****By category**

2013/14		2014/15
£'000		£'000
34,425	Pensions	37,074
9,787	Commutation and lump sum retirement benefits	9,922
955	Lump sum death benefits	1,614
<b>45,167</b>		<b>48,610</b>

**By authority**

2013/14		2014/15
£'000		£'000
11,613	Gwynedd Council	13,554
20,012	Other scheduled bodies	22,135
984	Admission bodies	1,074
1,000	Community admission body	653
75	Transferee admission body	25
69	Resolution body	72
11,414	Closed fund	11,097
<b>45,167</b>		<b>48,610</b>



## NOTE 10 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2013/14		2014/15
£'000		£'000
(1)	Refunds to members leaving service net of tax repayments	84
1	Payments for members joining state scheme	17
1,516	Individual transfers	1,808
<b>1,516</b>		<b>1,909</b>

## NOTE 11 – MANAGEMENT EXPENSES

2013/14		2014/15
£'000		£'000
1,218	Administrative costs	1,106
6,850	Investment management expenses (Note 13)	7,419
50	Oversight and governance costs	48
<b>8,118</b>		<b>8,573</b>

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

## NOTE 12 – ADMINISTRATIVE, OVERSIGHT AND GOVERNANCE COSTS

2013/14		2014/15
£'000		£'000
<b>Administrative costs</b>		
427	Direct employee costs	455
209	Other direct costs	214
366	Support services including IT	323
29	External audit fees	31
187	Actuarial fees	83
<b>1,218</b>		<b>1,106</b>
<b>Oversight and governance costs</b>		
50	Pensions Committee	48
<b>1,268</b>		<b>1,154</b>

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

## NOTE 13 – INVESTMENT MANAGEMENT EXPENSES

2013/14		2014/15
£'000		£'000
6,720	Management fees	7,301
50	Custody fees	53
16	Performance monitoring service	15
64	Investment consultancy fees	50
<b>6,850</b>		<b>7,419</b>

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled investment funds.

The investment management expenses above include £0 (2013/14 £37,844) in respect of performance related fees paid to one of the Fund's investment managers. In addition to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. There are reflected in the cost of investment purchases and in the proceeds of sales of investments (see Note 16a).

## NOTE 14 – INVESTMENT INCOME

2013/14		2014/15
£'000		£'000
2,816	UK equities	1,219
5,374	Overseas equities	6,448
1,264	Private equity	866
99	Infrastructure	257
4,322	Pooled property investments	4,097
118	Interest on cash deposits	106
<b>13,993</b>		<b>12,993</b>

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

The Council had a deposit of £4m with Heritable Bank, which went into administration in October 2008. During 2013/14 a distribution of £36,327 was received by the Pension Fund. This amount has been included in the interest on cash deposits figure for 2013/14 in the above table. There were no distributions in 2014/15. Further information is included in Note 27.

## NOTE 15 – TAXES ON INCOME

2013/14		2014/15
£'000		£'000
466	Withholding tax – equities	687
<b>466</b>		<b>687</b>

## NOTE 16 – INVESTMENTS

2013/14		2014/15
£'000		£'000
	<b>Investment assets</b>	
194,386	Absolute return	197,323
238,975	Equities	272,050
666,050	Pooled investments	773,481
116,800	Pooled property investments	143,288
59,695	Private equity	62,546
4,497	Infrastructure	8,917
<b>1,280,403</b>		<b>1,457,605</b>
15,453	Cash deposits	22,082
0	Debtors	420
<b>1,295,856</b>	<b>Total investment assets</b>	<b>1,480,107</b>
	<b>Investment liabilities</b>	
(308)	Amounts payable for purchases	(229)
<b>(308)</b>	<b>Total investment liabilities</b>	<b>(229)</b>
<b>1,295,548</b>	<b>Net investment assets</b>	<b>1,479,878</b>

## Note 16a – Reconciliation of movements in investments and derivatives

<b>2014/15</b>	<b>Market value at 1 April 2014</b>	<b>Purchases during the year</b>	<b>Sales during the year</b>	<b>Change in market value during the year</b>	<b>Market value at 31 March 2015</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fixed interest absolute return securities	194,386	0	0	2,937	197,323
Equities	238,975	81,252	(84,285)	36,108	272,050
Pooled investments	666,050	103,237	(89,693)	93,887	773,481
Pooled property investments	116,800	3,639	(71)	22,920	143,288
Private equity / infrastructure	64,192	9,657	(7,176)	4,790	71,463
	<b>1,280,403</b>	<b>197,785</b>	<b>(181,225)</b>	<b>160,642</b>	<b>1,457,605</b>
Cash deposits	15,453			63	22,082
Amount receivable for sales of investments	0				420
Amounts payable for purchases of investments	(308)				(229)
Fees within pooled vehicles				4,128	
<b>Net investment assets</b>	<b>1,295,548</b>	<b>197,785</b>	<b>(181,225)</b>	<b>164,833</b>	<b>1,479,878</b>

<b>2013/14</b>	<b>Market value at 1 April 2013</b>	<b>Purchases during the year</b>	<b>Sales during the year</b>	<b>Change in market value during the year</b>	<b>Market value at 31 March 2014</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fixed interest absolute return securities	157,644	31,000	0	5,742	194,386
Equities	206,697	58,392	(49,222)	23,108	238,975
Pooled investments	634,387	7,834	(19,413)	43,242	666,050
Pooled property investments	105,974	1,531	0	9,295	116,800
Private equity / infrastructure	61,787	16,273	(16,894)	3,026	64,192
	<b>1,166,489</b>	<b>115,030</b>	<b>(85,529)</b>	<b>84,413</b>	<b>1,280,403</b>
Forward foreign currency contracts	(58)			11	0
Cash deposits	17,316			(44)	15,453
Amount receivable for sales of investments	0				0
Amounts payable for purchases of investments	(677)				(308)
Fees within pooled vehicles				4,041	
<b>Net investment assets</b>	<b>1,183,070</b>	<b>115,030</b>	<b>(85,529)</b>	<b>88,421</b>	<b>1,295,548</b>

Transaction costs, such as commissions, stamp duty and other transaction fees, are included in the cost of purchases and in sale proceeds. Transaction costs incurred during the year total £228,201 (2013/14 £186,342). In addition to these costs indirect costs are incurred through the bid-offer spread on investment purchases and sales.

## Note 16b – Analysis of investments

31 March 2014 £'000		31 March 2015 £'000
	<b>Equities</b>	
	<b>UK</b>	
45,272	Quoted	35,517
	<b>Overseas</b>	
193,703	Quoted	236,533
	<b>Pooled funds</b>	
	<b>UK</b>	
229,634	Unit trusts	247,917
	<b>Global (including UK)</b>	
194,386	Fixed income	197,323
231,296	Unit trusts	379,210
	<b>Overseas</b>	
205,120	Unit trusts	146,354
116,800	<b>Property unit trusts</b>	143,288
59,695	<b>Private equity</b>	62,546
4,497	<b>Infrastructure</b>	8,917
<b>1,280,403</b>		<b>1,457,605</b>

### Investments analysed by fund manager

Market Value at 31 March 2014			Market Value at 31 March 2015		
£'000	%		£'000	%	
427,249	33.0	BlackRock	485,874	32.8	
258,421	19.9	Fidelity	313,418	21.2	
194,394	15.0	Insight	197,331	13.3	
23,395	1.8	Lothbury	27,214	1.8	
64,193	5.0	Partners Group	71,463	4.8	
12,001	0.9	Threadneedle	14,170	1.0	
63,323	4.9	UBS	76,366	5.2	
252,572	19.5	Veritas	294,042	19.9	
<b>1,295,548</b>	<b>100.0</b>		<b>1,479,878</b>	<b>100.0</b>	

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

Market value 31 March 2014 £'000	% of total Fund	Security	Market value 31 March 2015 £'000	% of total Fund
231,295	17.66	Fidelity Institutional Select Global Equity	281,164	18.78
229,633	17.53	BlackRock Asset Management Aquila Life UK Equity Index Fund	247,916	16.56
194,386	14.84	Insight LDI Solution Bonds Plus	197,323	13.18
0	0	BlackRock Asset Management Aquila Life Global Dev Fundamental Fund	98,047	6.55

## Note 16c – Stock lending

The Statement of Investment Principles (SIP) states that stock lending will be permitted subject to specific approval. Currently the Fund does not undertake any stock lending.

## NOTE 17 – FINANCIAL INSTRUMENTS

### Note 17a – Classification of financial instruments

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

As at 31 March 2014			As at 31 March 2015		
Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at cost
£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial assets</b>			<b>Financial assets</b>		
194,386			197,323		
238,975			272,050		
666,049			773,481		
116,800			143,288		
59,696			62,546		
4,497			8,917		
189	25,959		18	34,095	
	6,755			8,701	
<b>1,280,592</b>	<b>32,714</b>	<b>0</b>	<b>1,457,623</b>	<b>42,796</b>	<b>0</b>
<b>Financial liabilities</b>			<b>Financial liabilities</b>		
(308)		(3,452)	(229)		(2,817)
<b>(308)</b>	<b>0</b>	<b>(3,452)</b>	<b>(229)</b>	<b>0</b>	<b>(2,817)</b>
<b>1,280,284</b>	<b>32,714</b>	<b>(3,452)</b>	<b>1,457,394</b>	<b>42,796</b>	<b>(2,817)</b>

### Note 17b – Net gains and losses on financial instruments

31 March 2014		31 March 2015
Fair value		Fair value
£'000		£'000
<b>Financial assets</b>		
84,413	Fair value through profit and loss	160,642
(33)	Loans and receivables	63
<b>84,380</b>	<b>Total financial assets</b>	<b>160,705</b>
<b>Financial liabilities</b>		
0	Fair value through profit and loss	0
0	Financial liabilities at cost	0
<b>0</b>	<b>Total financial liabilities</b>	<b>0</b>
<b>84,380</b>	<b>Net financial assets</b>	<b>160,705</b>

## Note 17c – Fair value of financial instruments and liabilities

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

31 March 2014			31 March 2015	
Carrying value	Fair value		Carrying value	Fair value
£'000	£'000		£'000	£'000
		<b>Financial assets</b>		
964,240	1,280,593	Fair value through profit and loss	1,037,989	1,457,624
32,728	32,714	Loans and receivables	42,795	42,795
<b>996,968</b>	<b>1,313,307</b>	<b>Total financial assets</b>	<b>1,080,784</b>	<b>1,500,419</b>
		<b>Financial liabilities</b>		
(254)	(253)	Fair value through profit and loss	(229)	(229)
(2,325)	(3,508)	Financial liabilities at cost	(2,817)	(2,817)
<b>(2,579)</b>	<b>(3,761)</b>	<b>Total financial liabilities</b>	<b>(3,046)</b>	<b>(3,046)</b>
<b>994,389</b>	<b>1,309,546</b>	<b>Net financial assets</b>	<b>1,077,738</b>	<b>1,497,373</b>

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

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

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

### Level 1

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

### Level 2

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

### Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments could include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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

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

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
<b>Values at 31 March 2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	638,447	747,714	71,463	1,457,624
Loans and receivables	42,795	0	0	42,795
<b>Total financial assets</b>	<b>681,242</b>	<b>747,714</b>	<b>71,463</b>	<b>1,500,419</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	0	(229)	0	(229)
Financial liabilities at cost	(2,817)	0	0	(2,817)
<b>Total financial liabilities</b>	<b>(2,817)</b>	<b>(229)</b>	<b>0</b>	<b>(3,046)</b>
<b>Net financial assets</b>	<b>678,425</b>	<b>747,485</b>	<b>71,463</b>	<b>1,497,373</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	
<b>Values at 31 March 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	556,347	660,053	64,193	1,280,593
Loans and receivables	32,714	0	0	32,714
<b>Total financial assets</b>	<b>589,061</b>	<b>660,053</b>	<b>64,193</b>	<b>1,313,307</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	0	(253)	0	(253)
Financial liabilities at cost	(3,508)	0	0	(3,508)
<b>Total financial liabilities</b>	<b>(3,508)</b>	<b>(253)</b>	<b>0</b>	<b>(3,761)</b>
<b>Net financial assets</b>	<b>585,553</b>	<b>659,800</b>	<b>64,193</b>	<b>1,309,546</b>



## **NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

### **Risk and risk management**

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

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

### **a) Market risk**

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

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

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

The Fund manages these risks in two ways:

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

### **Other price risk**

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

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

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

### **Other price risk – sensitivity analysis**

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment analytics advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period.

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

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

Asset type	Potential market movement (+/-)	
	31 March 2014	31 March 2015
	%	%
Equities	11.6	8.7
Fixed Income	1.3	1.0
Alternatives (Private Equity and Infrastructure)	6.2	5.9
Property	2.4	3.2
Cash	0.0	0.0

The potential volatilities disclosed above are consistent with a one-standard deviation movement in the change of value of the assets over the latest three years. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain the same.

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

Asset type	Value as at 31 March 2015 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Equities	1,045,531	8.7	1,136,597	954,465
Fixed Income	197,323	1.0	199,375	195,271
Alternatives (Private Equity)	71,463	5.9	75,679	67,247
Property	143,288	3.2	147,830	138,746
Cash	34,112	0.0	34,115	34,109
<b>Total assets available to pay benefits</b>	<b>1,491,717</b>		<b>1,593,596</b>	<b>1,389,838</b>

Asset type	Value as at 31 March 2014 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Equities	905,024	11.6	1,009,826	800,222
Fixed Income	194,386	1.3	196,913	191,859
Alternatives (Private Equity)	64,193	6.2	68,154	60,232
Property	116,800	2.4	119,615	113,985
Cash	25,839	0.0	25,844	25,834
<b>Total assets available to pay benefits</b>	<b>1,306,242</b>		<b>1,420,352</b>	<b>1,192,132</b>

### Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

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

Asset type	As at 31 March 2014	As at 31 March 2015
	£'000	£'000
Cash and cash equivalents	10,695	12,031
Cash balances	15,452	22,082
Fixed interest securities	194,386	197,323
<b>Total</b>	<b>220,533</b>	<b>231,436</b>

**Interest rate risk sensitivity analysis**

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

Asset type	Carrying amount as at 31 March 2015 £'000	Change in year in the net assets available to pay benefits	
		+1%	-1%
		£'000	£'000
Cash and cash equivalents	12,031	120	(120)
Cash balances	22,082	221	(221)
Fixed interest securities*	197,323	(1,460)	1,460
<b>Total change in assets available</b>	<b>231,436</b>	<b>(1,119)</b>	<b>1,119</b>

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

Asset type	Carrying amount as at 31 March 2014 £'000	Change in year in the net assets available to pay benefits	
		+1%	-1%
		£'000	£'000
Cash and cash equivalents	10,695	107	(107)
Cash balances	15,452	155	(155)
Fixed interest securities*	194,386	(1,108)	1,108
<b>Total change in assets available</b>	<b>220,533</b>	<b>(846)</b>	<b>846</b>

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

The impact that a 1% change in interest rates would have on interest received is minimal as the average interest rate received on cash during the year was 0.7% amounting to interest of £103,645 for the year.

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

**Currency risk**

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

The Fund has made commitments to private equity and infrastructure in foreign currency, (€164million and \$45million). These commitments are being drawn down on request from the investment manager over a number of

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

years. The current commitments still outstanding are shown in Note 25. The risk is that the pound is weak relative to the dollar and euro at the time of the drawdown and then strengthens when the Fund is fully funded. The Fund has been funding the commitments since 2005 and therefore the liability is balanced out over a long period.

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

The following table summarises the Fund's currency exposure as at 31 March 2015 and as at the previous period end:

Currency exposure - asset type	As at	As at
	31 March 2014	31 March 2015
	£'000	£'000
Overseas and Global Equities	630,118	762,098
Global Fixed Income	194,386	197,324
Overseas Alternatives (Private Equity and infrastructure)	64,193	71,463
Overseas Property	3,276	2,925
Overseas Currency	189	208
<b>Total overseas assets</b>	<b>892,162</b>	<b>1,034,018</b>

**Currency risk – sensitivity analysis**

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

A 5.5% fluctuation in the currency is considered reasonable based on the Fund investment analytics advisors analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period to 31 March 2015. The equivalent rate for the year ended 31 March 2014 was 5.2 %. This analysis assumes that all other variables, in particular interest rates, remain constant.

The following tables show analyses of the Fund's exposure to individual foreign currencies as at 31 March 2015 and as at the previous year end:

Currency exposure - by currency	Value at 31 March 2015	Change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Australian Dollar	16,171	8.9	17,606	14,737
Brazilian Real	2,238	11.7	2,500	1,976
EURO	113,863	6.2	120,865	106,860
Hong Kong Dollar	1,232	7.7	1,327	1,137
South African Rand	6,588	10.7	7,294	5,881
Swedish Krona	6,749	7.3	7,242	6,256
Swiss Franc	20,341	9.3	22,241	18,441
US Dollar	143,949	7.8	155,150	132,747
<b>Pooled Investments</b>				
Global Basket	576,534	5.6	608,867	544,200
Global ex UK Basket	114,099	6.1	121,043	107,155
Emerging Basket	32,255	6.8	34,447	30,063
<b>Total change in assets available</b>	<b>1,034,019</b>	<b>5.5</b>	<b>1,090,944</b>	<b>977,092</b>

\* The % change for total currency in the table above includes the impact of correlation across the underlying currencies.

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

<b>Currency exposure - by currency</b>	<b>Value at 31 March 2014</b>	<b>Change</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
Australian Dollar	12,958	9.8	14,227	11,687
Brazilian Real	5,543	12.7	6,247	4,840
EURO	91,180	6.3	96,933	85,426
Hong Kong Dollar	8,320	8.0	8,984	7,656
South African Rand	7,290	11.3	8,114	6,465
Swedish Krona	6,701	7.0	7,172	6,230
Swiss Franc	9,897	7.4	10,631	9,163
US Dollar	119,472	8.1	129,114	109,831
<b>Pooled Investments</b>				
Global Basket	425,681	5.2	447,859	403,503
Global ex UK Basket	177,994	5.7	188,087	167,902
Emerging Basket	27,126	6.4	28,853	25,398
<b>Total change in assets available</b>	<b>892,162</b>	<b>5.2</b>	<b>938,366</b>	<b>845,958</b>

The % change for total currency in the table above includes the impact of correlation across the underlying currencies.

<b>Currency exposure - by asset type</b>	<b>Carrying amount as at 31 March 2015</b>	<b>Change in year in the net assets available to pay benefits</b>	
	<b>£'000</b>	<b>Value on increase</b>	<b>Value on decrease</b>
		<b>£'000</b>	<b>£'000</b>
Overseas and Global Equities	762,099	804,053	720,142
Global Fixed Income	197,324	208,187	186,460
Overseas Alternatives (Private Equity and infrastructure)	71,463	75,398	67,529
Overseas Property	2,925	3,086	2,764
Overseas Currency	208	220	197
<b>Total change in assets available</b>	<b>1,034,019</b>	<b>1,090,944</b>	<b>977,092</b>

<b>Currency Exposure - by asset type</b>	<b>Carrying amount as at 31 March 2014</b>	<b>Change in year in the net assets available to pay benefits</b>	
	<b>£'000</b>	<b>Value on increase</b>	<b>Value on decrease</b>
		<b>£'000</b>	<b>£'000</b>
Overseas and Global Equities	630,118	662,751	597,485
Global Fixed Income	194,386	204,453	184,319
Overseas Alternatives (Private Equity and infrastructure)	64,193	67,517	60,869
Overseas Property	3,276	3,446	3,106
Overseas Currency	189	199	179
<b>Total change in assets available</b>	<b>892,162</b>	<b>938,366</b>	<b>845,958</b>

**b) Credit risk**

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

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

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

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

<b>Investment Manager</b>	<b>Percentage of Portfolio</b>
BlackRock	29.5%
Fidelity	19.0%
Insight	15.0%
Partners Group	7.5%
Property (UBS, Threadneedle, Lothbury, BlackRock)	10.0%
Veritas	19.0%

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

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

In order to maximise the returns from Short Term Investments and Cash Deposits, the Council invests any temporarily surplus funds in its bank accounts along with any surplus funds in the Gwynedd Pension Fund bank accounts. An appropriate share of the interest earned is paid to the Pension Fund and any losses on investment are shared with the Pension Fund in the same proportion. Due to the nature of the banking arrangements any surplus cash in the Pension Fund bank accounts is not transferred to the Council's bank accounts. As the Short Term Investments are made in the name of Gwynedd Council they are shown in full on the Council's Balance Sheet. The Pension Fund element of the Short Term Investments and Cash Deposits at 31 March 2015 was £12.0m (£12.1m at 31 March 2014).

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

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

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

This risk has increased by a legal judgement, which potentially indicates that employers with no contributing members cannot be charged contributions under the LGPS Administration Regulations. This ruling, however, does not affect the ability to collect contributions following a cessation valuation under Regulation 38(2). The Actuary may

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

be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions under Regulation 38 of the LGPS (Administration) Regulations 2008 between triennial valuations.

### **c) Liquidity risk**

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payment costs; and also cash to meet investment commitments.

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

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

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2014 the value of illiquid assets was £133m, which represented 8.9% of the total Fund assets (31 March 2014: £126m, which represented 9.6% of the total Fund assets).

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

All financial liabilities at 31 March 2015 are due within one year as was the case at 31 March 2014.

### **Refinancing risk**

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

## **NOTE 19 – FUNDING ARRANGEMENTS**

In line with the Local Government Pension Scheme (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013.

### **Description of Funding Policy**

The funding policy is set out in the Funding Strategy Statement (FSS) dated March 2015.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund (and the share of the Fund attributable to individual employers)
- to ensure that sufficient funds are available to meet all pension liabilities as they fall due for payment
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk
- to help employers recognise and manage pension liabilities as they accrue

## NOTE 19 – FUNDING ARRANGEMENTS (continued)

- to minimise the degree of short-term change in the level of each employer’s contributions where the Administering Authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

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

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 21 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 80% chance that the Fund will return to full funding over the 21 years.

### Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was at 31 March 2013. This valuation revealed that the Fund’s assets, which at 31 March 2013 were valued at £1,195 million, were sufficient to meet 85% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £210 million.

The common contribution rate for the whole Fund based on the Funding level at 31 March 2013 is 18.3% for future service and a further 5.6% to Fund the past service deficit, giving a total rate of 23.9%. The common contribution rate is a theoretical figure – an average across the whole Fund. Individual employers’ contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund’s funding policy as set out in its FSS.

### Principal Actuarial Assumptions and Method used to Value the Liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2014.

#### Method

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

#### Assumptions

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

The key financial assumptions adopted for the 2013 valuation were as follows:

	% per annum Nominal	% per annum Real
Discount rate	4.7	2.2
Pay increases*	4.3	1.8
Price inflation / Pension increases	2.5	-

\* Salary increases are assumed to be 1% per annum until 31 March 2016 reverting to the long term assumption shown thereafter.

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions that were adopted for the 31 March 2013 valuation are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the Fund. These curves are based on actual data supplied by the Administering Authority. The life expectancy assumptions based on the actuary’s fund-specific mortality review are as follows:



## NOTE 19 – FUNDING ARRANGEMENTS (continued)

<b>Mortality assumption at age 65</b>	<b>Male Years</b>	<b>Female Years</b>
Current pensioners	22.0	24.0
Future pensioners (assumed current age 45)	24.4	26.6

### Experience over the Period since April 2013

Real bond yields have fallen dramatically (leading to a higher liability value), but the effect of this has been only partially offset by the effect of strong asset returns. Overall funding levels are likely to have remained approximately the same, but the monetary amount of deficits will have increased over this period as both asset and liability values have increased in size.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

## NOTE 20 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS19 basis every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19) and has also used them to provide the IAS19 and FRS 17 reports for individual employers in the Fund. The actuary has also valued ill health and death benefits in line with IAS19.

The actuarial present value of promised retirement benefits at 31 March 2015 was £2,114m (£1,747m at 31 March 2014).

As noted above the liabilities above are calculated on an IAS19 basis and therefore differ from the results of the 2013 triennial funding valuation (see Note 19) because IAS19 stipulates a discount rate rather than a rate that reflects market rates.

### Assumptions used

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

<b>Assumption</b>	<b>31 March 2014</b>	<b>31 March 2015</b>
	<b>%</b>	<b>%</b>
Inflation/ pension increase rate	2.8	2.4
Salary increase rate*	4.6	4.3
Discount rate	4.3	3.2

\* Salary increases are assumed to be 1% p.a. until 31 March 2016 reverting to the long term rate shown thereafter.

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

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

## NOTE 21 – CURRENT ASSETS

2013/14		2014/15
£'000		£'000
1,119	Contributions due - employees	1,173
3,861	Contributions due – employers	4,023
0	Transfer value received (individuals who join)	24
1,775	Sundry debtors	3,061
<u>6,755</u>	<b>Total debtors</b>	<u>8,281</u>
10,695	Cash	12,031
<u>17,450</u>	<b>Total</b>	<u>20,312</u>

### Analysis of debtors

2013/14		2014/15
£'000		£'000
2,116	Gwynedd Council	2,458
955	Central government bodies	1,326
2,564	Other local authorities	2,795
3	NHS bodies	3
1,117	Other entities and individuals	1,699
<u>6,755</u>	<b>Total</b>	<u>8,281</u>

## NOTE 22 – CURRENT LIABILITIES

2013/14		2014/15
£'000		£'000
1,904	Sundry creditors	1,944
0	Transfer value payable (leavers)	10
1,548	Benefits payable	863
<u>3,452</u>	<b>Total</b>	<u>2,817</u>

### Analysis of creditors

2013/14		2014/15
£'000		£'000
1,126	Gwynedd Council	1,174
22	Central government bodies	33
0	NHS bodies	10
2,304	Other entities and individuals	1,600
<u>3,452</u>	<b>Total</b>	<u>2,817</u>

## NOTE 23 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

The market value of the funds is stated below:

	Market value at 31 March 2014	Market value at 31 March 2015
	£'000	£'000
Clerical Medical	2,792	2,678
Equitable Life	380	269
Standard Life	214	233
<b>Total</b>	<b>3,386</b>	<b>3,180</b>

AVC contributions were paid directly to the three managers as follows:

	2013 / 2014	2014 / 2015
	£'000	£'000
Clerical Medical	331	508
Equitable Life	0	0
Standard Life	10	11
<b>Total</b>	<b>341</b>	<b>519</b>

## NOTE 24 - RELATED PARTY TRANSACTIONS

### Gwynedd Council

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

The council incurred costs of £986,723 (£1,001,991 in 2013/14) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The council is also one of the largest employers of members of the pension fund and contributed £17.74m to the Fund in 2014/15 (£17.65m in 2013/14). At the end of the year the council owed £2.458m to the Fund (see Note 21) which was primarily in respect of contributions for March 2015 and the Fund owed £1.174m to the council (see Note 22) which was primarily in respect of recharges from the council.

The Gwynedd Pension Fund has three bank accounts which are held as part of Gwynedd Council's Group of Bank Accounts. The overall surplus cash held in the Group of Bank Accounts is invested on a daily basis. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund, based on the Fund's daily balances over the year. During 2014/15, the Fund received interest of £103,645 (£77,251 in 2013/14) from Gwynedd Council.

### Governance

There was 1 member of the pensions committee who was in receipt of pension benefits from the Gwynedd Pension Fund during 2014/15 (Committee member T.O. Edwards). In addition, committee members T.O. Edwards, P. Jenkins, H.E. Jones, D. Meurig, W.T. Owen P.Read and G.G. Williams are active members of the pension fund.

### Key Management Personnel

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

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

## NOTE 25 - COMMITMENTS UNDER INVESTMENT CONTRACTS

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

	<b>Total commitments</b>	<b>Commitment at 31 March 2014</b>	<b>Commitment at 31 March 2015</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
P.G. Direct 2006	20,000	1,384	776
P.G. Global Value 2006	50,000	4,091	3,477
P.G. Secondary 2008	15,000	1,960	1,960
P.G. Global Value 2011	15,000	7,883	6,034
P.G. Global Infrastructure 2012	40,000	34,039	28,285
P.G. Direct 2012	12,000	8,280	5,352
P.G. Global Value 2014	12,000	10,178	9,581
<b>Total Euros</b>	<b>164,000</b>	<b>67,815</b>	<b>55,465</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
P.G. Emerging Markets 2011	7,000	3,843	2,648
P.G. Secondary 2015	38,000	0	38,000
<b>Total Dollars</b>	<b>45,000</b>	<b>3,843</b>	<b>40,648</b>

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

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

## NOTE 26 – CONTINGENT ASSETS

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

## NOTE 27 – IMPAIRMENT LOSSES

### a) Impairment for bad and doubtful debts

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

### b) Impairment of Icelandic bank deposit

During 2008/09 the Council made a deposit of £4m with Heritable Bank which is a UK registered bank under Scottish Law. The pension fund's share of that investment was £565,200. The company was placed in administration on 7 October 2008. The Council has received a return of £3,778,353 equating to 94% from the administrators up to 31 March 2014.

No distributions were received in 2014/15. Notice has been received that a further dividend will be paid in August 2015, although the amount is not yet known. The administration is ongoing, but it is likely that the full amount should eventually be recovered.

## **NOTE 28 - PENSION FUND PUBLICATIONS**

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

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

Copies can be obtained from the Pension Fund website [www.gwyneddpensionfund.org.uk](http://www.gwyneddpensionfund.org.uk) on the investment page or by contacting Mrs Caroline Roberts on 01286 679128.

**INCOME & EXPENDITURE ACCOUNT 2014/15  
ANALYSIS OF SERVICE EXPENDITURE**

**APPENDIX A**

	Total Expenditure £'000	Total Income £'000	Net Expenditure £'000
<b>Cultural and Related Services</b>			
<i>Division of Service</i>			
Culture and Heritage	2,044	(582)	1,462
Recreation and Sport	10,426	(5,468)	4,958
Open Spaces	1,631	(630)	1,001
Tourism	1,468	(629)	839
Library Service	2,113	(165)	1,948
	<b>17,682</b>	<b>(7,474)</b>	<b>10,208</b>
<b>Environmental and Regulatory Services</b>			
<i>Division of Service</i>			
Cemetery, Cremation and Mortuary Services	1,111	(861)	250
Coast Protection	751	(103)	648
Community Safety (Crime Reduction)	343	(194)	149
Community Safety (CCTV)	369	(66)	303
Community Safety (Safety Services)	451	(355)	96
Flood Defence and Land Drainage	457	(167)	290
Agricultural and Fisheries Services	121	(202)	(81)
Regulatory Service	4,267	(795)	3,472
Street Cleansing (not chargeable to Highways)	2,661	(115)	2,546
Waste Collection	1,984	(138)	1,846
Waste Disposal	4,823	(152)	4,671
Trade Waste	1,774	(1,823)	(49)
Recycling	7,421	(4,365)	3,056
Waste Minimisation	155	(36)	119
	<b>26,688</b>	<b>(9,372)</b>	<b>17,316</b>
<b>Planning Services</b>			
<i>Division of Service</i>			
Building Control	854	(488)	366
Development Control	1,100	(534)	566
Planning Policy	727	(317)	410
Environmental Initiatives	1,115	(412)	703
Economic Research	6	(2)	4
Business Support	1,365	(620)	745
Economic Development	4,275	(2,547)	1,728
Community Development	1,089	(566)	523
	<b>10,531</b>	<b>(5,486)</b>	<b>5,045</b>
<b>Education and Children's Services - Education</b>			
<i>Division of Service</i>			
Early Years	636	(7)	629
Primary Schools	53,029	(9,192)	43,837
Secondary Schools	42,600	(5,507)	37,093
Special Schools And Alternative Provision	3,377	(217)	3,160
Post 16 Provision	4,060	(3,266)	794
Other Education and Community Budget	8,337	(1,169)	7,168
	<b>112,039</b>	<b>(19,358)</b>	<b>92,681</b>
<b>Education and Children's Services - Children's Social Care</b>			
<i>Division of Service</i>			
Sure Start Children's Centres/Flying Start and Early Years	2,497	(2,277)	220
Children Looked After	8,435	(180)	8,255
Other Children and Family Services	1,783	(1,273)	510
Family Support Services	1,607	(52)	1,555
Youth Justice	875	(566)	309
Safeguarding Children and Young People's Services	4,738	(308)	4,430
Asylum Seekers	26	(26)	0
Services for Young People	1,589	(262)	1,327
	<b>21,550</b>	<b>(4,944)</b>	<b>16,606</b>

**INCOME & EXPENDITURE ACCOUNT 2014/15**  
**ANALYSIS OF SERVICE EXPENDITURE**

**APPENDIX A**

	Total Expenditure £'000	Total Income £'000	Net Expenditure £'000
<b>Highways and Transport</b>			
<i>Division of Service</i>			
Transport Planning, Policy and Strategy	1,414	(550)	864
Structural Maintenance	9,110	(2,856)	6,254
Capital Charges Relating to Construction Projects	3,592	(1,218)	2,374
Environment, Safety and Routine Maintenance	6,654	(3,299)	3,355
Street Lighting (including energy costs)	3,092	(1,170)	1,922
Winter Service	1,687	(583)	1,104
Traffic Management and Road Safety	784	(70)	714
Parking Services	1,648	(2,026)	(378)
Public Transport	4,931	(2,553)	2,378
	32,912	(14,325)	18,587
<b>Housing Services (Council Fund)</b>			
<i>Division of Service</i>			
Housing Strategy	214	(68)	146
Enabling	279	(155)	124
Private Sector Housing Renewal	3,452	(977)	2,475
Licensing of Private Sector Landlords	557	(112)	445
Homelessness	1,355	(476)	879
Housing Benefits Administration	31,109	(30,806)	303
Other Council Property	89	(28)	61
Supporting People	5,927	(5,703)	224
	42,982	(38,325)	4,657
<b>Adult Social Care</b>			
<i>Division of Service</i>			
Service Strategy	307	(12)	295
Older People (aged 65 or over) including Older Mentally Ill	38,248	(13,477)	24,771
Adults aged under 65 with a Physical Disability or Sensory Impairment	3,944	(326)	3,618
Adults aged under 65 with Learning Disabilities	15,594	(2,170)	13,424
Adults aged under 65 with Mental Health Needs	3,681	(407)	3,274
Other Adult Services	914	(515)	399
	62,688	(16,907)	45,781
<b>Central Services to the Public</b>			
<i>Division of Service</i>			
Local Tax Collection	10,854	(799)	10,055
Registration of Births, Deaths and Marriages	417	(215)	202
Elections	453	(287)	166
Emergency Planning	163	(30)	133
Local Land Charges	304	(191)	113
Coroners' Court Services	507	(187)	320
	12,698	(1,709)	10,989
<b>Corporate and Democratic Core</b>			
<i>Division of Service</i>			
Democratic Representation and Management	3,032	(39)	2,993
Corporate Management	6,104	(4,240)	1,864
	9,136	(4,279)	4,857
<b>Non Distributed Costs</b>			
<i>Division of Service</i>			
Non Distributed Costs	663	0	663
	663	0	663
<b>COST OF SERVICES</b>	<b>349,569</b>	<b>(122,179)</b>	<b>227,390</b>

<b>THE WELSH CHURCH FUND</b>
------------------------------

2013/14		2014/15	
£'000		£'000	£'000
519	<b>Amount of Fund at 1st April</b>		834
	<b>Add - Income during the year :-</b>		
15	Interest on Investments		6
333	Increase in investments sold		0
0	Increase in land value		148
	<b>Less - Expenditure during the year :-</b>		
0	Transfer of Gwynedd's previous years interest	(27)	
(14)	Loss on sale of investments	0	
(19)	Grants and expenses	(9)	
			(36)
<u>834</u>	<b>Amount of Fund at 31st March</b>		<u>952</u>
	<b>Represented by the following Assets :-</b>		
26	Land and Buildings		365
23	Debtors		21
1,858	Cash in Hand		1,831
<u>1,907</u>			<u>2,217</u>
(1,054)	<b>Less - Proportion owing to Anglesey and Conwy Councils</b>		(1,232)
853			985
(38)	<b>Less - Creditors</b>		(40)
19	<b>Add - Proportion owing from Anglesey and Conwy Councils</b>		7
<u>834</u>	<b>Total</b>		<u>952</u>

**NOTES TO THE ACCOUNTS**

1. The Scheme for the administration of the Fund provides that the income be applied for charitable purposes - educational, recreational and social, at the discretion of the Council.
2. The Charities Act 1993 requires that an independent examination of the statement of accounts of the Welsh Church Fund be carried out annually.
3. The increase in land values follows a re-valuation during 2014/15.



<b>FMG MORGAN TRUST FUND</b>
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2013/14 £'000		2014/15 £'000
146	<b>Amount of Fund at 1st April</b>	152
	<b>Add - Income during the year</b>	
8	Interest on Assets	10
	<b>Less - Expenditure during the year</b>	
(2)	Grants	(2)
152	<b>Amount of Fund at 31st March</b>	160
	<b>Assets</b>	
144	Investments	142
8	Cash in Hand	18
152		160

**NOTES TO THE ACCOUNTS**

1. This Fund was set up from the residuary estate of the late Mrs. Florence Merthyr Guest Morgan. The income from the Fund was to be applied to aid residents of certain areas of Llŷn for specified purposes.
2. The investments are shown in the accounts at cost. The market value of the investments at 31 March 2015 was £329,724.98 (£311,766.98 at 31 March 2014).
3. The FMG Morgan Trust Fund is outside the provisions of the Charities Act 1993. No independent examination or audit is therefore required in respect of this trust fund.

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MEETING:	<b>AUDIT COMMITTEE</b>
DATE:	<b>16 JULY 2015</b>
TITLE:	<b>TREASURY MANAGEMENT 2014/15</b>
PURPOSE:	<b>CIPFA's Code of Practice requires that a report on the results of the Council's actual treasury management is produced.</b>
RECOMMENDATION:	<b>RECEIVE THE REPORT FOR INFORMATION</b>
AUTHOR:	<b>CAROLINE ROBERTS, INVESTMENT MANAGER</b>

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## **Executive Summary**

During 2014/15 the Council's borrowing remained well within the limits originally set, total interest received on deposits was £411,020 which was above the budgeted level of £319,860. There were no new defaults by banks in which the Council deposited money.

### **1. Introduction and Background**

CIPFA's revised Code of Practice on Treasury Management was adopted by the Council on 1st March 2011 and the Council fully complies with its requirements. The Code requires that I report on the results of the Council's actual treasury management in the previous financial year against that which was expected. It is considered that the Audit Committee is the appropriate body to consider this report.

This report compares our actual performance for 2014/15 against the strategy which was set out in February 2014 for the financial year which was approved by the full Council at its meeting on 6 March 2014 and can be accessed at - <https://www.gwynedd.gov.uk/en/Council/Councillors-and-committees/Meetings,-minutes-and-agendas/Meetings,-minutes-and-agendas.aspx?pwylgor=/2013-14/Cyngor Llawr Full Council/2014-03-06>

The report looks at:

- the economic background;
- the borrowing requirement and debt management;
- investment activity;
- compliance with Prudential Indicators.

This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Welsh Government's Investment Guidance.

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.

## 2. External Context

**Growth and Inflation:** The robust pace of GDP growth of 3% in 2014 was underpinned by a buoyant services sector, supplemented by positive contributions from the production and construction sectors. Resurgent house prices, improved consumer confidence and healthy retail sales added to the positive outlook for the UK economy given the important role of the consumer in economic activity.

Annual CPI inflation fell to zero for the year to March 2015, down from 1.6% a year earlier. The key driver was the fall in the oil price (which fell to \$44.35 a barrel a level not seen since March 2009) and a steep drop in wholesale energy prices with extra downward momentum coming from supermarket competition resulting in lower food prices. Bank of England Governor Mark Carney wrote an open letter to the Chancellor in February, explaining that the Bank expected CPI to temporarily turn negative but rebound around the end of 2015 as the lower prices dropped out of the annual rate calculation.

**Labour Market:** The UK labour market continued to improve and remains resilient across a broad base of measures including real rates of wage growth. January 2015 showed a headline employment rate of 73.3%, while the rate of unemployment fell to 5.7% from 7.2% a year earlier. Comparing the three months to January 2015 with a year earlier, employee pay increased by 1.8% including bonuses and by 1.6% excluding bonuses.

**UK Monetary Policy:** The Bank of England's MPC maintained interest rates at 0.5% and asset purchases (QE) at £375bn. Its members held a wide range of views on the response to zero CPI inflation, but just as the MPC was prepared to look past the temporary spikes in inflation to nearly 5% a few years ago, they felt it appropriate not to get panicked into response to the current low rate of inflation. The minutes of the MPC meetings reiterated the Committee's stance that the economic headwinds for the UK economy and the legacy of the financial crisis meant that increases in the Bank Rate would be gradual and limited, and below average historical levels.

Political uncertainty had a large bearing on market confidence this year. The possibility of Scottish independence was of concern to the financial markets, however this dissipated following the outcome of September's referendum. The risk of upheaval (the pledge to devolve extensive new powers to the Scottish parliament; English MPs in turn demanding separate laws for England) lingers on. The highly politicised March Budget heralded the start of a closely contested general election campaign and markets braced for yet another hung parliament.

On the continent, the European Central Bank lowered its official benchmark interest rate from 0.15% to 0.05% in September and the rate paid on commercial bank balances held with it was from -0.10% to -0.20%. The much-anticipated quantitative easing, which will expand the ECB's balance sheet by €1.1 trillion was finally announced by the central bank at its January meeting in an effort to steer the euro area away from deflation and invigorate its moribund economies. The size was at the high end of market expectations and it will involve buying €60bn of sovereign bonds, asset-backed securities and covered bonds a month commencing March 2015 through to September 2016. The possibility of a Greek exit from the Eurozone refused to subside given the clear frustrations that remained between its new government and its creditors.

The US economy rebounded strongly in 2014, employment growth was robust and there were early signs of wage pressures building, albeit from a low level. The Federal Reserve made no change to US policy rates. The central bank however continued with ‘tapering’, i.e. a reduction in asset purchases by \$10 billion per month, and ended them altogether in October 2014. With the US economy resilient enough the weather the weakness of key trading partners and a strong US dollar, in March 2015 the Fed removed the word “patient” from its statement accompanying its rates decisions, effectively leaving the door open for a rise in rates later in the year.

**Market reaction:** From July, gilt yields were driven lower by a combination of factors: geopolitical risks emanating from the Middle East and Ukraine, the slide towards deflation within the Eurozone and the big slide in the price of oil and its transmission though into lower prices globally. 5-, 10- and 20-year gilt yields fell to their lows in January (0.88%, 1.33% and 1.86% respectively) before ending the year higher at 1.19%, 1.57% and 2.14% respectively.

### **Local Context**

At 31/03/2015 the Authority’s underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £174.9m, while usable reserves and working capital which are the underlying resources available for investment were £119m.

At 31/03/2015, the Authority had £113.7m of loans and leases, and £38.4m of investments. The Authority’s current strategy is to maintain borrowing and investments below their underlying levels.

The Authority has an increasing CFR over the next 2 years due to the capital programme, and a significant level of investments and therefore is not planning to borrow over the forecast period.

### **Borrowing Strategy**

At 31 March 2015 the Authority held £111.3m of loans, (a decrease of £1.1m from 31 March 2014) as part of its strategy for funding previous years’ capital programmes.

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

Affordability and the “cost of carry” remained important influences on the Authority’s borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained, and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Authority determined it was more cost effective in the short-term to use internal resources instead.

The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Authority with this ‘cost of carry’ and breakeven analysis.

### 3. Borrowing Activity in 2014/15

	Balance on 01/04/2014 £'000	New Borrowing £'000	Maturing Debt £'000	Transfer to short term £'000	Balance on 31/03/2015 £'000	Average Rate %
CFR	173,309				174,889	
Short Term Borrowing <sup>1</sup>	1,193	0	(1,193)	214	214	5.74
Long Term Borrowing	111,215	106	0	(214)	111,107	5.73
<b>TOTAL BORROWING</b>	<b>112,408</b>	<b>106</b>	<b>(1,193)</b>	<b>0</b>	<b>111,321</b>	<b>5.73</b>
Other Long Term Liabilities	2,484	0	(112)	0	2,372	6.17
<b>TOTAL EXTERNAL DEBT</b>	<b>114,892</b>	<b>106</b>	<b>(1,305)</b>	<b>0</b>	<b>113,693</b>	<b>5.74</b>
Increase/ (Decrease) in Borrowing £m					(1,199)	

LOBOs: The Authority holds £16.2m of LOBO (Lender’s Option Borrower’s Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost.

#### Debt Rescheduling:

The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority’s portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

Changes in the debt portfolio over the year have achieved a reduction in the level of borrowing as well as a reduction in credit risk by repaying loans from investment balances.

**Abolition of the PWLB:** In January 2015 the Department of Communities and Local Government (CLG) confirmed that HM Treasury (HMT) would be taking the necessary steps to abolish the Public Works Loans Board. HMT has confirmed however that its lending function will continue unaffected and local authorities will retain access to borrowing rates which offer good value for money. The authority intends to use the PWLB’s replacement as a potential source of borrowing if required.

<sup>1</sup> Loans with maturities less than 1 year.

#### 4. Investment Activity

The Authority has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2014/15 the Authority's investment balances have ranged between £45.3 and £77.6 million.

The Welsh Government's Investment Guidance gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

<b>Investments</b>	<b>Balance on 01/04/14 £'000</b>	<b>Investments Made £'000</b>	<b>Maturities/ Investments Sold £'000</b>	<b>Revalue to Fair Value £'000</b>	<b>Balance on 31/03/15 £'000</b>	<b>Average Rate %</b>
Call Accounts with Banks with ratings of A- or higher - short term	20,825	157,650	(160,055)	0	18,420	0.47
Investments with Banks and Building Societies with ratings of A- or higher - short term	27,000	52,597	(42,595)	0	37,002	0.78
Building Society Covered Bond – long term	0	1,088	0	33	1,121	0.45
Money Market Funds	0	89,796	(89,796)	0	0	2.09
<b>TOTAL INVESTMENTS</b>	<b>47,825</b>	<b>301,131</b>	<b>(292,446)</b>	<b>33</b>	<b>56,543</b>	
Increase/ (Decrease) in Investments £m					8,718	

Security of capital has remained the Authority's main investment objective. This was maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2014/15.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating was A- across rating agencies Fitch, S&P and Moody's), credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

## Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average Credit Risk Score	Value Weighted Average Credit Rating	Time Weighted Average Credit Risk Score	Time Weighted Average Credit Rating	Average Life (days)
31/03/2014	5.69	A	5.80	A	102
30/06/2014	5.19	A+	5.12	A+	139
30/09/2014	5.01	A+	3.21	AA	118
31/12/2014	5.39	A+	3.49	AA	148
31/03/2015	5.24	A+	3.62	AA-	64

### Scoring:

-Value weighted average reflects the credit quality of investments according to the size of the deposit

-Time weighted average reflects the credit quality of investments according to the maturity of the deposit

-AAA = highest credit quality = 1

-D = lowest credit quality = 26

-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

## Counterparty Update

The European Parliament approved the EU Bank Recovery and Resolution Directive (BRRD) on April 15, 2014. Taking the view that potential extraordinary government support available to banks' senior unsecured bondholders will likely diminish, over 2014-15 Moody's revised the Outlook of several UK and EU banks from Stable to Negative (note, this is not the same as a rating review negative) and S&P placed the ratings of UK and German banks on Credit Watch with negative implications, following these countries' early adoption of the bail-in regime in the BRRD.

S&P also revised the Outlook for major Canadian banks to negative following the government's announcement of a potential bail-in policy framework.

The Bank of England published its approach to bank resolution which gave an indication of how the reduction of a failing bank's liabilities might work in practice. The Bank of England will act if, in its opinion, a bank is failing, or is likely to fail, and there is not likely to be a successful private sector solution such as a takeover or share issue; a bank does not need to be technically insolvent (with liabilities exceeding assets) before regulatory intervention such as a bail-in takes place.

The combined effect of the BRRD and the UK's Deposit Guarantee Scheme Directive (DGSD) is to promote deposits of individuals and SMEs above those of public authorities, large corporates and financial institutions. Other EU countries, and eventually all other developed countries, are expected to adopt similar approaches in due course.

In December the Bank's Prudential Regulation Authority (PRA) stress tested eight UK financial institutions to assess their resilience to a very severe housing market shock and to a sharp rise in interest rates and address the risks to the UK's financial stability. Institutions which 'passed' the tests but would be at risk in the event of a 'severe economic downturn' were Lloyds Banking Group and Royal Bank of Scotland. Lloyds Banking Group, [whose constituent banks are on the Authority's lending list], is taking measures to augment capital and the PRA does not require the group to submit a revised capital plan. RBS, which is not on the Authority's lending list for investments, has updated plans to issue additional Tier 1 capital. The Co-operative Bank failed the test.



The European Central Bank also published the results of the Asset Quality Review (AQR) and stress tests, based on December 2013 data. 25 European banks failed the test, falling short of the required threshold capital by approximately €25bn (£20bn) in total – none of the failed banks featured on the Authority’s lending list.

In October following sharp movements in market signals driven by deteriorating global growth prospects, especially in the Eurozone, Arlingclose advised a reduction in investment duration limits for unsecured bank and building society investments to counter the risk of another full-blown Eurozone crisis. Duration for new unsecured investments with some UK institutions was further reduced to 100 days in February 2015.

The outlawing of bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities, means that the risks of making unsecured deposits rose relative to other investment options. The Authority therefore has started to use secured investment options or diversified alternatives such as covered bonds, in addition to unsecured bank and building society deposits. Deposits were generally made over short periods in order to reduce the risk. Use of secured options including non-bank investments and pooled funds as well as covered bonds is likely to increase in order to reduce the risk of default.

### **Budgeted Income and Outturn**

The average cash balances were £63.5m during the year. The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates have remained at relatively low levels. New deposits were made at an average rate of 0.78%. Investments in Money Market Funds generated an average rate of 0.45%.

The Authority’s budgeted investment income for the year was £0.32m. The Authority’s investment income outturn for the year was £0.41m.

### **Update on Investment with Heritable Bank**

The authority has now recovered 94% of its investment in Heritable Bank. It is likely that further distributions will be received and that the full amount should be recovered. The timing of future distributions is unclear and depends on settlement of the ongoing court case. Notice that a dividend will be paid in August 2015 has been received but the amount is not yet known.

## 5. Compliance with Prudential Indicators

The Authority confirms that it has complied with its **Prudential Indicators** for 2014/15, which were set on 6 March 2014 as part of the Authority's Treasury Management Strategy Statement.

### Treasury Management Indicators

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

**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:

	2014/15	2015/16	2016/17
<b>Upper Limit for Fixed Rate Exposure</b>	100%	100%	100%
Maximum during the year			
Compliance with Limits:	Yes	Yes	Yes
<b>Upper Limit for Variable Rate Exposure</b>	50%	50%	50%
Maximum during the year			
Compliance with Limits:	Yes	Yes	Yes

**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:

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing at 31/03/15 £'000	Percentage Fixed Rate Borrowing at 31/03/15 %	Compliance with Set Limits?
under 12 months	25%	0%	214	0.2	Yes
12 months and within 24 months	25%	0%	1,981	1.8	Yes
24 months and within 5 years	50%	0%	20,857	18.7	Yes
5 years and within 10 years	75%	0%	11,450	10.3	Yes
10 years and within 20 years	100%	0%	34,003	30.5	Yes
20 years and within 30 years	100%	0%	15,464	13.9	Yes
30 years and within 40 years	100%	0%	0	0.0	Yes
40 years and above	100%	0%	27,352	24.6	Yes

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. The Council's LOBO loan is included in the '24 months and within 5 years' category above.

**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 total principal sum invested to final maturities beyond the period end will be:

	Approved 31/03/15 £m	Revised 31/03/15 £m	Actual 31/03/15 £m	Estimate 31/03/16 £m	Estimate 31/03/17 £m
<b>Total</b>	<b>30.0</b>	<b>30.0</b>	<b>1.1</b>	<b>20.0</b>	<b>10.0</b>

**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.

	Target	Actual
Portfolio average credit score	6.0	5.24

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2014/15. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

The Authority also confirms that during 2014/15 it complied with its **Treasury Management Policy Statement** and **Treasury Management Practices**.

## **6. Investment Training**

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

During 2014/15 staff attended training courses, seminars and conferences provided by Arlingclose and CIPFA.

**Prudential Indicators 2014/15**

The Local Government Act 2003 requires the Authority to have regard to CIPFA'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.

**Estimates of Capital Expenditure:** The Authority's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure	Approved 31/03/15 £m	Revised 31/03/15 £m	Actual 31/03/15 £m	Estimate 31/03/16 £m	Estimate 31/03/17 £m
General Fund	35.6	41.3	32.4	38.4	16.9

Capital Expenditure and Financing	Approved 31/03/15 £m	Revised 31/03/15 £m	Actual 31/03/15 £m	Estimate 31/03/16 £m	Estimate 31/03/17 £m
Capital receipts	1.2	1.9	1.9	1.5	0.0
Government Grants	12.8	21.3	15.5	12.9	4.3
Revenue contributions	9.5	7.5	6.4	11.2	1.2
Supported borrowing	4.1	4.1	4.1	6.6	6.6
Prudential borrowing	8.0	6.5	4.5	6.2	4.8
<b>Total Financing</b>	<b>35.6</b>	<b>41.3</b>	<b>32.4</b>	<b>38.4</b>	<b>16.9</b>

**Estimates of the Capital Financing Requirement**

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

Capital Financing Requirement	Approved 31/03/15 £m	Revised 31/03/15 £m	Actual 31/03/15 £m	Estimate 31/03/16 £m	Estimate 31/03/17 £m
General Fund	173.7	175.2	174.9	179.5	185.1

The CFR is forecast to rise by £10.2m over the next two years as capital expenditure financed by debt is higher than the resources put aside for debt repayment.

**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>Approved 31/03/15 £m</b>	<b>Actual 31/03/15 £m</b>	<b>Estimate 31/03/16 £m</b>	<b>Estimate 31/03/17 £m</b>
Borrowing	195.0	111.3	111.1	109.1
Finance leases	0.0	2.4	2.3	2.1
<b>Total Debt</b>	<b>195.0</b>	<b>113.7</b>	<b>113.4</b>	<b>111.2</b>
<b>Borrowing in excess of CFR?</b>	No	No	No	No

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

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

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.

<b>Operational Boundary</b>	<b>2014/15 £m</b>	<b>2015/16 £m</b>	<b>2016/17 £m</b>
Borrowing	<b>175,000</b>	<b>175,000</b>	<b>175,000</b>
Other long-term liabilities	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Debt</b>	<b>175,000</b>	<b>175,000</b>	<b>175,000</b>

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>2014/15 £m</b>	<b>2015/16 £m</b>	<b>2016/17 £m</b>
Borrowing	<b>195,000</b>	<b>195,000</b>	<b>195,000</b>
Other long-term liabilities	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Debt</b>	<b>195,000</b>	<b>195,000</b>	<b>195,000</b>

### 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>Approved 31/03/15 %</b>	<b>Revised 31/03/15 %</b>	<b>Actual 31/03/15 %</b>	<b>Estimate 31/03/16 %</b>	<b>Estimate 31/03/17 %</b>
<b>Total</b>	<b>5.34</b>	<b>5.34</b>	<b>5.08</b>	<b>5.68</b>	<b>5.81</b>

### Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Authority adopted the principles of best practice.

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

**Credit Score Analysis**

*Scoring:*

<b>Long-Term Credit Rating</b>	<b>Score</b>
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10

The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit.

The Authority aimed to achieve a score of 7 or lower, to reflect the Authority's overriding priority of security of monies invested and the minimum credit rating threshold of A- for investment counterparties.

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## CYNGOR GWYNEDD

COMMITTEE	AUDIT COMMITTEE
DATE	16 JULY 2015
TITLE	OUTPUT OF THE INTERNAL AUDIT SECTION
PURPOSE OF REPORT	TO OUTLINE THE WORK OF INTERNAL AUDIT FOR THE PERIOD TO 30 JUNE 2015
AUTHOR	LUNED FÔN JONES – AUDIT MANAGER
ACTION	TO RECEIVE THE REPORT, COMMENT ON THE CONTENTS AND SUPPORT THE RECOMMENDATIONS THAT HAVE ALREADY BEEN PRESENTED TO SERVICES FOR IMPLEMENTATION

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### 1. INTRODUCTION

- 1.1 The following report summarises the work of the Internal Audit Section for the period from 1 April 2015 to 30 June 2015.

### 2. WORK COMPLETED DURING THE PERIOD

- 2.1 The following work was completed in the period to 30 June 2015:

Description	Number
Reports on Audits from the Operational Plan	7

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 30 June 2015, indicating the relevant opinion category and a reference to the relevant appendix.

TITLE	DEPARTMENT	SERVICE	OPINION	APPENDIX
First Aid Payments	Corporate		C	Appendix 1
Ysgol Gynradd Dolgellau	Education	Schools	B	Appendix 2
Ysgol Dyffryn Nantlle	Education	Schools	B	Appendix 3
Main Accounting System including Debtors and Payments – Closure 2014-15	Finance	Accountancy	A	Appendix 4
Bank Reconciliation – Closure 2014-15	Finance	Accountancy	A	Appendix 5
Payroll System – Closure 2014-15	Finance	Pensions and Payroll	A	Appendix 6
Community Care Workers - Travelling Costs	Adults, Health and Wellbeing	Community Care	C	Appendix 7

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 Follow-up Audits

- 2.3.1 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 30 September 2015**

Children's Services – Commissioning of Care  
Food Hygiene, Health and Safety Inspection Programmes  
Direct Payments

### **Completion Target: Quarter ending 31 December 2015**

Jobs System – Security and Accuracy  
IT – Backups and Service Continuity

### **Completion Target: Quarter ending 31 March 2016**

Health and Safety – Lone Working  
Gwynedd Museum and Gallery

## 3. WORK IN PROGRESS

- 3.1 The following work was in progress as at 6 July 2015.

### 3.2 Draft reports released

- Communication with Schools (*Education*)
- Revenues System - Closure 2014-15 (*Finance*)
- Removing Leavers from IT Systems (*Finance*)
- Chairman's Fund (*Corporate Support*)

### 3.3 Work in progress

- Use of Consultants (*Corporate*)
- Awareness of Whistleblowing Policy – Manual Workers (*Corporate*)
- National Fraud Initiative (*Corporate*)
- Schools – Governance (*Education*)
- Workforce Modelling (*Education*)
- North and Mid Wales Trunk Road Agency
- Debtors System – Review of Key Controls (*Finance*)
- Payments System – Review of Key Controls (*Finance*)
- MAS – Review of Key Controls (*Finance*)
- Bank Reconciliation – Review of Key Controls (*Finance*)
- Payroll System – Review of Key Controls (*Finance*)
- Pension Fund – Review of Key Controls (*Finance*)
- Benefits – Review of Key Controls (*Finance*)
- Council Tax System – Review of Key Controls (*Finance*)
- NNDR – Review of Key Controls (*Finance*)
- Leisure Centres – Income Collection (*Economy and Community*)
- Sailing Academy (*Economy and Community*)
- Governance of collaborations with the third sector (*Adults, Health and Wellbeing*)

- Validity of Invoices from Private Providers (*Adults, Health and Wellbeing*)
- Plas y Don, Pwllheli (*Adults, Health and Wellbeing*)
- Plas Hedd, Bangor (*Adults, Health and Wellbeing*)
- Hafod Mawddach, Abermaw (*Adults, Health and Wellbeing*)
- Cefn Rodyn, Dolgellau (*Adults, Health and Wellbeing*)
- Charges on Properties of Home Residents (*Adults, Health and Wellbeing*)
- Maintenance of buildings and sites (*Highways and Municipal*)

#### **4. RECOMMENDATION**

- 4.1 The Committee is requested to accept this report on the work of the Internal Audit Section in the period from 1 April 2015 to 30 June 2015, comment on the contents in accordance with members' wishes, and support the recommendations already presented to the relevant service managers for implementation.

## **FIRST AID PAYMENTS**

### **Corporate**

#### Background

The Council pays an allowance of £8 a month to employees who have attended a first aid course, as recognition of an additional duty to provide first aid to their colleagues. As a rule, the payment reflects the additional duty, however, officers who possess a first aid certificate due to the nature of their jobs e.g. leisure centre workers, are not usually eligible to receive the allowance, as the duty has been reflected in the job evaluation. If an officer wishes to receive the additional responsibility to be a designated first aider, then he/she will have to attend a three day 'First Aid at Work' course and this needs to be refreshed every three years by attending a two day refresher course.

#### Purpose of the Audit

The purpose of the audit was to ensure that first aid payments are administered appropriately in order to ensure that only qualified officers receive the payments and that the contact details are correct and current.

#### Scope of the Audit

The audit examined the arrangements in place to ensure that only officers with current first aid training certificates receive the payments. As part of the audit, recent first aid payments were checked on the ledger and it was ensured as far as possible, that every worker who received a payment had a current certificate.

In addition, the audit included the Council's arrangements to ensure a sufficient supply of first aiders in the Council's main offices and that their contact details are exhibited appropriately and the information is current.

#### Main Findings

The results of the audit tests and the supporting evidence show that there are no appropriate procedures in place to ensure that only qualified officers receive monthly payments. A number of examples were seen where officers receive payments, however, there was no current first aid certificate to support the payments. In addition, it should be ensured that the duties for first aid arrangements are identified and there is appropriate training for them. Following discussions with officers in the Corporate Support Department it became evident that 'First Aid' had not been identified as part of the training for site managers.

It was seen that the lists of first aid officers exhibited in the offices included the names of officers, telephone numbers, department and location (including the room number if appropriate). However, some lists had not been updated for some time and therefore had incorrect details, which meant that the person requiring first aid could not get hold of them.

## Audit Opinion

(C) The Audit Opinion is that assurance cannot be given of propriety in the administration of First Aid Payments as the controls in place cannot be depended upon. The main recommendations of the report are as follows:

- It is necessary to look again at the system of monitoring first aid payments, including management and recording certificate holders.
- Site Managers (Offices) should be assisted to conduct an exercise in order to identify if there is an appropriate supply of qualified first aid officers at the work locations following recent office moves.
- It would be good practice not to state the Department where the first aiders are employed on the contact lists in order to encourage employees from other Departments to contact them if required.
- Site Managers (Offices) should be assisted to regularly update the lists of qualified first aiders and to ensure that the old lists are taken down.
- First aid arrangements should be included within the training course for Site Managers.

**YSGOL GYNRADD DOLGELLAU**  
**Education**

Background

The school Governing Body is responsible for managing and running the school and delegated powers are given to Head teachers to run the school on a day to day basis. The rights of Head teachers in terms of financial decisions are specified by the Governing Body and should be recorded within the school's policy. The Head teacher is responsible for reporting to the Governing Body on a regular basis on the school's financial situation and on any issue that affects that situation.

Purpose of the Audit

To ensure that appropriate budgetary control arrangements exist at Ysgol Gynradd Dolgellau.

Scope of the Audit

At the request of the Head of Education an internal audit was conducted at Ysgol Gynradd Dolgellau. It was decided to undertake an internal audit on the subject 'Budgetary Control', because this is an area with high risks.

Main Findings

The main findings of the audit were that there is generally good budgetary management at the school. However, no current written record was seen of the duties and rights of the Governing Body and the Head teacher. The school did not make use of the Council's official books such as 'TR32 Receipts' and 'TR184 Hiring of Building' and the Secretary was not aware of their existence. This may mean that other employees in Gwynedd schools are not aware of their existence either, and the Education Department should perhaps send a message to the schools informing them of these books and the requirement to use them.

Audit Opinion

**(B) The Audit opinion is that partial assurance can be expressed of financial propriety within the Budgetary Management of Ysgol Gynradd Dolgellau as there are controls in place, but there are aspects where some arrangements can be tightened. The main recommendations of the report are as follows:**

- **It should be ensured that there is a current written record of the duties and rights of the Governing body and the Head teacher regarding financial decisions including that appropriate thresholds exist at the school.**
- **If goods/services are ordered verbally rather than via the e-procurement system, then the School SIMS Assistant should be contacted to receive an order number for expenditure and the number should be quoted to the supplier at all times.**
- **It should be ensured that the person who has checked that goods/services have been received signs the box 'Received' on the T.R.252 payment slip.**
- **It should be ensured that the TR32 Receipts book is used from now on to give a receipt for income such as donations, music lessons and lettings received.**
- **Use should be made of the TR184 'Hiring of building' book when hiring out the school in order to create an agreement with the hirer and it should be ensured that the hirer signs the agreement and returns it to the school.**

**YSGOL DYFFRYN NANTLLE****Education**Background

The school Governing Body is responsible for managing and running the school and delegated powers are given to Head teachers to run the school on a day to day basis. The rights of a Head teacher in terms of financial decisions are specified by the Governing Body and should be recorded within the school's policy. The Head teacher is responsible for reporting to the Governing Body on a regular basis on the school's financial situation and on any issue that affects that situation.

Purpose of the Audit

To ensure that appropriate budgetary control arrangements exist at Ysgol Dyffryn Nantlle.

Scope of the Audit

On 13/04/15 a new Head was appointed at Ysgol Dyffryn Nantlle secondary school and following a meeting between the auditor and the new Head it was resolved that it would be useful if the Audit and Risk Management Service conducted an audit, in order to give the new Head assurance of the existing controls in place at the school. It was resolved to conduct an audit on the subject of 'Budgetary Control'.

Main Findings

The main findings of the audit were that there is good budgetary management at the school. However, it was seen that the policy on budgetary decisions needed to be re-discussed by the Governing body and updated with details of the new Head. Meetings of the Finance Sub-committee had not taken place every term and there were instances where no official orders had been created for every expenditure as expected.

Audit Opinion

**(B) The Audit opinion is that partial assurance can be expressed of financial propriety within the Budgetary Management of Ysgol Dyffryn Nantlle as there are controls in place, but there are aspects where some arrangements can be tightened. The main recommendations of the report are as follows:**

- It should be ensured that any changes made to the draft budget are amended in the FMS system.
- It should be ensured that the policy on financial decisions is updated with the details of the new Head and that the Chair of Governors and the Head sign it.
- It should be ensured that reports on budgetary monitoring are presented to the finance committee at least once a term.
- It should be ensured that orders are created when services/goods are ordered and not after receiving the invoice. Should it be necessary to order verbally as a matter of urgency, then it should be confirmed immediately by completing an order in writing. If the school is aware of regular annual expenditure then the cost for the year should be estimated and an order for the expenditure created at the start of the year.
- It should be ensured that three quotations are received or that at least three suppliers/providers are invited to submit a quotation for any work over £1,000 and if three quotations are not received then evidence should be kept that the school had invited three suppliers.



## THE MAIN ACCOUNTING SYSTEM INCLUDING DEBTORS AND PAYMENTS - CLOSURE 2014 – 15

### Finance

#### Purpose of the Audit

The Auditor General for Wales' Code of Audit Practice, April 2010, states that the Authority's external auditors (Wales Audit Office), in conducting their audit of the Council's accounts and Pension Fund, will rely wherever possible on the work of Internal Audit (and others). As a result, the Joint Protocol between the External Audit service and the Internal Audit service, approved by the Audit Committee on 17 November 2011, states:

**“As part of its key role in reporting upon the adequacy of internal control, and providing a basis for the authority's Annual Governance Statement, which is required to be published with the Council's annual statement of accounts, it is expected that Internal Audit will test key controls of the Council's major financial systems on an annual basis.”**

The Main Accounting System is considered to be a “major financial system” according to the Wales Audit Office's definition, and therefore a review of the key controls of this system including the debtors and payments module was conducted.

The purpose of the audit was to ensure that adequate arrangements are in place for the closure of the financial year, by ensuring that appropriate reconciliations have been undertaken.

#### Scope of the Audit

The review focused on the reconciliations conducted as part of the 2014-15 year-end procedures to ensure that they were carried out in a timely manner and to ensure that they were complete and accurate. It was ensured that reserves were created as necessary and that records in relation to years were allocated to the correct financial year. It was verified that the timetable was adhered to in relation to the year-end processes. A sample of invoices, income banked, internal transfers etc. were selected to ensure that their allocation and accuracy was correct.

#### Main Findings

It was found that strong internal controls exist in the year-end arrangements in respect of the Main Accounting System including the debtors and payments modules. Appropriate checks are carried out to ensure completeness and accuracy of the information and that the arrangements were in accordance with the timetable established for officers.

#### Audit Opinion

- (A) **The audit opinion is that assurance of financial propriety can be expressed in the Main Accounting System including Debtors and Payments – Closure 2014-15 – Review of Key Controls, as it is possible to depend on the internal controls in place and that they have been followed.**

**BANK RECONCILIATION – CLOSURE 2014-15****Finance**Purpose of the Audit

The Auditor General for Wales' Code of Audit Practice, April 2010, states that the Authority's external auditors (Wales Audit Office), in conducting their audit of the Council's accounts and Pension Fund, will rely wherever possible on the work of Internal Audit (and others). As a result, the Joint Protocol between the External Audit service and the Internal Audit service, approved by the Audit Committee on 17 November 2011, states:

**“As part of its key role in reporting upon the adequacy of internal control, and providing a basis for the authority's Annual Governance Statement, which is required to be published with the Council's annual statement of accounts, it is expected that Internal Audit will test key controls of the Council's major financial systems on an annual basis.”**

Bank reconciliation arrangements are considered a “major financial system” in accordance with the Wales Audit Office's definition, and therefore a review of closing down this system was undertaken. The purpose of the audit was to ensure that proper procedures are in place and have been adequately documented for maintaining year-end bank reconciliations.

Scope of the Audit

Review processes and arrangements for year-end closure.

Main Findings

It was found that the relevant year-end reconciliations were completed in accordance with expected procedure and that the documents had been properly signed by relevant officers.

Audit Opinion

**(A) The audit opinion is that assurance of financial propriety can be expressed in the arrangements for Bank Reconciliation – Closure 2014-15 as the controls in place can be relied upon and that they have been followed.**

**PAYROLL SYSTEM - CLOSURE 2014-15****Finance**Purpose of the Audit

The Auditor General for Wales' Code of Audit Practice, April 2010, states that the Authority's external auditors (Wales Audit Office), in conducting their audit of the Council's accounts and Pension Fund, will rely wherever possible on the work of Internal Audit (and others). As a result, the Joint Protocol between the External Audit service and the Internal Audit service, approved by the Audit Committee on 17 November 2011, states:

**“As part of its key role in reporting upon the adequacy of internal control, and providing a basis for the authority's Annual Governance Statement, which is required to be published with the Council's annual statement of accounts, it is expected that Internal Audit will test key controls of the Council's major financial systems on an annual basis.”**

The payroll system is considered a “major financial system” according to the Wales Audit Office's definition, and therefore a review of the key controls of this system was conducted.

Scope of the Audit

The scope of the audit was to verify the year-end arrangements to ensure the relevant information is sent to HM Revenues & Customs as well as ensuring that reconciliations are carried out to ensure that the information in the ledger is correct.

Main Findings

It was found that the relevant work of sending information to HM Revenues and Customs has been completed as well as the reconciliation with the ledger, in line with expectations.

Audit Opinion

**(A) The audit opinion is that assurance of financial propriety can be expressed in the Payroll System - Closure 2014-15 as the controls in place can be relied upon and have been adhered to.**

## **TRAVELLING COSTS OF COMMUNITY CARE WORKERS**

### **Adults, Health and Wellbeing**

#### Background

The Council's Community Care Workers are required to travel to various locations as part of their work in order to provide community care to residents within their community. They then submit weekly claims to the Council to reimburse travelling costs; these are administered within their work area. The current travelling rate is in accordance with the rates determined by HM Revenues and Customs, namely:

- 45p a mile for the first 10,000 miles in any financial year.
- 25p a mile for those miles over 10,000 in any financial year.

#### Purpose of the Audit

The purpose of the Audit was to ensure that appropriate internal controls exist with the arrangements to administer, process and certify travelling cost payments for Community Care Workers (Home Care), in order to ensure that the mileage claimed is appropriate and corresponds to the travelling expected in their work rota for the period.

#### Scope of the Audit

The audit scope included examining a recent sample of travelling claims by Community Care Workers across the areas of Arfon, Dwyfor and Meirionnydd comparing this with what the workers have been claiming against their work rotas for the period in question. The audit also checked what controls were in place to ensure the accuracy of the claims.

#### Main Findings

The audit test results and the supporting evidence show that there are no appropriate and consistent controls in place across the three areas in order to ensure the accuracy of the travelling costs claims. Unfortunately, this may contribute to the fact that the 'Community Care' travelling budget was overspent by approximately £128k during 2014-15. It was seen that the checks made on the travelling costs forms focused on the vehicle milometer readings rather than the total claimed and how this compared to the carers' work rota. However, recently it was seen that one area had taken action to strengthen their arrangements having found that the miles claimed were suspiciously high.

#### Audit Opinion

**(C) The Audit Opinion is that assurance cannot be given of propriety in the administration of travelling costs of Community Care Workers as the controls in place cannot be depended upon in each area. The main recommendations of the report are as follows:**

- **Full details of every journey claimed should be included on the travelling costs claim forms, unless in cases where there is a series of very short journeys, where it is recommended that these should be treated as one journey.**

- **Timely checks of a sample of travelling costs claims should be undertaken in order to ensure that the mileage claimed is reasonable and corresponds to their rotas and reduce the emphasis on examining milometer readings.**
- **Those cases where the Community Care Workers have claimed more than would be expected should be investigated when considering their rota for the corresponding period and an explanation given for the difference claimed.**
- **The Department needs to determine if resources should be invested to undertake a thorough investigation by going through every travelling cost claim in 2014-15 in order to reclaim any overpayments.**
- **The Dwyfor and Arfon areas need to send a letter to every Community Care Worker stating that stricter control will be in place to monitor travelling costs claims by comparing claims with rotas and emphasise that workers should only claim for travelling that is part of their work.**

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## CYNGOR GWYNEDD

COMMITTEE	AUDIT COMMITTEE
DATE	16 JULY 2015
TITLE	OUTPUT OF THE INTERNAL AUDIT SECTION AND THE INTERNAL AUDIT PLAN 2015/16
PURPOSE OF REPORT	TO GIVE THE COMMITTEE AN UPDATE ON PROGRESS AGAINST THE 2015/16 AUDIT PLAN
AUTHOR	LUNED FÔN JONES – AUDIT MANAGER
ACTION	FOR INFORMATION

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### 1. INTRODUCTION

1.1 This report is a progress report on completion of the 2015/16 internal audit plan.

### 2. SUMMARY OF PROGRESS AGAINST THE PLAN

2.1 The 2015/16 internal audit plan is included in Appendix 1 with the status of the work as at 5 July 2015 noted, together with the time spent on each project. The status of the work in the operational plan at that date was as follows:

Audit Status	Number
Planned	27
WP Created	12
Field Work Started	13
Draft Report Issued	4
Final Report Issued	7
<b>Total</b>	<b>63</b>

2.2 The performance target for 2015/16 is to have 95% of the audits in the plan to be either closed or with the final report released by 31 March 2016. 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 30 June was **11.1%** - out of **63** individual audits contained in the 2015/16 plan, **7** had been released in a finalised version.

### 3. RECOMMENDATION

3.1 The Committee is asked to note the contents of this report as an update on progress against the 2015/16 audit plan and offer comments thereon and accept the report.



Audit Code	Audit Name	Original Plan	Adjustment	Revised Plan	Actual Days	Audit Status
<b>CORPORATE</b>						
1-CORFF-02/2016	Use of Consultants	20.00	0.00	20.00	15.23	Field Work Started
1-CORFF-09/2016	Supporting Ffordd Gwynedd Reviews	20.00	0.00	20.00	0.76	Planned
1-CORFF-12/2016	Awareness of Whistleblowing Policy - Manual Workers	25.00	0.00	25.00	0.91	Field Work Started
1-CORFF-14/2016ccy	First Aid Payments	7.00	0.00	7.00	7.72	Final Report Issued
1-CPGV-01/2016cor	Corporate Assessment	25.00	0.00	25.00	1.86	Planned
1-CPGV-01/2016lle	Officers Gifts and Hospitality - High-Risk Services	15.00	0.00	15.00		Planned
1-CPGV-02/2016	Proactive Prevention of Fraud and Corruption	20.00	0.00	20.00		Planned
2-ADN-CGC-DPA/2016	Information Governance - Data Protection Act	15.00	0.00	15.00		Planned
2-ADN-X-GRANT/2016	Various Grants	20.00	0.00	20.00		Planned
AO-ANL-05/2016	National Fraud Initiative	50.00	0.00	50.00	18.82	Field Work Started
<b>EDUCATION</b>						
<b>Resources</b>						
4-DATA-ADD/2016eig	Education Improvement Grant for Schools	20.00	0.00	20.00		Planned
4-DAT-X-ADD/2016par	Gwynedd and Anglesey Learning Partnership Grant	10.00	0.00	10.00		Planned
EADDA03/2016	Communication with Schools	10.00	0.00	10.00	13.10	Draft Report Issued
<b>Across the department</b>						
EADDA06/2016hlon	New Hafod Lon School	15.00	0.00	15.00		Planned
<b>Catering</b>						
M-GMG-A04/2016	School Catering	20.00	0.00	20.00	0.14	Planned
<b>GwE</b>						
4-GWE/2016	GwE	20.00	0.00	20.00		Planned
<b>Schools</b>						
EADDA18/2016dol	Ysgol Gynradd Dolgellau	5.00	0.00	5.00	9.43	Final Report Issued
EADDA35/2016	Schools General	10.00	0.00	10.00	1.06	Planned
EADDAY4007/2016	Ysgol Dyffryn Nantlle	8.00	0.00	8.00	12.22	Final Report Issued
EADDAYC/2016a	Schools - Governance	20.00	0.00	20.00	2.43	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>
EADDDAYC/2016b	Workforce Modelling	17.00	0.00	<b>17.00</b>	<b>4.79</b>	Field Work Started
<b>HUMAN RESOURCES</b>						
<b>Health and Safety</b>						
BC-PER-02/2016	Schools - Health and Safety of school trips	20.00	0.00	<b>20.00</b>		Planned
<b>NORTH AND MID WALES TRUNK ROAD AGENCY</b>						
3-AMG-ACGC/2016	North and Mid Wales Trunk Road Agency	50.00	0.00	<b>50.00</b>	<b>36.66</b>	Field Work Started
<b>FINANCE</b>						
<b>Financial</b>						
AD-DY-01/2016	Debtors System - Review of Key Controls	12.00	0.00	<b>12.00</b>	<b>0.45</b>	WP Created
AE-TAL-01/2016kc	Payments System - Review of Key Controls	12.00	0.00	<b>12.00</b>	<b>1.62</b>	WP Created
<b>Accountancy</b>						
AN-ACY-02/2016kc	MAS - Review of Key Controls	10.00	0.00	<b>10.00</b>	<b>8.82</b>	WP Created
AN-ACY-02/2016kcx	MAS including Debtors amd Payments - Closure 2014-15	8.00	0.00	<b>8.00</b>	<b>10.62</b>	Final Report Issued
AN-ACY-13/2016kc	Bank Reconciliation - Review of Key Controls	10.00	0.00	<b>10.00</b>	<b>0.14</b>	WP Created
AN-ACY-13/2016kcx	Bank Reconciliation - Closure 2014-15	5.00	0.00	<b>5.00</b>	<b>6.34</b>	Final Report Issued
<b>Pensions and Payroll</b>						
AL-CYF-01/2016kc	Payroll System - Review of Key Controls	12.00	0.00	<b>12.00</b>	<b>2.45</b>	Field Work Started
AL-CYF-01/2016kcx	Payroll System - Closure 2014-15	5.00	0.00	<b>5.00</b>	<b>5.05</b>	Final Report Issued
AP-PEN-01/2016	Pension Fund - Review of Key Controls	10.00	0.00	<b>10.00</b>	<b>1.20</b>	WP Created
<b>Revenue</b>						
AB-BD-01/2016dhp	Discretionary Housing Payments	10.00	0.00	<b>10.00</b>		Planned
AB-BD-01/2016kc	Benefits - Review of Key Controls	10.00	0.00	<b>10.00</b>	<b>0.07</b>	WP Created
AB-BD-01/2016kcx	Revenues System - Closure 2014-15	10.00	0.00	<b>10.00</b>	<b>10.76</b>	Draft Report Issued
AC-TR-01/2016ipo	Council Tax System - iConnect	10.00	0.00	<b>10.00</b>		Planned
AC-TR-01/2016kc	Council Tax - Review of Key Controls	8.00	0.00	<b>8.00</b>	<b>0.07</b>	WP Created
AC-TR-11/2016	NNDR - Review of Key Controls	8.00	0.00	<b>8.00</b>	<b>0.41</b>	WP Created
<b>Information Technology</b>						
AW-TG-06/2016	Siebel - eFinancials Interface	10.00	0.00	<b>10.00</b>		Planned
AW-TG-12/2016def	Removing Leavers from IT systems	15.00	0.00	<b>15.00</b>	<b>16.42</b>	Draft Report Issued

Audit Code	Audit Name	Original Plan	Adjustment	Revised Plan	Actual Days	Audit Status
AW-TG-12/2016tg	IT System Security	30.00	0.00	30.00		Planned
<b>ECONOMY AND COMMUNITY</b>						
<b>Community Regeneration</b>						
EADDZ-01/2016	Welsh Church Fund	5.00	0.00	5.00		Planned
<b>Leisure</b>						
E-DGO-01/2016	Leisure Centres - Income Collection	20.00	0.00	20.00	11.61	Field Work Started
<b>Major Projects</b>						
DDAT-AH-01/2016	Sailing Academy	15.00	0.00	15.00	3.45	Field Work Started
<b>ADULTS, HEALTH AND WELLBEING</b>						
<b>Across the department</b>						
5-GOF-GCY-GC/2016	Home Care	25.00	0.00	25.00	2.23	Planned
GCC-03/2016	Governance of collaborations with 3rd Sector	20.00	0.00	20.00	8.16	WP Created
GRH-VW04/2016	Care Worker Training Programmes	20.00	0.00	20.00		Planned
<b>Community Care</b>						
GDAPR-GC04/2016	Home Carer Travelling Costs	15.00	0.00	15.00	12.93	Final Report Issued
<b>Suits</b>						
GDAPR-H03/2016	Validity of Invoices from Private Providers	20.00	0.00	20.00	6.56	Field Work Started
GGWAS-C01/2016	Changes to ILF	15.00	0.00	15.00		Planned
<b>Residential and Day</b>						
5-GOF-CART1341/2016	Plas y Don, Pwllheli	12.00	0.00	12.00	2.09	WP Created
5-GOF-CART1345/2016	Plas Hedd, Bangor	12.00	0.00	12.00	1.89	WP Created
5-GOF-CART1350/2016	Hafod Mawddach, Barmouth	12.00	0.00	12.00	0.61	WP Created
5-GOF-CART1356/2016	Cefn Rodyn, Dolgellau	12.00	0.00	12.00	6.52	Field Work Started
GDAPR-H01/2016	Charges on Properties of Home Residents	10.00	0.00	10.00	2.93	Field Work Started
<b>HIGHWAYS AND MUNICIPAL</b>						
<b>Fleet</b>						
PGW-TR-02/2016	Maintenance of buildings and sites	10.00	0.00	10.00	4.54	Field Work Started
<b>Highways Works</b>						
PPR-CYN-03/2016	Inspections	20.00	0.00	20.00		Planned

Audit Code	Audit Name	Original Plan	Adjustment	Revised Plan	Actual Days	Audit Status
<b>REGULATORY</b>						
<b>Transportation and Street Care</b>						
3-PROJ-TRAF/2016briw	Pont Briwet	15.00	0.00	15.00		Planned
DDAT-CC-01/2016	Public Transport	25.00	0.00	25.00		Planned
PPE-P-01/2016	Parking Income	20.00	0.00	20.00		Planned
<b>STRATEGIC AND IMPROVEMENT</b>						
<b>Democracy</b>						
BB-YSG-18/2016	Member Training and Development	10.00	0.00	10.00		Planned
BE-POL-14/2016	Chairman's Fund	5.00	0.00	5.00	7.38	Draft Report Issued
<b>GWYNEDD CONSULTANCY</b>						
<b>Buildings and Environmental</b>						
PYM01/2016	Recruitment and Selection	15.00	0.00	15.00		Planned

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MEETING:	<b>AUDIT COMMITTEE</b>
DATE:	<b>16 July 2015</b>
TITLE:	<b>External Audit Reports</b>
PURPOSE / RECOMMENDATION:	<b>To submit a summary of implementation steps established by the Services in response to external audit reports and their recommendations for consideration by the Audit Committee.</b>
AUTHOR:	<b>Geraint Owen, Head of Corporate Support</b>
CABINET MEMBER:	<b>Councillor Dyfrig Siencyn</b>

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## **1. INTRODUCTION**

1.1. One of the primary duties of the Audit Committee as outlined in the Local Government (Wales) Measure 2011, is to **review and assess the authority's risk management, internal control and corporate governance arrangements**. The Statutory Guidelines published pursuant to the Measure states that the Committee needs to:

- *“report on the adequacy of the authority's risk management and internal control arrangements, and comment on their effectiveness, as well as following up on risks identified by auditors and requiring reports as to action taken in response;”* and
- *“the authority will need to ensure there is no unnecessary duplication between the audit committee and any overview and scrutiny committee in considering such reports”.*

1.2 At its meeting on 3 December 2013, the Audit Committee approved new arrangements of reporting in order to strengthen governance arrangements and scrutiny of the main reports avoiding any duplication or vagueness. The principal reports are:

- ESTYN Reports
- Care and Social Services Inspectorate Wales (CSSIW) Reports
- Annual Reports of the Wales Audit Office (WAO)

1.3 There is a responsibility to ensure that arrangements and processes are in place to ensure that any recommendations included in external audit reports were implemented.

1.4 The Scrutiny Chairs Forum at its meeting on 24 January 2014, accepted the proposal for the relevant Scrutiny Committees to scrutinise the principal external audit reports.

- 1.5 In order to avoid duplication it was resolved to present to the Audit Committee a summary of the implementation steps established by the services in response to the external audit reports and their recommendations. A summary will be presented to the Audit Committee as the recommendations of the main reports or any other substantial recommendations come to our attention.

## **2. RECOMMENDATION**

2.1 The Audit Committee is asked to

- i) consider the contents of the appendix and satisfy itself that there is evidence that the external auditors' recommendations receive adequate attention.
- ii) decide if it is to call any matter in for further consideration, either to the full Committee or the Control Improvement Work Group.

### External Audit Reports 2014/15

1. Wales Audit Office's 2014-15 Annual Improvement Report

The Wales Audit Office will present the 2014-15 Annual Improvement Report to a meeting of the **Cabinet Members and members of this Committee on 30<sup>th</sup> July 2015.**

2. Annual Performance Appraisal of the Care and Social Services Inspectorate for Wales (CSSIW) 2013 - 2014

A review of Gwynedd Social Services' performance is undertaken annually by the Care and Social Services Inspectorate for Wales. The report results from the inspection work and notes the fields that have improved and for fields for improvement in the social services of Gwynedd Council for the year in question.

The report has been **circulated to relevant Officers and relevant Members.** The report was submitted **to the Services Scrutiny Committee on 11 December 2014** by Mark Robert and Vicky Poole, Care and Social Services Inspectorate for Wales together **with the Council's implementation plan. A short introductory paper was presented to the Services Scrutiny Committee's preparatory meeting on 13<sup>th</sup> January 2015 regarding the process of the complaints procedure including categories and timetable. A Social Services Complaints report is to be presented to the preparatory meeting of the Services Scrutiny Committee on 28<sup>th</sup> July and is expected to be presented formally to the Services Scrutiny Committee in September 2015.**

In addition **the Care and Social Services Inspectorate Wales' report was presented to the formal Cabinet on 19 February 2015** where it was agreed to give the go-ahead to the programme that responds to the recommendations and the CSSIW improvement areas.

A **draft response by the Service to the recommendations** in the Annual Review was **presented to the preparatory meeting of the Services Scrutiny Committee on 10<sup>th</sup> March 2015.** It was decided to ask the Social Services to present the implementation plan again in 6 months time in order to track the progress.

The **next Annual Report by the Inspectorate** is expected to be presented to **the Services Scrutiny Committee in November 2015.**

3. Report by the Wales Audit Office: Local Authorities Safeguarding Children Arrangements – Gwynedd Council

Gwynedd Council's Local Authorities Safeguarding Children Arrangements were inspected by the Wales Audit Office and a report was **published in October 2014**.

**The Service has an implementation plan in place to meet the Inspectorate's proposals.**

4. ESTYN Inspection 11-15 March 2013

Following the ESTYN inspection of education services for children and young people on 11 – 15 March 2013, deeming that the authority's progress needed to be monitored by Estyn.

**Estyn's Post Inspection Implementation Plan was received and confirmed by the Cabinet on 17 September 2013.**

**A Post-Estyn Inspection action plan was considered by the Services Scrutiny Committee on 3 October 2013.**

A programme of monitoring visits was agreed through our contact inspectors, and the first of these **visits was held on 12 and 13 March 2014**. A team of two inspectors evaluated the progress made by the authority against one recommendation stemming from the inspection in order to consider the authority's current performance and to identify any further improvement needs. The letter received following this visit (May 2014) did not include further recommendations for improvement.

**Another inspection was held on 23 – 25 June 2014** with a team of two inspectors who evaluated the progress against three recommendations stemming from the inspection. **The following letter did not include further recommendations for improvement.**

Following **Estyn Inspectors visit on 2 – 5 December** a letter was received recording the final results of monitoring after the inspection.

" Gwynedd Council is judged to have made sufficient progress in relation to the recommendations that arose from the inspection in March 2013. As a result, Her Majesty's Chief Inspector of Education and Training in Wales is removing the authority from follow-up activity".



**Estyn Inspectors attended the Services Scrutiny Committee meeting on 12 February 2015 in order to report on the findings of their visit on 2 – 5 December 2014.**

The Committee's decision was to accept and note the contents of ESTYN's report and to note the importance of paying close attention to **the annual report on the performance of the Education Service** which is to be **presented to the next Scrutiny Committee on 16<sup>th</sup> April**. That was addressed as part of the normal pattern of the Scrutiny Committee of receiving information about, and challenge the performance and service arrangements.

5. Gwynedd Domiciliary Care Services Review by Care and Social Services Inspectorate for Wales

The above report was published on 14 March 2014 following the **inspection on 5 February 2014 and 7 February 2014**. A scheduled baseline inspection is held every 3 years. It was noted, although steps have been taken to address the issues identified during the last inspection, progress is slow and effective steps must be taken to implement the new documentation in each area in particular:

- Risk assessments
- Person-centred care planning documentation

6. Care and Social Services Inspectorate for Wales Report – Gwynedd Fostering Service – January 2015

A scheduled inspection was held during **October and November 2014**. The report notes: **"We did not identify any areas of non-compliance with the requirements of The Fostering Services (Wales) Regulations 2003**; however we have identified areas where practice could be further developed to assist in improving the standard of the service provided.

- Foster carers felt more should be done to recognise what children achieve.
- Develop the initiative to better involve children in foster carer reviews.
- Consider a review of the disruption meeting format.

A note in the external audit reports register states that **any recommendations will be included in the Department's work plan**.

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MEETING: **AUDIT COMMITTEE**

DATE: **16 July 2015**

TITLE: **RESPONDING TO SIGNIFICANT FINANCIAL STRESS**

PURPOSE: **Consider Wales Audit Office's Recommendations**

CABINET MEMBER: **Councillor Peredur Jenkins**

AUTHOR/CONTACT OFFICER: **Dafydd L Edwards, Head of Finance**

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## **1. INTRODUCTION**

- 1.1 In April 2015, the Wales Audit Office (WAO) issued a national report stating that "councils in Wales have responded well to significant financial stress, but they need to improve their financial management and planning to meet the increasing financial challenges ahead". The full report is on the WAO's website -  
  
<http://www.audit.wales/publication/financial-resilience-councils-wales>
- 1.2 Some Welsh Treasurers consider this WAO report to be rather superficial, with insufficient evidence to support some conclusions, and lacking reference to good practice in Wales due to failure to effectively engage with local authority finance departments on this work.
- 1.3 Nevertheless, the report does raise several issues which are worthy of consideration, hence the Head of Finance has co-ordinated comments from relevant officers (including the Chief Executive and senior managers in the Finance Department) in response to WAO's recommendations.
- 1.4 All the WAO's recommendations and Gwynedd Council's responses / actions are set out in the appendix.

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**WALES AUDIT OFFICE  
FINANCIAL RESILIENCE IN WALES**

Ref	Recommendations	Agree	Response/ Action	Responsible Officer	Implementation Date
1	<p>Councils should ensure that their corporate plan:</p> <ul style="list-style-type: none"> <li>• is the core driver for the service plans and other supporting strategies including workforce, information technology and capital expenditure;</li>   <li>• maintains at least a three to five year forward view and is aligned with the medium term financial plan and other supporting strategies; and</li>   <li>• should clearly articulate the desired role of the council in five years – the model for delivering priority services and the infrastructure and resources needed to deliver future priorities within available finances.</li> </ul>	<p>Agree, and believe that Gwynedd Council's corporate strategic plan does drive forward</p> <p>Partially agree</p> <p>Partially agree</p>	<ul style="list-style-type: none"> <li>• This is one of WAO's favourite themes and is likely to feature in the 2016/17 corporate review. We believe that the current strategic plan already is in accordance with the MTFP, but will give this further consideration on the next review of the strategic plan.</li>   <li>• We consider that a five year plan is challenging in a period of rapid change, when the Council needs to be "agile" to face the financial challenge, etc.</li> </ul>	<p>Corporate Management Team</p> <p>Corporate Management Team</p>	<p>2017/18 – 2019/20 Strategic Plan</p> <p>2017/18 – 2019/20 Strategic Plan</p>

2	Councils should ensure that their medium term financial plan identify the major financial risks and key assumptions and senior officers and councillors should subject them to effective scrutiny and challenge before adopting the plan.	Agree	<p>We already do this, largely, during the annual budgeting seminars, but perhaps we could record the risks more clearly in the report to the Council on the financial strategy. We could add a section regarding potential risks, and our response thereto, i.e. increase the level of cuts required.</p> <p>While we could consider improving the report by including clauses identifying major risks, e.g. what if pay awards were 2% rather than 1%, WAO's own report is misleading by omitting any mention of the essential context of the regime for financing local authorities by the Welsh Government, and their lack of indications for levels of funding in future (unlike Scotland), and the national uncertainty regarding reorganisation of councils.</p>	Head of Finance	February 2016
3	Councils need to ensure that funding deficits are accurately projected and fully reconciled to detailed savings plans for each year over the life of the medium term financial plan.	Agree	We already do this.	Head of Finance and Chief Executive	Continuous

4	Councils should regularly review the adequacy of the financial assurance arrangements that underpin the delivery of annual savings plans, including the level of scrutiny and challenge provided by councillors.	Agree	Gwynedd Council has established new arrangements whereby relevant Cabinet Members will review attainment of savings schemes, and doubtless the Audit Committee too will intend to check arrangements to deal with the Council's major risks, and to scrutinise these significant financial matters.	Head of Finance	Quarter 3 of 2015/16
5	Councils should ensure that they have a comprehensive reserves strategy that outlines the specific purpose of accumulated useable reserves as part of their Medium term Financial Plan.	Partially agree	<p>See the Cabinet decision of 23/06/2015 and the report to the 30/06/2015 Audit Committee for the policy on reserves, which has now been formalised, as well as the review of specific reserves.</p> <p>See the relevant section of the report to the 05/03/2015 full Council for consideration of use of general balances, and the appendix thereto summarising the Council's reserves.</p> <p>Having one 'strategy' for all the various reserves would be a complex and detailed issue, but it is obvious that the outcome of the recent review does support the medium term financial plan.</p>	Head of Finance	Already actioned

6	Councils should develop corporate wide policies on income generation.	Partially agree	<p>The Head of Finance led a national review of income generation a few years ago, and other than parking fees, the opportunities in Gwynedd Council were scarce.</p> <p>Since then, action was taken in several areas to achieve corporate savings, and the departments have included income generation schemes in their efficiency savings plans for 2014/15 – 2017/18.</p> <p>However, the Savings Programme Leader and the Head of Finance will be looking for more opportunities to generate income as part of their work to maximise efficiency savings, and we intend to work with the WAO in order to try to identify those opportunities.</p>	Head of Finance	2015/16
7	<p>Councils should:</p> <ul style="list-style-type: none"> <li>• strengthen budget setting and monitoring arrangements to ensure financial resilience; and</li> <li>• review the coverage and effectiveness of their internal and external assurance financial systems and controls to ensure they are fit for purpose and provide early warning of weaknesses in key systems.</li> </ul>	Unsure	To some degree, we already do this. We intend to discuss details of these recommendations further with external auditors.	Head of Finance and Finance Management Team	2015/16



8	Councils must review their finance teams and ensure that they have sufficient capacity and the right skills to meet future demands.	Partially agree	<p>This is occurring now as part of the savings / cuts regime, whilst seeking to ensure that the cuts / savings do not affect our ability to support the Council's services.</p> <p>It will be difficult to "ensure sufficient capacity" in the challenging context, but we are trying, to the best of our ability, to get the right balance in place. It will not be possible to avoid an element of risk whilst implementing changes, and striving to support services which will be transforming.</p>	Head of Finance	Continuous
9	Council officers need to equip councillors with the knowledge and skills they need to deliver effective governance and challenge by extending training opportunities and producing high quality management information.	Agree	To some degree, we already do this, but we intend to discuss details of this recommendation further with external auditors.	Head of Finance (in respect of budgeting)	2016/17 budget cycle

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