



Complete Agenda

Democratic Services
Swyddfa'r Cyngor
CAERNARFON
Gwynedd
LL55 1SH

Meeting

AUDIT AND GOVERNANCE COMMITTEE

Date and Time

10.00 am, THURSDAY, 13TH JULY, 2017

Location

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

Contact Point

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(DISTRIBUTED 05/07/17)

AUDIT AND GOVERNANCE COMMITTEE

MEMBERSHIP (19)

Plaid Cymru (10)

Councillors

Alan Jones Evans
Charles Wyn Jones
Peter Read
Gethin Glyn Williams

Aled Ll. Evans
Huw Gruffydd Wyn Jones
Paul John Rowlinson

Aled Wyn Jones
Berwyn Parry Jones
Cemlyn Rees Williams

Independent (6)

Councillors

Dylan Fernley
Richard Medwyn Hughes
John Pughe Roberts

John Brynmor Hughes
Dewi Wyn Roberts
Angela Russell

Llais Gwynedd (1)

Councillor
Aeron M. Jones

Lib / Lab (1)

Councillor
Stephen W. Churchman

Lay Member

Mrs Sharon Warnes

Ex-officio Members

Chair and Vice-Chair 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

The Chairman shall propose that the minutes of the meetings of this committee held on the undermentioned dates be signed as true records:-

- | | |
|--|-----------|
| (A) 6 JUNE 2017 | 5 - 17 |
| (B) 22 JUNE 2017 | 18 - 23 |
| 5. WALES AUDIT OFFICE - GWYNEDD COUNCIL AUDIT PLAN 2017 | 24 - 43 |
| To submit the report of the external auditor. | |
| 6. STATEMENT OF ACCOUNTS 2016/17 | 44 - 154 |
| To submit, for information, the statutory financial declarations (subject to audit) for 2016/17. | |
| 7. TREASURY MANAGEMENT 2016/17 | 155 - 167 |
| 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 2017. | |
| 8. WALES AUDIT OFFICE REPORT - GOOD GOVERNANCE WHEN DETERMINING SIGNIFICANT SERVICE CHANGES | 168 - 181 |
| To submit the report of the external auditor. | |
| 9. REPORT FROM THE CONTROLS IMPROVEMENT WORKING GROUP | 182 - 191 |
| To submit the report of Councillor Angela Russell outlining the feedback from the meeting of the Working Group on 9 March 2017. | |

- 10. INTERNAL AUDIT OUTPUT 1/4/17 - 30/6/17** 192 - 203
To submit the report of the Audit Manager.
- 11. INTERNAL AUDIT PLAN 2017/18** 204 - 209
To submit the report of the Audit Manager on the progress made on the 2017/18 Internal Audit Plan.
- 12. INTERNAL AUDIT CHARTER** 210 - 221
To submit the report of the Audit Manager.
- 13. INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME** 222 - 225
To submit the report of the Audit Manager.

AUDIT AND GOVERNANCE COMMITTEE 6/6/17

Present: Councillor R. Medwyn Hughes (Chair)
Councillor John Brynmor Hughes (Vice-chairman)

Councillors: Stephen Churchman, Aled Ll. Evans, Aeron M. Jones, Aled Wyn Jones, Charles Wyn Jones, Huw G. Wyn Jones, Berwyn Parry Jones, Peter Read, John Pughe Roberts, Paul Rowlinson, Angela Russell, Cemlyn Williams and Gethin Glyn Williams.

Lay Member: John Pollard

Others invited: Councillors Steve Collings, Alwyn Gruffydd, Annwen Hughes, Elwyn Jones, Cai Larsen, Catrin Wager, Gareth Williams and Owain Williams (Local Members) along with Peredur Jenkins (Cabinet Member for Finance).

Also in Attendance: Dafydd Edwards (Head of Finance Department), Ffion Madog Evans (Finance Senior Manager - for Items 9 and 10 on the agenda), Dewi Morgan (Senior Revenue and Risk Manager), Luned Fôn Jones (Audit Manager); Sion Huws (Senior Solicitor (Corporate)), Arwel Ellis Jones (Senior Corporate Support Manager) Vera Jones (Members Manager - Democracy Service) and Dilwyn Williams (Chief Executive) – for Item 8 on the Agenda; and Bethan Adams (Member Support Officer).

Apologies: Councillors Dewi Wyn Roberts, Anwen Davies, Anne Lloyd Jones, Eryl Jones-Williams, W. Roy Owen and Mair Rowlands (Local Members).

1. CHAIR

RESOLVED to elect Councillor R. Medwyn Hughes as Chairman of the Committee for 2017/18.

2. VICE-CHAIR

RESOLVED to elect Councillor John Brynmor Hughes as Vice-chair of the Committee for 2017/18.

3. DECLARATION OF PERSONAL INTEREST

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

4. MINUTES

The Chairman signed the minutes of the meeting of this Committee held on 2 February 2017, as a true record.

5. FUNCTION OF THE AUDIT AND GOVERNANCE COMMITTEE

The Senior Revenue and Risk Manager gave a presentation on the functions to be carried out by the Committee. He drew attention to the fact that the committee was now known as the Audit and Governance Committee and the change of name reflected the evolution of the committee's role and functions since establishing the Audit Committee in 1999. He noted, following the decision by the Council in its meeting on 2 March 2017, that the committee had the added function of scrutinising issues involving the Council's internal operations.

He mentioned that training for committee members about the committee's responsibilities would be held on 14 June. He explained that the members would, ideally, have received training before the first meeting, but that this would not be possible because of the need to arrange this meeting so that the Council could respond to the Boundaries Commission about the review of election boundaries in Gwynedd in good time.

He presented the Committee's draft Operational Arrangements for comment and adoption. He provided details on the new draft Operational Arrangements which are based on the requirements of the Local Government Measure (Wales) 2011 and the Statutory Guidelines which support it. He emphasised that the committee was not a scrutiny committee as was required by the act and that scrutiny was an additional role. He explained that the committee, in accordance with the measure, had been scrutinising financial matters but that the committee, henceforth, would also scrutinise matters involving the Council's internal operations such as corporate strategies, partnerships, consultation, business transformation, efficiency arrangements and the workforce. He mentioned that an informal workshop for committee members would be held, after the formal meeting of the Council on 22 June, to identify scrutiny matters for the year.

A member noted that she was glad that this committee would be undertaking the additional scrutiny role, and taking a high level overview of the Council's operations.

A member enquired as to the committee's requirement to raise awareness across the Council of matters involving risk management, internal management and corporate governance in order to fully carry out its function. In response, the Senior Revenue and Risk Manager noted that one way the committee could raise awareness was through the Controls Improvement Working Group, where officers were called before the committee if the committee was dissatisfied with the arrangements for managing risk, internal management or governance within the Council's departments.

In response to an observation by a member about the consistency of arrangements when preparing for scrutiny committees, and the arrangements of the Audit and Governance Committee as it undertook the additional scrutiny role, the Members Manager - Democracy Service stated that a workshop would be held to identify matters to be scrutinised by the committee for the forward work programme for the year in accordance with the arrangements for the scrutiny committees. It was noted that the arrangement of holding preparatory meetings five weeks in advance of the scrutiny committee meetings had ended and that a meeting to prepare for items for scrutiny at the following meeting would be held at the end of the committee meeting. This arrangement would also be put in place for this committee.

A member noted that the committee should operate from a position of having an overview of risk to the Council, rather than focusing on individual matters. The Senior Revenue and Risk Manager reiterated the comment and noted that the committee's role was to look at the Council's day to day arrangements, not individual risks.

RESOLVED to adopt the Operational Arrangements.

6. REVIEW OF GWYNEDD ELECTORAL BOUNDARIES

The Senior Corporate Support Manager submitted the report, and noted that the Full Council at its meeting on 2 March had accepted a report on the review. He explained that the timetable for the Council to submit draft proposals to the Boundaries Commission had been extended to mid-June on account of the election period.

He noted that the committee had been asked to consider the draft proposals and the possible options noted in this report and propose recommendations to the Full Council in its meeting on 15 June, then the Council would submit proposals to the Boundaries Commission. Furthermore, to recommend to the Full Council that it, again, pressure the Boundaries Commission to pay attention to effective local representation needs and the impact of the population that was not on the electoral register when forming its proposals.

He highlighted that the Boundaries Commission had proposed that the average number of electors for each member in Gwynedd would be 1,243. He noted that every constituency was different and it was not practical to adhere too stringently to this figure in every case. The aim of the draft proposals was to allow for a variance of up to 25% above or below that figure, based on the type of variation the Commission had approved in the past.

Another principle at the core of these proposals was to seek to reduce the number of two - member constituencies in the county. He explained that the Council's opinion was, where geography and the nature of communities allowed, that single-member constituencies should be sought in order to simplify accountability for the electorate.

He reported that the options had been discussed to varying degrees with the relevant Local Members and that Community Councils had also been consulted.

He guided the members through the report and asked them to share their opinions on the proposals and the Local Members, who were present, were invited to comment.

Dolbenmaen / Porthmadog (Tremadog)

It was noted that both constituencies, although not being suggested for change at present, could be considered by the Boundaries Commission for change, if not this year, certainly by the review that would take place after the 2022 elections. Should the need for change arise, the only possibility that could be considered was to divide the ward of Porthmadog (Tremadog) so that some of the community wards in the area merged with the Dolbenmaen constituency and for others to be moved to one of two other constituencies in Porthmadog, thus leading to a reduction of one seat. Members were asked for their opinion about making recommendations for change or leaving it in the hands of the Commission.

The local member for Dolbenmaen noted that any change considered would mean very little change in the number of electors. Extending the boundary toward Cwmstradllyn would perhaps balance out the numbers but extending the boundary to Pwllgoleulas would mean too much movement in one direction for the Dolbenmaen ward.

The local member for Porthmadog (Tremadog) noted that the geographical area of the ward as it currently stood meant a considerable distance between Penmorfa and Snowdon. He was of the opinion that the proposal did not consider the pragmatic problems facing rural people and social movements. He noted, if change were recommended, Pant Glas would fit in better with Bryncir than Clynnog. He explained, because of history/tradition, that Tremadog would be better linked with Porthmadog and that a Bryncir to Snowdon ward would be too large.

In response to the observations, the Senior Corporate Support Manager noted that the Commission's main consideration was elector numbers; but, because local members were satisfied that no change was necessary and that no other rational change was forthcoming, a proposal would not be submitted to the Commission.

RESOLVED to not recommend change to the Full Council.

Electoralates where no changes were proposed

A member noted that elector numbers in the Gerlan, Ogwen, and Tregarth and Mynydd Llandegai wards were approximately 30% higher than the 1,243 figure, and he asked whether there was a danger that the Commission would consider the number of electors to be too great. The Senior Corporate Support Manager acknowledged that there was a danger that the Commission would think so, but it was hoped that they would not suggest change as their main focus was on smaller constituencies.

The Chief Executive added that the drivers for the work of forming electoral boundaries should be places that have a natural connection, but that the Commission tended to be driven by mathematics. He noted that the Council would have to defend what was suggested to the Commission lest they looked at the mathematics and formed two- or three-member constituencies, which, in the Council's opinion clouded accountability. He confirmed that there was a risk but that the Council was attempting to create a defensible plan.

Bangor City Area

The Senior Corporate Support Manager reported that he had attended a meeting of Bangor City Council on 5 June and that they, in principle, accepted that there would be a reduction in the number of councillors, but that they wanted this reduction to be minimised. He noted that Bangor City Council would be submitting an option to divide the city to minimise the suggested reduction before the meeting of the Full Council.

The local member for Deiniol suggested merging Garth and Hirael as he had been made aware of a campaign to try to register a lot of people in the Bangor area. A number of individuals had not registered to vote in the Deiniol ward but, in the long term, there could be a substantial increase in the number of electors.

The local member for Menai (Bangor) noted that Bangor University was discussing the arrangements for automatically registering all students. In which case, the number of electors could increase substantially and that we should be prudent and await a more firm response from the University.

The local member for Garth noted that it would be an idea to look at the historical figures since approximately 9,000 students were missing from the current numbers.

A member noted that he agreed with the local member's observations: the Commission document referred to the population and electors. From looking at the population, the existing wards fulfilled the requirements. He added that the proposed change to comply with the requirements of the Commission in terms of electors would not reflect the real work councillors did, and local members and the Bangor City Council should be given the opportunity to submit a proposal.

In response to the above observations, the Senior Corporate Support Manager noted that the Commission did not intend extending the closing date and that they were assessing at a point in time and would review this when carrying out the review of the electoral boundaries in future. He noted that he did not disagree with the comments made but an attempt should be made to respond in accordance with requirements of the Commission.

RESOLVED to give local members and Bangor City Council the opportunity to submit a proposal before the meeting of the Full Council.

Caernarfon Town Area

The Senior Corporate Support Manager noted that suggestions to improve the boundaries of Caernarfon town would be made, using the natural boundaries of the Llanberis Road and the Link Road through the town as obvious and natural ones. Attention was drawn to the fact that this would leave the existing Seiont constituency as a two-member constituency with approximately 2,392 electors. However, in order to implement the Council's wish of trying to have single-member constituencies, it was proposed to split it into two constituencies - the Caernarfon Town Centre Constituency of approximately 1,177 and the Hendre Constituency, which is mainly a single large housing estate, of approximately 1,215 electors. It was reported that Councillor Roy Owen (local member for Seiont) disagreed with the proposals.

The local member for Cadnant noted that he supported the proposals which would improve the town boundaries and be in keeping with the Commission's requirements.

Councillor Cai Larsen (local member for Seiont) noted that he welcomed the sensible proposals and that the Seiont ward was extensive with deprived areas which involved a lot of case work.

In response to an observation by the local member for Cadnant that the meeting of the Town Council would be held that evening, the Senior Corporate Support Officer stated, if comments were received from the Town Council, they would be incorporated into the report of the Full Council.

RESOLVED to recommend the proposal to the Full Council.

Ffestiniog Area

The Senior Corporate Support Manager stated, while the Bowydd and Rhiw area was fine as it was, the Diffwys and Maenofferen constituency with 750 electors was too small, and the Teigl constituency (1,315) was a little larger than the average. Further to that which was stated in the report about the boundary suggested by Ffestiniog Town Council, it was reported that there had been a misunderstanding as to which old post office reference had been made. He stated that the Town Council and local members were unanimous in their support for the amended boundary which complied with the Commission's requirements.

RESOLVED to recommend the proposal to the Full Council.

Tywyn Area

The Senior Corporate Support Manager stated that the Tywyn constituency was currently a two-member constituency. He highlighted the fact that there were three community wards in the Tywyn area. Morfa ward had elector figures close to those being considered, whilst Tywyn West and Tywyn East collectively had roughly the right number, in which case a natural boundary existed to create two constituencies. He reported that local members supported the proposal.

He noted that there was a risk for the constituencies of Aberdyfi and Pennal on account of a predicted further reduction in elector numbers. For the time being, however, it was suggested that Tywyn East and Tywyn West merge.

RESOLVED to recommend the proposal to the Full Council.

Abersoch, Aberdaron, Botwnnog, Tudweiliog, Morfa Nefyn and Llanbedrog Area

The Senior Corporate Support Manager stated that the three possible options noted in the report would lead to three fewer members in the area. He reported that discussions had

been held with the local members and concerns had been expressed that the suggested options would mean a reduction of as many as three members, and the impact it would have on effective representation for the population as a whole. He noted that local members should be given the opportunity to propose an alternative option before the Full Council meeting which would lead to the most sensible reduction in member numbers.

In response to a question by a member about the response of community councils, the Senior Corporate Support Manager stated that the only response had come from Botwnnog Community Council in which they stated their objection to the Commission's intentions.

A member noted that Llanengan Community Council would be discussing the matter at their meeting on Wednesday evening. In response, the Senior Corporate Support Manager noted that any proposals would have to be delivered a few days before the Full Council meeting on 15 June in order for them to be assessed.

The Chief Executive emphasised that any proposal would have to comply with the Commission's requirements and, if the mathematics suggested reducing the number of Members, the Commission would act.

The local member for Llanengan noted that he would be holding discussions with the relevant local members in relation to Llanbedrog/Mynytho and Abersoch/Llanengan/part of Llangian, but that he did not have definite figures. In response, the Senior Corporate Support Manager noted that he had shared the number of electors in the community wards with local members in the area following a meeting. He explained that the information about the division of community wards was not available, and that officers would count the numbers of electors within electoral wards after proposals had been submitted.

In response to a suggestion by the local member for Clynnog that a special meeting of the Dwyfor Area Committee should be convened, the Senior Corporate Support Manager noted that the timetable was tight and that a decision about the proposals would have to be reached at the Full Council meeting the following week.

The local member for Llanbedrog stated that there were a number of holiday homes in the area and, although the owners were not on the electoral register, the local member also represented them. She added that an attempt would be made to create a proposal that would divide the constituencies naturally. She was of the opinion that Llanbedrog was naturally bound to Mynytho. She noted that Llanbedrog Community Council had discussed the matter and she would contact the clerk so that they could submit a proposal.

RESOLVED to give local members in the Llŷn area the opportunity to submit a proposal before the meeting of the Full Council.

A minute's silence was held at 11.00am as a mark of respect to those who suffered as a result of the recent terrorism incident in London.

Trawsfynydd, Harlech, Dyffryn Ardudwy and Llanbedr Area

The Senior Corporate Support Manager stated that there were two possible options. The second option would redress the balance of numbers across the three constituencies suggested. Option one would propose the constituency of Harlech, Talsarnau and Llanfair; it would be a large constituency of 1,820. It was highlighted that the matter causing tension with respect to creating the constituencies was whether it made sense to merge Talsarnau/Maentwrog/Trawsfynydd.

The local member for Llanbedr stated that the first option was best and that merging the wards of Harlech and Talsarnau made more sense than merging the community wards of Trawsfynydd and Maentwrog.

In response to the comments, the Senior Corporate Support Manager stated that option one made more sense geographically.

It was noted that observations had been received from the local member for Dyffryn Ardudwy who expressed his concern that Dyffryn Ardudwy and Talybont with Llanbedr would create a large constituency with Talybont on the periphery, but that he acknowledged the need to reduce the number of constituencies. He proposed 'Dyffryn Ardudwy, Llanbedr and Talybont' as a name for the new constituency.

RESOLVED to recommend option 1 to the Full Council.

Llanrug Area

The Senior Corporate Support Manager stated the need to neaten the Llanrug boundaries of the area in order to improve the state of constituencies by dealing with the communities of Cwm y Glo (438), Brynrefail (224) and Ceunant (305) and also Penisarwaun (560) and Rhiwlas (533).

It was noted that a proposal had been made for two revised constituencies namely one for Cwm y Glo, Brynrefail and Ceunant (967) and one for Penisarwaun and Rhiwlas (1,093). It was reported that there was a difference of opinion among local members.

The local member stated his wish to retain the community of Brynrefail with Penisarwaun and Rhiwlas with the total number of electors at 1,317, which was a little higher than the average noted by the Commission. He added that Afon Rhyddallt was a natural boundary.

The local member for Llanrug noted that a two-member constituency was unnecessary and that he was of the opinion that this proposal should be acceptable to the Commission. He added that the Brynrefail community had stronger links with Cwm y Glo than with Rhiwlas. He noted that Llanrug Community Council was in favour of the proposal.

The local member for Cwm y Glo stated that there was a danger that a two-member constituency could be created if the Council did not submit a proposal. He added that the new Cwm y Glo, Brynrefail and Ceunant constituency would be in keeping with the school's catchment area.

The local member for Penisarwaun added that Brynrefail and Cwm y Glo naturally went together but that a constituency needed to be formed around a natural boundary.

In response to the observation, the Senior Corporate Support Manager stated, if changes were not made, that there was a danger that the Commission might create a two-member constituency.

The local member for Penisarwaun enquired whether Llanddeiniolen Community Council had responded. It was stated that they had not responded.

RESOLVED to recommend the proposal to the Full Council.

Bontnewydd, Llanfaglan and Caethro / Waunfawr, Betws Garmon and Rhyd Ddu

The Senior Corporate Support Manager stated that these proposals for these areas had been created with the local community links and school catchment areas in mind.

RESOLVED to recommend the proposals to the Full Council.

Dinas and Dinas Dinlle Area

The Senior Corporate Support Manager stated that this proposal to an extent attempted to respond to the change to the Bontnewydd area, but that it also attempted to use the communities around and below the A499 trunk road as a relatively natural boundary between communities.

The local member for Llanwnda stated that it would be unwise to create such a small constituency made up of two community councils, namely Llanwnda and Llandwrog. He was of the opinion that the Llanwnda constituency should remain as it was as it met the elector number requirements of the Commission, and it was within the area of one community council.

In response, the Senior Corporate Support Manager noted that he would keep the constituency of Llanwnda as it was, but it did raise the question of where to place Dinas Dinlle.

The local member added, if a decision was made to create a Dinas and Dinas Dinlle constituency, it would be necessary to consider a combination of Rhostryfan/Rhosgadfan/Carmel and Fron.

The Chief Executive emphasised that any combination was possible but that the mathematics had to be in keeping with requirements. He added that a discussion ought to be held with local members about the area.

RESOLVED to hold discussions with relevant local members to draw up a proposal for the constituencies in the area prior to the meeting of the Full Council.

Llanllyfni, Talysarn, Nantlle and Nebo Area

The Senior Corporate Support Manager suggested merging Llanllyfni (513) Talysarn (714) Nantlle (152) and Nebo (253) to create one new constituency of 1,612 (the entire Llanllyfni Community Council with the exception of Penygroes).

He reported that the local member for Talysarn did not object to this proposal despite stating that the new (Groeslon, Carmel and Cesarea) constituency varied greatly in its demography.

RESOLVED to recommend the proposal to the Full Council.

Groeslon, Carmel and Ceserea Area / Rhostryfan and Rhosgadfan Area

The Senior Corporate Support Manager stated, following the discussion about the Dinas and Dinas Dinlle area, that discussions would be held with local members.

Clynnog, Trefor, Llithfaen and Ffôr Area

The Senior Corporate Support Manager highlighted the fact that the existing Clynnog constituency numbers were substantially below the elector number threshold.

He noted that the favoured option was option three, as suggested by the local member for Llanaelhaearn, namely to retain the existing Llanaelhaearn constituency (1,151) as it was; calling it 'Yr Eifl' would, however, be more sensible. The Nebo ward (233) would then be

added to Clynnog to create a new constituency of 946 electors (which would be a very small constituency in the Commission's terms), thus, removing it from the Llanllyfni ward which would reduce the size of that ward to 1,369 which was more logical. This would address concerns expressed by Pistyll Community Council about small rural communities merging with larger and very different areas.

The local member for Clynnog noted that he agreed that option 3 was the best.

RESOLVED to recommend option 3 to the Full Council.

Abererch, Efailnewydd, Pentre Uchaf and Buan Area

It was noted that the proposal for this area had been mistakenly included and it was recommended that no changes should be made and for the Committee to dismiss it.

The local member for Abererch stated that he was happy with the recommendation that the constituencies remain the same.

Penllyn Area

The Senior Corporate Support Officer stated that a recommendation had been made to swap the wards in the two existing constituencies but that two seats should be retained so that there would be three seats in the entire area, namely Bala and Penllyn West – Llanuwchllyn (494), Cwm y Glyn (83) and Llanycil (323) (constituency of 900) and Penllyn East – Gwalia (125), Llan y Betws (456) and Llanfor (347) (constituency of 928). It was noted that the constituencies were small, looking toward the future, but that it was unavoidable in such a rural area.

It was noted that local members were concerned, if changes were not suggested, that a large constituency or a two-member constituency would be created.

RESOLVED to recommend the proposal to the Full Council.

Llanegryn, Bryncrug and Friog Area

The Senior Corporate Support Officer suggested moving the ward of Llanegryn from one constituency to the other in order to create two reorganised constituencies:-
Llanegryn, Bryncrug and Llanfihangel = 1,000 (three Community Council areas)
Y Friog, Islaw'r Dre and Llangelynnin = 1,332 (two Community Council areas)

RESOLVED to recommend the proposal to the Full Council.

General Observations

The members noted the following main points:-

- The consultation period, which coincided with the election period, was entirely inadequate for any meaningful local discussion and this had affected the ability to provide details on some proposals.
- The Boundaries Commission should focus on the requirements of effective local representation and the impact of the population rather than on the electoral register, at a specific point in time, in forming its proposals. Specifically, the demands and workload which arise as a result of the presence of students, tourists, second home owners and others who are not on the local electoral register, means that this must be addressed when determining the size of constituencies.

The Senior Corporate Support Manager confirmed that the observations would be submitted in the report to the Full Council.

7. FINAL ACCOUNTS 2016/17 – REVENUE OUTTURN

The report of the Cabinet Member for Finance was submitted in which he noted that the final financial situation of the Council departments for 2016/17 was good given the challenging financial climate. He thanked the finance officers for their detailed work and their support for the departments.

The Senior Finance Manager focused on the content of the report which would be submitted to the Cabinet in its meeting that afternoon. Attention was drawn to the recommendation for the Cabinet:

"1.1. To approve and note the final financial position of the Council's departments for 2016/17.

1.2 To approve the amounts to be carried forward (the "Revised Over/ (Under) Spend" column of the summary in Appendix 1), namely:

DEPARTMENT	£'000
Adults, Health and Well-being	(100)
Children and Families	0
Education	(48)
Economy and Community	(19)
Highways and Municipal	0
Environment (formerly Regulatory)	(38)
Gwynedd Consultancy	(96)
Corporate Management Team & Legal	(45)
Finance	(67)
Corporate Support	(56)

1.3 To approve the following recommendations and virements (as outlined in Appendix 2)

- Use (£46k), namely the underspend in excess of £100k in Adults, Health and Well-being to contribute towards the shortfall in another department.
- Clear the overspend in the Children and Families Department so that they can move forward to face the challenges of 2017/18, and to finance this by re-directing the Adults, Health and Well-being Department underspend (£46k) and Corporate underspend (£151k).
- Clear the overspend in the Highways and Municipal Department so that they can move forward to face the 2017/18 challenge, and to finance this by re-directing Corporate underspend (£88k).
- Use the £939k underspend on Corporate Budgets for 2016/17 as follows:
 - £151k to clear the overspend in the Children and Families Department
 - £88k to clear the overspend in the Highways and Municipal Department
 - £700k to be earmarked in a reserve to contribute towards the Financial Strategy for the future.

1.4 Approve the virements from the specific reserves and release the provisions as outlined in Appendix 3 following a comprehensive review of reserves and provisions.

1.5 Convey to the Departments that the Cabinet will only clear overspend in very exceptional circumstances in the future, and that departments will be expected to

carry forward any future overspend (in line with the procedure for carrying underspend forward)."

The Head of Finance Department stated that the revised statutory financial statements for 2016/17 would be submitted for approval by the Committee on 13 July but that this outturn report provided a clearer financial picture. He noted that there was some uncertainty about the level of Welsh Government grant funding for 2018/19 and beyond. He reported that a review of all the Council's funds had been made at the close of this year's accounts and £1,060m of resources had been collected. He explained that setting aside £1.76m in a specific fund would give the Council time to plan in order to respond appropriately in the autumn following confirmation of the level of Welsh Government grand funding.

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

- Congratulations were extended to the departments for their stringent financial management. Would the departments be expected to continue to underspend?
- Was the overspend in the Children and Supporting Families department a result of matters beyond the Department's control and was the underspend in the Adults, Health and Well-being department the result of inability to provide services?
- Could the annual trends be included in the report?
- The Council was unable to compete with private companies in relation to fees charged for commercial waste disposal;
- Did the Council's move toward enabling older people to continue to live in their own homes mean that there was an overspend on domiciliary care?
- Was the overspend on waste services the result of the fine the Council received in relation to storing materials at the Tywyn Depot?
- The committee had raised concerns in the past about overspend in the maritime service and the Education and Economy Scrutiny Committee should be asked to consider extending their scrutiny work on reviewing the management and governance of Hafan Pwllheli to include all harbours;
- Concern that the Consultancy Department was underspending considering the increasing risk from flooding. The money should be spent on carrying out more risk management work;
- The need to ensure that any underspend was not the result of failure to provide services and that it was a valid underspend.

The officers responded to the observations as follows:

- A number of departments had underspent on a one-time basis following achieving early efficiency savings. It was highlighted that the underspend was a small percentage considering the size of the budget and that the departments' 2017/18 budgets had been adjusted to reflect the income generated in 2016/17, etc.;
- Overspend in the Children and Supporting Families and underspend in the Adults, Health and Well-being department was not the result of an inability to provide services;
- The Children and Supporting Families had overspent mainly on location services. The Department had received a permanent bid of £50k and a one-off bid of £210k for 2017/18 in acknowledgement of the pressure on the services;
- The Adults, Health and Well-being Department had underspent as it had received money from Betsi Cadwaladr University Health Board which was owing to it from a few years previous. It was noted that this was a one-off situation.
- Information submitted in the report had to be selected; if the members wished to receive information about trends, an area would have to be selected for detailed consideration;

- Private companies could select from which areas they collected commercial waste and the Council would serve the areas that did not receive a service from private companies. The Council provided this service with the aim of retrieving costs;
- The Council's move toward enabling older individuals to live in their own homes was a factor. The change in emphasis and delivering savings plans showed a trend in terms of additional pressure on domiciliary care services.
- It was not the waste services that had been fined but the Highways Maintenance service. The fine had been included within the Highways expenditure figures.
- The underspend of the Consultancy Department would be carried forward to 2017/18. It was emphasised that the Department operated commercially.

RESOLVED:

- (i) To note the situation and the relevant risks in the context of the Council's budgets and its departments.**
- (ii) Recommend that the Cabinet accept the report and approve the recommendations.**
- (iii) Ask that the Education and Economy Scrutiny Committee consider expanding its scrutiny work on reviewing the management and governance arrangements of Hafan Pwllheli to include all harbours.**

8. CAPITAL PROGRAMME 2016/17 – END OF YEAR REVIEW

Submitted - the report of the Head of Finance Department, providing details of the end of year review of the capital programme.

The Cabinet Member for Resources set out the context and elaborated on the content of the report that would be submitted to the Cabinet in the afternoon. It was noted that the Council had succeeded in spending over £29m in 2016/17 on capital programmes; £11m had been funded through attracting specific grants, namely 77% of the total expenditure. It was confirmed that £9.4m of the expense budget would slip from 2016/17, compared to a slippage of £9.5m at the end of 2015/16. The Council did not lose any grant funding as a result of programmes slipping.

He drew attention to the fact that the Cabinet would be asked to approve an allocation of £100,000 for preparation and planning work to review the education provision in the Bangor area as a result of the Welsh Government's strict timetable as part of the Schools for the Twenty First Century plan. The Head of Finance Department reported that the report would be submitted in conjunction with the Council's long term capital programme after the summer.

RESOLVED:

- (i) To take note of the situation and the relevant risks in relation to the Council's capital programme.**
- (ii) Recommend that the Cabinet accept the report and approve the recommendations.**

9. OUTPUT OF THE INTERNAL AUDIT 30/1/17 - 31/3/17

Submitted - the report of the Audit Manager outlining the Internal Audit section's work for the period. It was noted that 13 audit reports of the operational plan had been completed, along with three other reports (memoranda etc.) and three follow-up reports.

Each individual report was considered and, during the discussion, reference was made to the following matters –

Deprivation of Liberty Safeguards

In response to a member's observation about the risks linked with this field, the Audit Manager noted that it was a sensitive and difficult field and that she had also attended training on the field where great risks were highlighted for the Council. She noted that the bid to employ officers to deal with applications had been approved. The workload was increasing and the Council needed to provide training on the field for the Council's residential homes as well as private ones. She noted, since the report had received a 'C' grading, the audit would appear before the Controls Improvement Working Group where progress to date could be considered.

Social Services Complaints Procedure

A member noted, although the report had received a 'B' Grading, she wished to consider the audit at the Controls Improvement Working Group. In response, the Audit Manager stated that the audit could be considered at the task group if the Committee so wished.

In response to a member's observation in which he expressed his concern about the audit as he was under the impression that the matters raised in the past had been solved, the Audit Manager noted that an officer was responsible for coordinating a response to complaints, and the Customer Service Unit for the Adults, Health and Well-being Department would put action steps in place to respond to the audit and she hoped things would improve.

RESOLVED:

- (i) to accept the report on the work of the Internal Audit for the period of 30 January 2017 to 31 March 2017 and to support the agreed actions that have already been submitted to the managers of the relevant services;**
- (ii) that the Chairman and Vice-chairman of the committee, along with Councillors Stephen Churchman, Angela Russell and Cemlyn Williams serve on the Working Group to consider the audits that have received a category 'C' grading along with the 'Social Services Complaints Procedure' audit that had received a category 'B' grading;**
- (iii) that it was the responsibility of any member unable to attend the Working Group to arrange a substitute.**

10. ANNUAL REPORT OF THE HEAD OF INTERNAL AUDIT 2016/17

The Chairman stated, because of time restrictions, that the item should be deferred until the next meeting on 22 June.

RESOLVED to defer the application.

11. THE COMMITTEE'S FORWARD PROGRAMME

Submitted - the report of the Senior Revenue and Risk Manager outlining the work programme for the Committee for the period up to May 2018.

RESOLVED to note the information.

The meeting commenced at 10:00am and concluded at 12:50pm.

CHAIR

AUDIT AND GOVERNANCE COMMITTEE 22/6/17

Present: Councillor R. Medwyn Hughes (Chair)
Councillor John Brynmor Hughes (Vice-chair)

Councillors: Aled Ll. Evans, Aeron M. Jones, Aled Wyn Jones, Charles Wyn Jones, Huw G. Wyn Jones, Berwyn Parry Jones, Peter Read, Dewi Wyn Roberts, John Pughe Roberts, Paul Rowlinson, Angela Russell, Cemlyn Williams and Gethin Glyn Williams.

Lay Member: Sharon Warnes

Others invited: Peredur Jenkins (Cabinet Member for Finance)

Also in Attendance: Dafydd Edwards (Head of Finance Department), Ffion Madog Evans (Finance Senior Manager - for Item 7 on the agenda), Bethan Griffith (Risk Co-ordinator and Insurance Manager - for Item 8 on the agenda), Debbie Anne Jones (Welsh Language Services Manager), Luned Fôn Jones (Audit Manager), Dewi Morgan (Senior Revenue and Risk Manager), Dilwyn Williams (Chief Executive) and Bethan Adams (Member Support Officer).

Apologies: Councillors Stephen Churchman and Alan Jones Evans.

Welcome

Sharon Warnes (Lay Member), attending her first meeting, was welcomed.

1. **DECLARATION OF PERSONAL INTEREST**

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

2. **URGENT ITEM**

The Cabinet Member for Finance referred to a recent article in the Daily Post newspaper, that noted that the Council had not collected £3.8m of tax arrears. He explained that the amount included tax arrears for a period of approximately five years and that the article had misinterpreted the information. He noted that the amount of tax collected annually by the Council was amongst the best of Wales' councils.

The Head of Finance Department added that the Council collected taxes effectively but also sensitive to the situation of Gwynedd Residents that pay, and the amount of council tax owed per individual house was lower than neighbouring councils. He noted that performance was monitored quarterly and that it was likely that further attention should be given to the matter at the next performance monitoring meeting of the Cabinet Member for Finance.

The Chair thanked the Cabinet Member for Finance for appearing before the committee, upon his request, to address the issue.

3. **RISK MANAGEMENT ARRANGEMENTS**

Submitted - the report of the Senior Revenue and Risk Manager who provided an update on what had been achieved since a report had been submitted to the Committee on 9 February 2017 responding to the letter from the Performance Audit Manager (Wales Audit Office) to the Chief Executive on his review of the Council's risk management arrangements.

The new scoring method that was intended to be used to analyse risks from now on was presented, and the Committee was asked to express its views on the scoring method.

It was noted that the new principles would be consulted in terms of preparing and maintaining the Risk Register with the Council's Management Team (which is the Corporate Management Team and Heads of Departments) at its meeting on 10 July 2017.

It was reported that the Corporate Risk Register, and a document summarising the principles, would be ready to be presented to the Committee on 28 September 2017.

During the ensuing discussion, the following main observations were noted by members:

- Who decides in terms of risk scoring?
- The generic objective document was welcomed, but that there was a danger that it could be subjective.
- Would the Committee accept information if certain risks were acceptable?
- Was there a danger that departments might give higher risk scores just in case?
- Was there an intention to set a period of one month for departments to reduce the risk score of something that was in the red?
- Was there anything currently in the red?

The officers responded to the observations as follows:

- The departments decided the score by prioritising risks within the department. The Governance Arrangements Assessment Group reconciled the scores and this should reassure the members of the Committee of quality management;
- The Governance Arrangements Assessment Group were overseeing the register;
- There was a need to be open and accept that some risks were acceptable. If members of the Committee were of the opinion that the risk was unacceptable, they could ask officers to put steps in place;
- The Governance Arrangements Assessment Group's reconciling role was key;
- It was expected that anything in the red would receive attention at once with the action steps, responsible officer and timetable noted. It was not considered that setting a specific time period, such as a month, to reduce the risk score was practical since all risks would be different, with different circumstances;
- Nothing was currently in the red. Many plans were in the amber and they would be prioritised, with less matters in the yellow. Establishing new risk management arrangements would formalise what was happening already.

RESOLVED to accept the report as an update on the progress of developing the risk management arrangements.

4. HEAD OF INTERNAL AUDIT ANNUAL REPORT 2016/17

Submitted - the report of the Audit Manager. On the basis of the work of Internal Audit that was completed in 2016/17, the officer was satisfied that Gwynedd Council had a sound framework of internal control.

It was reported that 69 out of 72 audits in the final amended internal audit plan had been completed by 31 March 2017, which corresponded to 95.83% of the plan, against a performance target of 95% for 2016/17.

Attention was drawn to the true 2016/17 result in terms of 'Percentage of Internal Audit follow-up reports with an "Acceptable" opinion or better (corporate indicator)' was 92% rather than 83% as noted on page 12 of the agenda.

Reference was made to a new achievement measure for Internal Audit - 'Percentage of the agreed actions that have been implemented in accordance with schedule.' It was noted that drawing up agreed actions with officers rather than drawing up recommendations, as was done in the past, would encourage officer's ownership of the actions.

In response to members' observations regarding a decrease in staffing level of Internal Audit, the Senior Revenue and Risk Manager noted that that the decrease in accordance with the efficiency savings that were approved by the Full Council. He added that there was currently a vacant post in Internal Audit, the job had been advertised but the response was disappointing. He noted that it might be considered to advertise the post as a training contract to qualify.

A member noted that a Council Department received opinion C in many audits, he asked if the situation had improved and how likely it was that steps had been taken by the Department. In response, the Audit Manager noted that a service within a specific Department had received opinion C in many audits and that follow-up audits would be conducted. She added that it was unfortunate when audits had received opinion C, but it was good to see controls in place in response and she hoped that agreed actions would encourage officer's ownership.

A member noted that on occasion, new managers would ask Internal Audit to conduct an audit. In response, the Audit Manager noted that a new manager of one leisure centre had asked for an audit and had used the report as an action plan.

A member referred to paragraph 4.13 of the report, and asked whether it would be beneficial to note the follow-up audit that had received an unsatisfactory opinion. In response, the Audit Manager noted that it was a follow-up audit of the Highways and Municipal Department's Workshops, Garages and Depots' Site Maintenance, that had received an unsatisfactory opinion. This was reported to the Committee in a previous meeting. She explained that since receiving an unsatisfactory opinion, the service had implemented an action plan in response.

The Lay Member noted that the Controls Improvement Working Group was good practice, and asked if the arrangement would continue. In response, it was noted that the Working Group would continue and that it enabled members to discuss audits in greater detail with the relevant officers.

The Lay Member referred to the 'GwE Business Arrangements' audit in the 2017/18 Internal Audit Plan, and asked if other councils would contribute as GwE was a cross-county provision. In response, the Audit Manager noted that the audit was included in the 2017/18 plan at the request of the former Head of Education. She explained that the Council was GwE's Lead Authority.

RESOLVED to accept the report as the formal annual report of the Head of Internal Audit in accordance with the requirements of the Public Sector Internal Audit Standards for the 2016/17 financial year.

5. GWYNEDD COUNCIL ANNUAL GOVERNANCE STATEMENT 2016/17

The Senior Revenue and Risk Manager set out the background and context of the report.

It was noted that action plans for the areas of high or mid priority had been noted in the statement. It was explained that these areas would receive attention when shaping the Council's new Strategic Plan including projects to address them.

The Chief Executive noted that he chaired the Governance Arrangements Assessment Group and that the statement submitted was a product of considerable work.

During the ensuing discussion, the following main observations were noted by members:

- In terms of the 'openness' of risk governance, the requirement in the constitution for a quarter of the membership to vote in favour of holding a registered vote at Full

Council meetings should be re-examined. It was acknowledged that this would not be possible at other committees, but as an electronic system was in place in Siamb Dafydd Orwig, every vote at Full Council meetings should be registered;

- There was a need to re-examine the risk score noted under 'Culture', as there was an opinion that the evidence noted in the statement did not justify such a high score.
- Was the statement a public document?
- Including examples of implementation would better explain why the risk score was so high;
- In terms of the statement's consistency, it is noted under 'Engagement' that the Gwynedd Challenge exercise had been very successful, whilst it was noted under 'Accountability' that only 2,000 residents responded out of a 18+ population of nearly 100,000.

The officers responded to the observations as follows:

- This matter should be considered as a formal item by the Committee with a report weighing the advantages and disadvantages of conducting a registered vote for every vote at Full Council meetings;
- Members were encouraged to attend Ffordd Gwynedd training on 5 July 2017. Corporate thinking did not generally put the people of Gwynedd at the centre, but by changing the Council's culture, the risk score would decrease. There was a higher number of looked after children in Gwynedd compared to other councils. Culture was a matter that really required attention. The evidence in the statement would be amended to better reflect this;
- The statement would appear on the Council's website and would be included with the financial statements;
- Examples would be included under 'Culture', and if members referred to other specific risks, examples could be noted, but efforts were made to keep the document short;
- In the context of 'Engagement', the response was very good in comparison with other consultations, but in regards to 'Accountability' it was not particularly good.

RESOLVED:

- (i) to approve the Annual Governance Statement for 2016/17;**
- (ii) to recommend that the Council Leader and the Chief Executive sign the statement;**
- (iii) to receive a report in relation to amending the Council's constitution to enable every vote in Full Council meetings to be registered without the requirement for a quarter of members to vote in favour of conducting a registered vote.**

6. GWYNEDD HARBOURS' FINAL ACCOUNTS 2016/17

The Head of Finance Department set out the background and context of the statutory requirements.

The Senior Finance Manager submitted the report regarding the final accounts of Gwynedd Harbours for the year 2016/17 in line with the statutory requirements under the Harbours Act 1964. It was noted that Gwynedd Harbours was considered a small governing body, as turnover was less than £2.5m, and due to the fact that completing an annual official form for the Wales Audit Office (WAO) met statutory requirements.

Attention was drawn to the fact that the accounts did not include Hafan Pwllheli nor Victoria Dock as they were not included within the definition of a Harbour, for the purposes of the relevant legislation.

It was reported that the accounts and the form would soon be the subject of an audit by Deloitte, Gwynedd Council's external auditors which had been appointed by the Auditor

General for Wales, and an amended version would be submitted to a meeting of the Committee on 28 September 2017.

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

- In terms of low expenditure on training, training expenditure was included within the Maritime Service's budget;
- There was a difference in terms of budget and actual expenditure on insurance as a new insurance contract had come into force in April 2016; the budget was specified in December 2015;
- The Service had attempted to generally cut costs to ensure that the expenditure was in line with the budget;
- That the Committee, at its meeting on 6 June, had decided to ask the Education and Economy Scrutiny Committee to consider expanding its scrutiny work on reviewing the management and governance arrangements at Hafan, Pwllheli to include all harbours.

RESOLVED:

- (i) **accept and approve the information in the appendices, namely -**
- **Income and Revenue Expenditure Account 2016/17 - Appendix A; and**
 - **Statements of Accounts form for 2016/17, for audit - Appendix B.**
- (ii) **authorise the Chairman to sign the statements of accounts form 2016/17.**

7. INSURANCE CLAIMS AGAINST THE COUNCIL

Submitted - the report of the Senior Revenue and Risk Manager that elaborated on Council arrangements in terms of dealing with insurance claims and included information about public liability and employers liability claims that had been settled during 2016/17. Attention was drawn to the fact that 75.5% of accountability claims against the Council had been settled without costs.

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

- The number of employers liability claims was relatively low considering the number of staff employed by the Council, the number of Council owned vehicles and the services provided;
- An attempt was made to learn lessons from the defended claims in addition to those that had been lost;
- In terms of paying claimant costs, only fixed costs could be claimed since 2013. The Council attempted, when possible and if appropriate, to resolve claims with settlements before going to court. Legal opinion was sought in terms of the likelihood of defending some claims;
- Each of the cases listed in the Appendix were subject to an excess of £25,000 before 1 April 2016, the excess had subsequently risen to £50,000 per Public Liability and Employers Liability claim. The Council paid any costs towards individual claims up to this threshold, and the insurance company paid any sums above that.
- There had not been an increase in the number of insurance claims following the Council's decision to reduce the frequency of grass cutting.

RESOLVED to accept the report.

8. SAVINGS PLANNING TO SUPPORT FINANCIAL RESILIENCE

It was reported that a national report had been published on 14 June, by the Wales Audit Office (WAO), stating that "the majority of Welsh council's had improved their financial plans for the medium term and, by now, they have an effective means of projecting savings they need to achieve," but "that councils have more to do to plan how they will bridge the funding

gap that has been identified by them, which undermines their financial plans for the medium term."

It was noted that the specific WAO report on 'Gwynedd Council's Financial Savings' had been positive. Attention was drawn to the fact that the Auditor General for Wales noted that the WAO had reached the conclusion -

- the Council's financial management arrangements are sound and it is well placed to tackle future challenges;
- the Council has an effective and well-considered savings planning approach, which is supporting future financial resilience;
- this is a continued strong position from 2015-16 - the Council has well-established and clear policies around its financial planning arrangements.

The Head of Finance Department guided members through the report with specific reference to the appendix which detailed the WAO proposals and the Council's response/action.

A member referred to a WAO improvement proposal, namely establishing a more corporate approach to identifying opportunities to generate income. It was noted that a more corporate approach would be welcomed and that he assumed that managers would take more risks in regards to generating income if a strategy existed to support them.

In response, the Chief Executive noted that culture was extremely important and that there was scope to look at income generating opportunities in order to ensure that the results of any decisions on main income streams were fully assessed. He noted that managers were expected to look for opportunities to increase income in terms of smaller income streams.

The member noted that some managers noted that workload effected their ability to venture. In response the Chief Executive noted that it was a matter of prioritising and that some managers completed work that could be dealt with by the workforce in accordance with Ffordd Gwynedd.

RESOLVED to accept the report.

9. PERFORMANCE MONITORING

Members were invited to express an interest in attending performance monitoring meetings for 2017/18. It was explained that the Committee had two specific areas of work - Corporate Support and Finance.

The Chair, Vice-chair and Councillors Huw G. Wyn Jones and Cemlyn Williams expressed an interest.

The meeting commenced at 10.00am and concluded at 11.50am

CHAIR



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

2017 Audit Plan – Gwynedd Council

Audit year: 2016-17

Date issued: June 2017

Document reference: 420A2017

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

This document was produced by Deloitte LLP and the Wales Audit Office.

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2017 Audit Plan

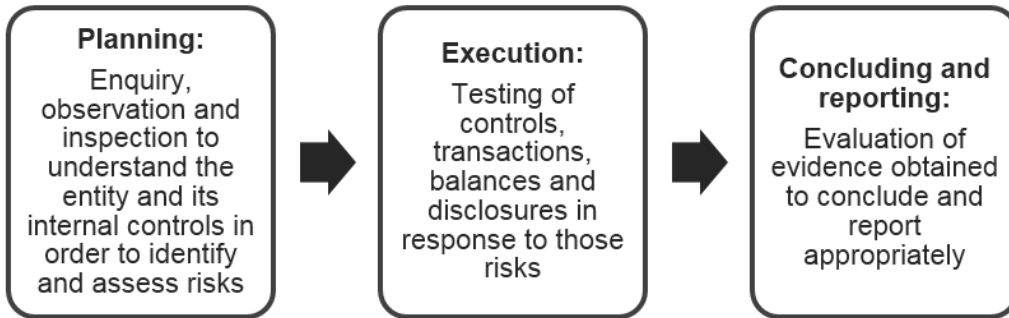
Summary

- 1 As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Public Audit (Wales) Act 2004, the Local Government (Wales) Measure 2009 (the Measure), the Local Government Act 1999, and the Code of Audit Practice, namely to:
 - examine and certify whether your financial statements are ‘true and fair’;
 - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
 - audit and assess whether you have discharged duties and met requirements of the Measure; and
 - undertake studies to enable me to make recommendations for improving economy, efficiency and effectiveness or for improving financial or other management arrangements.
- 2 The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it.
- 3 There have been no limitations imposed on me in planning the scope of this audit.
- 4 My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

Audit of accounts

- 5 It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on their ‘truth and fairness’.
- 6 I also consider whether or not Gwynedd Council (the Council) has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and report by exception if the Annual Governance Statement does not comply with requirements.
- 7 [Appendix 1](#) sets out my responsibilities in full.
- 8 The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows me to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. My audit approach consists of three phases as set out in [Exhibit 1](#).

Exhibit 1: my audit approach



9 The risks of material misstatement which I consider to be significant and which therefore require special audit consideration, are set out in [Exhibit 2](#), along with the work I intend to undertake to address them.

Exhibit 2: financial audit risks

Financial audit risk	Proposed audit response
<p>Management override of controls</p> <p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements using enhanced data analytics to analyse the whole journal population for characteristics of interest; • perform design and implementation testing of controls over journal entries to the financial ledger; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business.

Financial audit risk	Proposed audit response
<p>Completeness and recognition of grant income</p> <p>We have identified completeness and recognition of grant income as a significant risk as there is a need to apply management judgement on recognition of grant income, including determining whether a grant has conditions and whether they have been met to allow recognition. There are two types of grant income which we have considered to be relevant to this risk, these being specific revenue grants and capital grants and contributions.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • carry out detailed testing on a sample basis of grant income as the specific income risk to the financial statements to check that recognition of income properly reflects the grant scheme rules, that entitlement is in agreement with the draft or final grant claim and that the grant control account balance has been properly reconciled; • review correspondence attached to specific grants and test on a sample basis the Council's accounting treatment of the related expenditure; and • test the design and implementation of controls around recognition of grant income.
<p>Pension liability</p> <ul style="list-style-type: none"> • the Council currently holds a material net liability in respect of its pension obligations on the balance sheet, the calculation of which is based on a series of actuarial judgements and its calculation is sensitive to comparatively small changes in assumptions made about future changes in salaries, discount rates, mortality and other key variables. 	<p>My audit team will:</p> <ul style="list-style-type: none"> • obtain the IAS19 valuation as at 31 March 2017, and will engage experts to assist with our review of the appropriateness of the IAS19 valuation bases, assumptions and financial statement disclosures.

- 10 I do not seek to obtain absolute assurance on the truth and fairness of the financial statements and related notes, but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Audit Committee prior to completion of the audit.
- 11 For reporting purposes, we have determined an anticipated materiality of £4 million, based on forecast net expenditure of £200 million (as per the third-quarter Revenue Budget Monitoring Report). The materiality will be updated at the year-end in accordance with the year-end outturn of gross expenditure and we will update management and the Audit Committee of any changes. I will treat any misstatements below a 'trivial' level (the lower of 5% of materiality or £100,000) as not requiring consideration by those charged with governance and therefore I will not report them.

12 My fees are based on the following assumptions:

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

In addition to my responsibilities in respect of the audit of the Council's statutory financial statements set out above, I am also required to certify a return to the Welsh Government which provides information about the Council to support preparation of Whole of Government Accounts.

Other work undertaken

13 I am also responsible for the audit of three joint committees for which the Council is the host authority; these are the GwE Joint Committee, the Special Educational Needs Joint Committee and the Joint Planning Policy Committee. In addition, I am responsible for the four harbours; these are Pwllheli, Barmouth, Porthmadog and Aberdyfi for which the Council is the harbour authority. I wish to draw your attention to the following risk area I have identified in relation to the GwE Joint Committees which are over and above those mandated by ISA 240.

Exhibit 3: financial audit risks

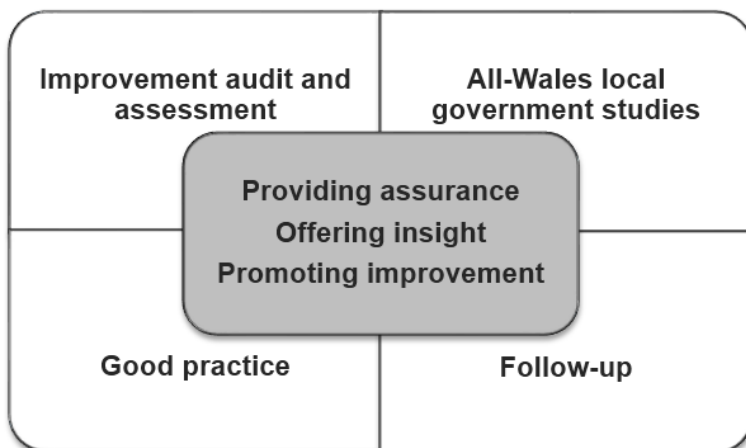
Financial audit risk	Proposed audit response
GwE grant income and expenditure The committee receives significant grant funding, most of which is distributed to local authorities and schools. There is a risk that the financial statements inappropriately include or exclude this grant funding as the committee will need to make an assessment of whether it is acting as an agent or principal body.	My audit team will seek to understand the committee's recognition policy for grant income and expenditure which will include a review of whether the committee is acting as principal or agent. We will perform tests of detail to confirm whether recognition criteria have been met.

- 14 There are no additional financial audit risks that I wish to draw to your attention in relation to the Special Educational Needs Joint Committee, the Joint Planning Policy Committee or the harbour authority.
- 15 My audit fee for this work is set out in [Exhibit 7](#).
- 16 You will be aware that the CIPFA/LASAAC Local Authority Accounting Code Board (Code Board) has deferred the planned move to measuring the local authority highways network asset at depreciated replacement cost. The Code Board will consider whether the central GRC rates and central assurance processes will be delivered in a timely manner to enable successful implementation in 2017-18 at its meeting in March 2017. The requirements will be introduced in the 2017-18 code.
- 17 Any required additional audit work in relation to the highways network asset cannot be contained within existing fees. The additional audit cost will be agreed based on the quality of the Council's systems and records and the availability of central assurances. I anticipate that the additional fees related to the highways network asset will be reflected in the audit fee for 2017-18.
- 18 It will, however, be important for authorities to maintain their momentum in preparing for this significant change and may wish to engage with their external auditor as they make progress. I will discuss with you the scope of any additional preparatory work required in 2017 and any additional audit fee for such work.

Performance audit

- 19 The components of my performance audit work are shown in [Exhibit 4](#).

Exhibit 4: components of my performance audit work



- 20 Local government in Wales is going through an unprecedented period of change. Austerity continues to bite, audited bodies will be required to adopt the principle of sustainable development from April 2016, and Local Government Reform remains under consideration.
- 21 For 2017-18 the Measure will still be in place, and I will still need to examine whether authorities will meet their duty to make arrangements for continuous improvement. The challenge for me in these uncertain times is to balance my existing, new and proposed statutory duties with the need to continue to undertake meaningful, risk-based and proportionate audits and assessments.
- 22 During 2016, I consulted with public service bodies on how I can best discharge my various duties whilst striking the most appropriate balance and adding value by:
- providing assurance on the governance and stewardship of public money and assets;
 - offering insight on the extent to which resources are used wisely in meeting people's needs; and
 - identifying and promoting ways by which the provision of public services may be improved.
- 23 In addition to the annual programme of audit and assessment work, the Wales Audit Office also undertakes a programme of local government studies. This work is included within the Wales Audit Office estimates for funding from the Welsh Consolidated Fund and not local fees. **Exhibit 5** summarises the present position on the current programme of studies. These studies primarily lead to a national report augmented by good practice and shared learning outputs rather than by local reports. Local findings, where relevant, will be captured in improvement assessment work and reported in annual improvement reports depending on the timing and the focus of conclusions.

Exhibit 5: local government studies

Study	Status
2015-16 studies	
Community Safety	Published October 2016
Income Generation and Charging	Published November 2016
Council Funding of Third Sector Services	Published January 2017
2016-17 studies	
How Local Government Manages Demand	Fieldwork complete; report drafting
Strategic Commissioning	Fieldwork complete; report drafting
Improving Well-Being through Housing Adaptations	Fieldwork complete; report drafting

24 Taking all these factors into consideration, my 2017-18 programme of work will comprise:

Exhibit 6: performance audit programme

Performance audit programme	Brief description
Improvement audit and assessment work including: <ul style="list-style-type: none"> • improvement planning and reporting audit • follow-up of local and national proposals for improvement/recommendations • local risk-based projects – topic to be agreed and confirmed • Annual Improvement Report 	<ul style="list-style-type: none"> • basic certification of improvement plan and annual report • follow-up review of a sample of local and national proposals for improvement/recommendations • project briefs will be shared before the project work begins • summary of performance audit work undertaken in the year
Well-being of Future Generations (WFG) baseline assessment	The Year One Commentary: we will gather evidence on how the 44 bodies are beginning to respond to the requirements of the WFG Act and identify examples of notable emerging practice. The work will be designed to support improvement and inform future audit work under the act.
WFG Scrutiny review	This review will examine the impact of the WFG Act on the work of scrutiny committees, including public services board scrutiny, facilitating improvement and the sharing of good practice.
Service User Perspective review	Building on work undertaken on the Addressing Dependency and Demand Local Government Study, this project will test the service-user interface at all authorities. The review will evaluate what it feels like (as a member of the public) to deal with council services, involving a selection of services and scenarios.

25 The performance audit projects included in last year’s Audit Plan, which are either still underway or which have been substituted for alternative projects in agreement with you, are set out in [Appendix 3](#).

Fee, audit team and timetable

Fee

- 26 The Wales Audit Office does not generate profits on fees. Legislation requires that the fees charged may not exceed the full cost of exercising the function to which the fee relates. The fee rates are set at a level to recover that full cost. My fee rates have been held static for 2017 and my audit teams will continue to look for efficiencies in their audits and welcome working with you constructively on this.
- 27 Your estimated fee for 2017 is set out in [Exhibit 7](#).

Exhibit 7: audit fee

Audit area	Proposed fee (£) ¹	Actual fee last year (£)
Audit of accounts²	180,450	180,450
Performance audit work³	99,537	99,198
Other audit work:		
GwE Joint Committee	11,000	7,590
Special Education Needs Joint Committee	1,000	920
Joint Planning Policy Committee	1,000	920
Harbour authorities	700	650
Total other audit work	13,700	10,080
Grant certification work⁴	125,000	110,000–125,000

Notes:

¹ The fees shown in this document are exclusive of VAT, which is no longer charged to you.

² Payable November 2016 to October 2017.

³ Payable April 2017 to March 2018.

⁴ Payable as work is undertaken.

- 28 Planning will be ongoing, and changes to my programme of audit work and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing them with the Council.
- 29 Further information on my [fee scales and fee setting](#) can be found on the Wales Audit Office website.

Audit team

30 The main members of my team, together with their contact details, are summarised in [Exhibit 8](#).

Exhibit 8: my team

Name	Role	Contact number	E-mail address
Ian Howse	Engagement Lead – Financial Audit	02920 264319	ihowse@deloitte.co.uk
Clare Edge	Financial Audit Manager	07708936807	cedge@deloitte.co.uk
Derwyn Owen	Engagement Director	02920 320651	derwyn.owen@audit.wales
Jeremy Evans	Performance Audit Manager	07825 052861	jeremy.evans@audit.wales
Paul Goodlad	Performance Audit Lead	07854 108620	paul.goodlad@audit.wales

31 I can confirm that my team members are all independent of the Council and your officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

Timetable

32 I will provide reports, or other outputs as agreed, to the Council covering the areas of work identified in this document. My key milestones are set out in [Exhibit 9](#).

Exhibit 9: timetable

Planned output	Work undertaken	Report finalised
2017 Audit Plan	March to April 2017	June 2017
Financial accounts work: <ul style="list-style-type: none"> Audit of Financial Statements Report Opinion on Financial Statements Financial Accounts Memorandum 	July to September 2017	September 2017
Performance work: <ul style="list-style-type: none"> Improvement Plan Certificate Performance Report Certificate 	(Estimated) March 2017 October 2017	(Estimated)* Issued April 2017 October 2017
Local risk-based audit	July to November	March 2018
Follow-up of local and national proposals for improvement	June to November	December 2017
Annual Improvement Report	January to February 2018	March 2018
Service User Perspective review	July to December	March 2018

Planned output	Work undertaken	Report finalised
WFG Scrutiny review	July to December	N/A
WFG: baseline assessment	September 17 to February 2018	N/A

* Subject to timely clearance of draft findings with the Council.

Future developments to my audit work

Well-being of Future Generations (Wales) Act 2015

33 The Well-being of Future Generations (Wales) Act 2015 (the Act) became law in April 2015. The Act requires me to report before the next National Assembly election on how public bodies are acting in accordance with the sustainable development principle when setting their well-being objectives and taking steps to meet them. In 2017, I will conduct my first work under the Act – the Year One Commentary – to understand how bodies are beginning to respond to the requirements. I will also work collaboratively with a small number of public bodies, including the central government sector, to develop an audit approach that is meaningful and proportionate and can be adopted in subsequent years.

Other

- 34 Details of other future developments including changes to key IFRS and of the Wales Audit Office's Good Practice Exchange (GPX) seminars are set out in [Appendix 4](#).
- 35 The Wales Audit Office's GPX programme seeks to support the improvement of public services across Wales by identifying and sharing good practice. The GPX seminars bring a range of public sector bodies together to share their practical experiences and learning in areas we consider would benefit from sharing good practice. The seminars are provided free of charge to delegates. Forthcoming events include:
- The Challenges Posed by Indirectly Provided, Publicly Funded Services in Wales
 - How you Manage Risk Around Organisation Change, Service Transformation and Innovation
 - Measuring Outcomes: Who's Doing it and How (linked to the Well-Being of Future Generations Act)

Appendix 1

Respective responsibilities

Audit of accounts

As amended by the Public Audit (Wales) Act 2013, the Public Audit (Wales) Act 2004 sets out my powers and duties to undertake your financial audit. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on:

- their 'truth and fairness', providing assurance that they:
 - are free from material misstatement, whether caused by fraud or error;
 - comply with the statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.
- the consistency of information in the Annual Report with the financial statements.

I must also state by exception if the Annual Governance Statement does not comply with requirements, if proper accounting records have not been kept, if disclosures required for remuneration and other transactions have not been made or if I have not received all the information and explanations I require.

The Public Audit (Wales) Act 2004 requires me to assess whether Gwynedd Council (the Council) has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources. To achieve this, I consider:

- the results of the audit work undertaken on the financial statements;
- the Council's system of internal control, as reported in the Annual Governance Statement and my report thereon;
- the results of other work carried out including work carried out under the Local Government (Wales) Measure 2009 (the Measure), certification of claims and returns, and data-matching exercises;
- the results of the work of other external review bodies where relevant to my responsibilities; and
- any other work that addresses matters not covered by the above, and which I consider necessary to discharge my responsibilities.

The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect the Council's financial statements and related documents, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts. I must also consider whether in the public interest, I should make a report on any matter which comes to my notice in the course of the audit.

My audit work does not relieve management and those charged with governance of their responsibilities which include:

- the preparation of the financial statements and Annual Report in accordance with applicable accounting standards and guidance;

- the keeping of proper accounting records;
- ensuring the regularity of financial transactions; and
- securing value for money in the use of resources.

Management agrees to provide me with:

- access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that I may request from management for the purpose of the audit; and
- unrestricted access to persons within the Council's from whom I determine it necessary to obtain audit evidence.

Management will need to provide me with written representations to confirm:

- that it has fulfilled its responsibilities for the preparation of the financial statements;
- that all transactions have been recorded and are reflected in the financial statements;
- the completeness of the information provided to me for the purposes of the audit; and
- to support other audit evidence relevant to the financial statements or specific assertions in the financial statements if I deem it necessary or if required by ISAs.

Performance audit

The Measure places a general duty on improvement authorities to 'make arrangements to secure continuous improvement in the exercise of [their] functions'. It also places specific requirements on authorities to set improvement objectives, and to publish annual improvement plans and assessments of performance. Improvement authorities are defined as county and county borough councils, national park authorities, and fire and rescue authorities.

The Measure also requires me to carry out an improvement assessment for each improvement authority every year, to determine whether the authority is likely to comply with its general duty and requirements of the Measure. The Auditor General must also carry out an audit of whether the authority has discharged its improvement planning and reporting duties.

The Auditor General may also in some circumstances carry out special inspections (under section 21), in respect of which he will provide a report to the relevant authorities and Ministers, and which he may publish (under section 22). The Auditor General will summarise audit and assessment reports in his published Annual Improvement Report (under section 24). This will also summarise any reports of special inspections.

Appendix 2

Performance work in last year's audit outline still in progress

Performance audit project	Status	Comment
Aligning the Levers of Change (formerly referred to as Transformation)	Focus of work agreed and workshop planning underway	Workshop delivery will be completed June – July 2017

Appendix 3

National value-for-money studies

Gwynedd Council may also be interested in the national value-for-money examinations which I undertake, some of which will be of particular relevance to, and may involve evidence gathering across, local government. These studies are supported by funds approved by the National Assembly. Reports are presented to the National Assembly's Public Accounts Committee to support its scrutiny of public expenditure and potentially support scrutiny by other National Assembly committees.

The table below covers all of the value-for-money studies work currently programmed. The programme includes all-Wales summaries of audit work undertaken locally in the NHS and reactive examinations into specific issues of public concern that have been raised with me. In addition to the work outlined below, I may decide during the year to prepare other national reports summarising local audit work or based on the findings of reactive examinations.

I am also currently consulting with the Public Accounts Committee and other stakeholders about the inclusion in my programme of a number of new value-for-money studies to be rolled out during 2017-18. For example, I have already indicated to the committee that, following my July 2016 report on the Welsh Government's funding of Kancoat Ltd, I am considering a broader examination of the Welsh Government's support for business.

Further updates on my programme of value-for-money studies will be provided to you within the regular progress reports prepared by my team.

Topic	Anticipated publication (as at 6 April 2017)
Emergency ambulance services commissioning	Publication pending
Public procurement landscape review	July 2017
Waste management (waste prevention)	July 2017
Waste management (municipal recycling) ²	July 2017
Implementation of the NHS Finances (Wales) Act 2014 (integrated medium-term planning)	July 2017
Supporting People programme	July 2017
NHS Wales informatics services	July 2017
Access to public services with the support of specialist interpretation and translation	August to October 2017
Preparations for the implementation of fiscal devolution in Wales follow-on report	October 2017

² In addition to the work on waste prevention and municipal recycling, I will be taking forward a review of waste treatment infrastructure in early 2017.

Topic	Anticipated publication (as at 6 April 2017)
Early intervention and behaviour change	TBC ³

³ My programme of good practice work has included a project exploring behaviour change work across Welsh public services and opportunities to improve practice, deliver better outcomes for citizens, and achieve better value for money. I still anticipate that the information and evidence gathered through this work will support the production of a report on this topic, although this is unlikely to be a traditional audit report and plans for its production are still to be confirmed.

Appendix 4

Other future developments

Forthcoming key IFRS changes

Standard	Effective date	Further details
IFRS 9 Financial instruments	2018-19	IFRS 9 financial instruments will replace IAS 39 and includes a new principles-based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on an expected losses rather than incurred losses. This will result in earlier and more timely recognition of expected credit losses. The accounting requirements for financial liabilities are almost all carried forward unchanged from IAS 39.
IFRS 15 Revenue from contracts with customers	2018-19	IFRS 15 Revenue from contracts with customers introduces a principles-based five-step model for recognising revenue arising from contracts with customers. It is based on a core principle requiring revenue recognition to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration the body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.
IFRS 16 Leases	2019-20	IFRS 16 will replace the current leases standard IAS 17. The key change is that it largely removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. It will lead to all leases being recognised on balance sheet as an asset based on a 'right of use' principle with a corresponding liability for future rentals. This is a significant change in lessee accounting.

Good Practice Exchange

The Wales Audit Office's GPX helps public services improve by sharing knowledge and practices that work. Events are held where knowledge can be exchanged face-to-face and resources shared online.

The focus of GPX events include financial management, public sector staff and governance.

Further information, including details of forthcoming GPX events and outputs from past seminars, can be found on the [GPX section of the Wales Audit Office website](#).

Registration for all events will open two months prior to the event.

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Agenda Item 6

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	13 July 2017
TITLE:	STATEMENT OF ACCOUNTS 2016/17
PURPOSE / RECOMMENDATION:	To receive the statutory Statement of Accounts (pre-audit draft) for information
AUTHOR:	Dafydd L Edwards, Head of Finance
CABINET MEMBER:	Councillor Peredur Jenkins

1. INTRODUCTION

- 1.1 This report introduces the statutory Statement of Accounts for the 2016/17 financial year, which provides details of the Council's financial activities during the year which ended on 31 March 2017.
- 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 Mehefin 2017.
- 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 28 September 2017 meeting of the Audit and Governance 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 2016/17. 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 2016/17 accounts were presented to the Cabinet meeting and the Audit and Governance Committee on 6 June 2017. 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 and Governance 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 and Governance 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 and Governance Committee, the 2016/17 Statement of Accounts, with all other relevant statements, will be the subject of the annual audit process by Deloitte, Gwynedd Council’s external auditors, who were appointed by the Auditor General for Wales.
- 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 03/08/17 until 31/08/17, 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 2016/17 Statement of Accounts will be submitted to the 28 September 2017 meeting of the Audit and Governance 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 and Governance Committee is asked to receive and note the Council’s Statement of Accounts (subject to audit) for 2016/17.

Gwynedd Council

STATEMENT OF ACCOUNTS 2016/17

SUBJECT TO AUDIT

Finance Department
www.gwynedd.llyw.cymru



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NARRATIVE REPORT

Introduction

Gwynedd Council's accounts for the year 2016/17 are presented here on pages 8 to 106.

The Accounts consist of:-

- **Expenditure and Funding Analysis** – Whilst this is not a statutory statement, it shows how annual expenditure is used and funded from resources (government grants, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices.
- **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.
- **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.
- **The Balance Sheet** - Sets out the financial position of the Council on 31 March 2017.
- **The Cash Flow Statement** - This statement summarises the flow of cash to and from the Council during 2016/17 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 Narrative Report, the Accounting Policies and various notes to the accounts.

Revenue Expenditure

Financial Strategy

The annual budget is established within the context of the medium-term financial strategy, in order to ensure that the budget is prepared for the future position, rather than addressing the requirements of one year only. This medium-term planning has proven to be very beneficial to the Council, enabling it to plan necessary savings rationally, without having to take rushed/inappropriate decisions in terms of the benefits to our citizens, and establishing a regime to identify budgetary savings and cuts.

Financial Performance 2016/17

- The Comprehensive Income and Expenditure Statement on page 9 shows that the Council's gross revenue expenditure on 'Cost of Services' level was £348m during 2016/17, with the net position as £227m.
- Despite the sustained need to achieve challenging savings, the final financial position of the Council's departments for 2016/17 confirms that there was effective financial management. The financial out-turn position for 2016/17 was reported to the Cabinet at its meeting on 6 June 2017. The members of the Cabinet approved the carry-forward of the net services underspend of £469k for the year.
- The favourable financial performance in 2016/17 enabled the Council to earmark £700k towards the essential financing package for the 2017/18 financial strategy, whilst also increasing the unearmarked general fund balance by £1.4m.
- The 2016/17 financial position was taken into consideration in the process of establishing the 2017/18 budget.

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.

	Budget	Actual	Variance
	£'000	£'000	£'000
Net Expenditure on Operations	241,043	239,728	(1,315)
Departmental Carry-forward at year-end	0	469	469
	<hr/>	<hr/>	<hr/>
	241,043	240,197	(846)
Financed by -			
Council Tax Income	(74,093)	(74,640)	(547)
Share of National Non-Domestic Rate	(37,158)	(37,158)	0
General Government Grants	(129,792)	(129,792)	0
Contribution to the General Fund Balance	0	1,393	1,393
	<hr/>	<hr/>	<hr/>
	0	0	0

- The Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement on pages 9 and 10 detail the 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 (Outturn)	Transposition Adjustment	Net Expenditure Chargeable to the General Fund	Adjustments between Funding and Accounting Basis	Income & Expenditure Statement
	£'000	£'000	£'000	£'000	£'000
Education	81,620	533	82,153	0	82,153
Corporate Support	7,838	77	7,915	0	7,915
Finance	5,660	85	5,745	0	5,745
Economy and Community	6,641	(87)	6,554	0	6,554
Adults, Health and Wellbeing	44,560	(8)	44,552	0	44,552
Children and Family Support	13,187	(15)	13,172	0	13,172
Highways and Municipal (including Trunk Roads)	20,709	(1,427)	19,282	1,681	20,963
Environment	5,960	(55)	5,905	0	5,905
Corporate Management Team and Legal	1,991	(76)	1,915	0	1,915
Gwynedd Consultancy	222	2	224	0	224
Corporate	35,334	(19,628)	15,706	21,865	37,571
Cost of Services	223,722	(20,599)	203,123	23,546	226,669
Other (Contains Centralised and Corporate Adjustment)	16,475	20,599	37,074	(23,546)	13,528
Total	240,197	0	240,197	0	240,197

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

- **Material Items of Income and Expenditure**

Related items include:-

- £51m on pensions, being the remeasurements of the net defined benefit assets relating to pensions, in line with Gwynedd Pension Fund’s Actuary’s assessment (Note 23).
- Following a revaluation of part of the Council’s land and buildings portfolio (which is now carried out on a rolling programme basis), a net surplus of £7m on the revaluation of property, plant and equipment assets (Note 15 & 23).

- **Other Issues**

- There have been unprecedented problems in the worldwide financial situation in recent years. Because of this general situation, it has been necessary for the Authority to take the circumstances into consideration in its financial plans, whilst maintaining a prudent level of reserves.
- Since the referendum on the UK’s membership of the European Union, there has been a degree of economic uncertainty. This is expected to last for some time and may affect some factors and financial decisions made by the Authority in 2016/17 and into the medium term.

Capital Expenditure in 2016/17

Capital expenditure for 2016/17 amounted to £29.3m. The following table gives an analysis of this expenditure and the way it was financed.

SUMMARY OF CAPITAL EXPENDITURE AND FINANCING		
2015/16		2016/17
£'000		£'000
12,354	Education	15,033
8,495	Environment	5,053
348	Corporate Support	70
494	Finance	609
5,147	Economy and Community	1,951
3,894	Adults, Health and Wellbeing	2,802
103	Children and Family Support	58
4,508	Highways and Municipal	2,558
191	Gwynedd Consultancy	1,175
35,534		29,309
	FINANCED BY -	
6,029	Borrowing	11,106
17,635	Grants and Contributions	11,460
1,622	Capital Receipts	770
10,248	Revenue and Other Funds	5,973
35,534		29,309

- Revenue Expenditure Funded from Capital Under Statute of £5.0m is included in the above table. This has been charged to the Income and Expenditure Statement in the year. Total expenditure on Non-current Assets and Assets Held for Sale was £24.3m as shown in Note 15 and 20 on pages 38 to 40 and 50.
- The Council's Loan Debt on 31 March 2017 was £111.5m – a decrease of £1.95m (from £113.4m) during the year. Repayments of £2.06m were made in accordance with the terms of individual loans.

Provisions and Reserves

In addition to the unmarked element of General Balances of £6.9m, the Council had other provisions of £8.1m, earmarked reserves of £43.6m and school balances of £2.9m. In total, these amounted to £61.5m. These are detailed in the Balance Sheet, Movement in Reserves Statement and in Note 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 £57m to £235m in 2016/17. Refer to Note 38 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 77 to 106) show an increase during the year of £335m in the market value of the net assets of the Fund, to £1,864m. The book value of the net assets at 31 March 2017 was £1,170m (2016: £1,127.6m).

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 to the Accounts on page 13.

Changes in Accounting Policies and to the Statement of Accounts

There were no changes to accounting policies during the 2016/17 financial year.

Impact of changes to Accounting Standards

Following the “Telling the Story” review of the presentation of local authority financial statements and in line with the accounting standards IAS 1, the 2016/17 code changed the segmental reporting arrangements for the Comprehensive Income and Expenditure Statement and introduced the Expenditure and Funding Analysis with relevant notes. The presentation of the Movement in Reserves Statement has also been amended. Both the CIES and EFA reflect the Council’s reporting and monitoring structure. The 2015/16 statements have been restated for comparison with the 2016/17 figures, but there is no impact on the Balance Sheet information.

Impact of changes to Accounting Standards in the future

There is a change to the treatment of Pensions that will affect the accounts from 2016/17 onwards.

Further Information

The Statement of Accounts is available on Gwynedd Council’s website www.gwynedd.llyw.cymru.

Further information relating to the accounts is available from:

Ffion Madog Evans
Senior Finance Manager
01286 679133

or

Caren Rees Jones
Principal Accountant
01286 679134

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 "Section 151 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.

THE HEAD OF FINANCE'S RESPONSIBILITIES

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

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

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

RESPONSIBLE FINANCIAL OFFICER'S CERTIFICATE

I certify that the Statement of Accounts has been prepared in accordance with the arrangements set out above, and presents a true and fair view of the financial position of Gwynedd Council and the Pension Fund at 31 March 2017 and the Council's income and expenditure for the year then ended.



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

28 June 2017

EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2015/16				2016/17			
Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis (see Note 8)	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis (see Note 8)	Net Expenditure in the Comprehensive Income and Expenditure Statement	
£'000	£'000	£'000		£'000	£'000	£'000	
82,394	0	82,394	Education	82,153	0	82,153	
7,236	0	7,236	Corporate Support	7,915	0	7,915	
5,782	0	5,782	Finance	5,745	0	5,745	
7,459	0	7,459	Economy and Community	6,554	0	6,554	
44,553	0	44,553	Adults, Health and Wellbeing	44,552	0	44,552	
13,183	0	13,183	Children and Family Support	13,172	0	13,172	
19,036	1,754	20,790	Highways and Municipal (including Trunk Roads*)	19,282	1,681	20,963	
5,789	0	5,789	Environment	5,905	0	5,905	
2,026	0	2,026	Corporate Management Team and Legal	1,915	0	1,915	
(121)	0	(121)	Gwynedd Consultancy	224	0	224	
13,798	18,456	32,254	Corporate	15,706	21,865	37,571	
201,135	20,210	221,345	Cost of Services	203,123	23,546	226,669	
20,098	8,944	29,042	Other Operating Expenditure	20,466	694	21,160	
23,732	(9,689)	14,043	Financing and Investment Income and Expenditure	19,563	(7,253)	12,310	
(241,476)	(13,970)	(255,446)	Taxation and non-specific grant income	(241,598)	(9,288)	(250,886)	
3,489	5,495	8,984	(Surplus)/Deficit on Provision of Services	1,554	7,699	9,253	
(58,422)			Opening General Fund Balance	(54,933)			
3,489			Less/Plus (Surplus)/Deficit on General Fund in Year	1,554			
(54,933)			Closing General Fund Balance	(53,379)			

* Trunk Roads - Adjustments relating to the North and Mid Wales Trunk Road Agency

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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 both the Expenditure and Funding Analysis and in the Movement in Reserves Statement.

2015/16				2016/17			
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000			£'000	£'000	£'000
101,435	(19,041)	82,394	Education		100,797	(18,644)	82,153
9,833	(2,597)	7,236	Corporate Support		10,587	(2,672)	7,915
8,068	(2,286)	5,782	Finance		8,026	(2,281)	5,745
17,514	(10,055)	7,459	Economy and Community		15,158	(8,604)	6,554
68,038	(23,485)	44,553	Adults, Health and Wellbeing		69,566	(25,014)	44,552
16,577	(3,394)	13,183	Children and Family Support		16,679	(3,507)	13,172
35,357	(14,567)	20,790	Highways and Municipal (including Trunk Roads*)		36,453	(15,490)	20,963
14,778	(8,989)	5,789	Environment		15,260	(9,355)	5,905
2,501	(475)	2,026	Corporate Management Team and Legal		2,657	(742)	1,915
2,122	(2,243)	(121)	Gwynedd Consultancy		2,520	(2,296)	224
65,029	(32,775)	32,254	Corporate		70,482	(32,911)	37,571
341,252	(119,907)	221,345	Cost of Services		348,185	(121,516)	226,669
29,286	(244)	29,042	Other Operating Expenditure	11	21,200	(40)	21,160
14,551	(508)	14,043	Financing and Investment Income and Expenditure	12	12,623	(313)	12,310
0	(255,446)	(255,446)	Taxation and Non-specific Grant Income	13	0	(250,886)	(250,886)
385,089	(376,105)	8,984	(Surplus) / Deficit on Provision of Services		382,008	(372,755)	9,253
		(6,095)	(Surplus) / Deficit on revaluation of Fixed Assets	23.1			(7,282)
		(57)	(Surplus) / Deficit on revaluation of available for sale financial assets	23.2			159
		(80,568)	Remeasurements of the net defined benefit liability/(assets)	23.6			51,322
		(86,720)	Other Comprehensive Income and Expenditure				44,199
		(77,736)	Total Comprehensive Income and Expenditure				53,452

* Trunk Roads - Adjustments relating to the North and Mid Wales Trunk Road Agency

MOVEMENT IN RESERVES STATEMENT

The Movement in Reserves Statement shows the movement from the start of the year to the end 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 other 'unusable reserves'. The Statement shows how the movements in year of the Authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following those adjustments.

Nodyn	Additional Information			Statement of Movement in Reserves					
	Unearmarked General Fund Balance £'000	Earmarked General Fund Reserves £'000	Total Reserves held by Schools £'000	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
Balance 31 March 2015 carried forward	(6,350)	(48,576)	(3,496)	(58,422)	(2,728)	(2,577)	(63,727)	11,734	(51,993)
<u>Movement in reserves during 2015/16</u>									
Total Comprehensive Income and Expenditure	8,984	0	0	8,984	0	0	8,984	(86,720)	(77,736)
Adjustments between accounting basis and funding basis under regulations	9 (5,495)	0	0	(5,495)	693	1,484	(3,318)	3,318	0
(Increase)/Decrease in 2015/16	3,489	0	0	3,489	693	1,484	5,666	(83,402)	(77,736)
Transfers to/from Earmarked Reserves	10 (2,656)	2,497	159	0	0	0	0	0	0
<i>(Increase)/Decrease in 2015/16 (showing transfers to Earmarked Reserves)</i>	833	2,497	159	3,489	693	1,484	5,666	(83,402)	(77,736)
Balance 31 March 2016 carried forward	(5,517)	(46,079)	(3,337)	(54,933)	(2,035)	(1,093)	(58,061)	(71,668)	(129,729)
<u>Movement in reserves during 2016/17</u>									
Total Comprehensive Income and Expenditure	9,253	0	0	9,253	0	0	9,253	44,199	53,452
Adjustments between accounting basis and funding basis under regulations	9 (7,699)	0	0	(7,699)	(862)	61	(8,500)	8,500	0
(Increase)/Decrease in 2016/17	1,554	0	0	1,554	(862)	61	753	52,699	53,452
Transfers to/from Earmarked Reserves	10 (2,947)	2,489	458	0	0	0	0	0	0
<i>(Increase)/Decrease in 2016/17 (showing transfers to Earmarked Reserves)</i>	(1,393)	2,489	458	1,554	(862)	61	753	52,699	53,452
Balance 31 March 2017 carried forward	(6,910)	(43,590)	(2,879)	(53,379)	(2,897)	(1,032)	(57,308)	(18,969)	(76,277)

BALANCE SHEET

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'.

31 March 2016		Note	31 March 2017
£'000			£'000
424,305	Property, Plant and Equipment	15	433,687
60	Heritage Assets		60
247	Investment Property	16	197
2,517	Surplus Assets	15	2,039
2,341	Long-Term Investments	17	2,171
4,301	Long-Term Debtors	17	4,094
433,771	Long-Term Assets		442,248
50,055	Short-Term Investments	17	26,044
459	Assets Held for Sale	20	148
1,321	Inventories		1,286
32,539	Short-Term Debtors	18	54,889
14,191	Cash and Cash Equivalents	19	1,384
98,565	Current Assets		83,751
(39,430)	Bank Overdraft	19	(30,035)
(2,757)	Short-Term Borrowing	17	(3,335)
(54,687)	Short-Term Creditors	21	(56,972)
(465)	Short-Term Provisions	22	(357)
(2,364)	Capital and Revenue Grants Receipts in Advance	32	(2,196)
(99,703)	Current Liabilities		(92,895)
0	Long-Term Creditors	17	0
(8,221)	Long-Term Provisions	22	(7,776)
(110,676)	Long-Term Borrowing	17	(108,143)
(178,332)	Net Pension Liability	38	(235,413)
(2,127)	Finance Leases Liability	35	(1,993)
(3,548)	Capital and Revenue Grants Receipts in Advance	32	(3,502)
(302,904)	Long-Term Liabilities		(356,827)
129,729	Net Assets		76,277
(58,061)	Usable Reserves		(57,308)
(71,668)	Unusable Reserves	23	(18,969)
(129,729)	Total Reserves		(76,277)

CASH FLOW STATEMENT

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.

2015/16		Note	2016/17
£'000			£'000
8,984	Net (Surplus)/Deficit on Provision of Services		9,253
(32,570)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	24a	(13,099)
942	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24b	1,603
(22,644)	Net cash flows from Operating Activities		(2,243)
46,268	Investing Activities	25	3,574
(1,302)	Financing Activities	26	2,081
22,322	Net (increase)/decrease in cash and cash equivalents		3,412
2,917	Cash and cash equivalents at the beginning of the reporting period	19	25,239
25,239	Cash and cash equivalents at the end of the reporting period	19	28,651

NOTES TO THE ACCOUNTS

NOTE I – ACCOUNTING POLICIES

1.1 General Principles

The Statement of Accounts summarises the Authority's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (Wales) Regulations 2014, in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* and the Service Reporting Code of Practice 2016/17, 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

The Corporate 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 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 Corporate Services 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 are 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 earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 2.6% calculated as a weighted average of 'spot yields' on AA rated corporate bonds.

NOTE 1 – ACCOUNTING POLICIES (continued)

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 Corporate 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 England and Wales are required to produce their financial statements in accordance with IAS19.

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.

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.

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.

Financial assets

- cash
- bank accounts
- fixed term deposits with banks and building societies
- loans to other local authorities
- trade receivables for goods and services delivered

Financial assets are classified into two categories:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments including Covered Bonds

NOTE I – ACCOUNTING POLICIES (continued)

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.

The amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

The Council's investments in Covered Bonds these assets are valued using the discounted cash flow analysis method to provide the fair value for the Balance Sheet.

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 has 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

NOTE I – ACCOUNTING POLICIES (continued)

The Council used an external valuer (Bonhams) to provide estimated valuations of its civic regalia and paintings and pictures. For consistency, the Council has applied the same de-minimis levels for valuation purposes to Heritage Assets as its other long-term assets – see policy I.17.

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 – see policy I.17.

I.12 Inventories and Long-Term Contracts

Stocks and work in progress should be shown in the Balance Sheet at the lower of cost and net realisable value, in accordance with the provisions of the Code of Practice. Due to the practicalities of the Council's main stock systems, the majority of stock is shown in the accounts at average cost. The difference from the basis of valuation is not material.

I.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. These properties are valued on a fair value basis. Values are based on specific techniques, and the inputs to these measurement techniques are categorised in accordance with 3 levels. All the Authority's inputs are level 3 (unobservable inputs for the asset). This is due to the level of adjustment required to all evidence due to the uniqueness of the assets, and the dearth of relevant market transactions.

I.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:

Where the Authority grants a finance lease over a property, the relevant asset is written out of the Balance Sheet as a disposal, to be included in the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

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.

I.15 Surplus Assets

The Authority classifies Surplus Assets separately on the Balance Sheet. These assets are shown at their fair value based on market value. Values are based on specific techniques, and the inputs to these measurement techniques are categorised in accordance with three levels. All the Authority's inputs are level 3 (unobservable inputs for the asset). This is due to the level of adjustment required to all evidence due to the uniqueness of the assets, and the dearth of relevant market transactions.

I.16 Overheads and Support Services

Some overheads and support services costs are apportioned to the appropriate services in accordance with the Council's arrangements, with budget monitoring under corporate control. But some costs are not apportioned at all,

NOTE I – ACCOUNTING POLICIES (continued)

and are reported under the corporate heading. The information is required for total costing purposes but it is not reflected in the Statements as this is not the Management Structure.

1.17 Long-Term Assets

The Council's assets as recorded on the Property Services database are revalued at least every five years. Since the 2015/16 financial year, the Authority has established a rolling programme for re-valuing different categories of these assets annually. 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.

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 depreciated 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.

A de-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 Land and Buildings, and Community Assets where expenditure in year 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 de-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 2016/17 financial year this has been set at £2.04m which is 1% of the total value of the buildings). The apportionment to be considered for the non-land element of assets above the de-minimis threshold is:

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

NOTE I – ACCOUNTING POLICIES (continued)

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 centres. 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 remaining useful life (5–80 years)
- (vi) Investment Properties, Assets under Construction and Assets Held for Sale are not depreciated

Depreciation is not charged in the year of acquisition.

Minimum Revenue Provision

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 2016/17: 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 2016/17 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.

NOTE I – ACCOUNTING POLICIES (continued)

1.18 Non-Distributed Costs

The items that are excluded from the service items' total costing 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. They are shown in the Corporate row of the CIES.

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.

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 its 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, and certain annual payments such as insurance. 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 13 months (with the exception of Covered Bonds) 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.

NOTE I – ACCOUNTING POLICIES (continued)

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 fair value (market value) less costs to sell on reclassification. Values are based on specific techniques, and the inputs to these measurement techniques are categorised in accordance with three levels. All the Authority's inputs are level 3 (unobservable inputs for the asset). This is due to the level of adjustment required to all evidence due to the uniqueness of the assets, and the dearth of relevant market transactions.

1.28 Disposal of Assets

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 Statement 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.

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 it is no longer necessary to set aside a percentage of the receipt. 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.

1.31 Cost Relating to Equal Pay Claims

A reserve 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 2017.

1.32 Landfill Allowance Scheme

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 2016/17.

1.33 Service Concession Arrangements

Service Concession Arrangements, otherwise known as Private Finance Initiative (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

NOTE I – ACCOUNTING POLICIES (continued)

and is 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.

I.34 Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangements. The activities undertaken by the Authority in conjunction with other joint operators involve the use of assets and resources of those joint operators. In relation to its interest in a joint operation, the Authority as a joint operator recognises its share of assets, liabilities, revenue and expenses.

I.35 Schools

The *Code of Practice on Local Authority Accounting in the United Kingdom* confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Authority as if they were the transactions, cash flows and balances of the Authority.

I.36 Council Tax and National Non-Domestic Rates

Council Tax and National Non-Domestic Rates income for the year is treated as accrued income, and is included within the Taxation and Non-Specific Grant Income line in the Comprehensive Income and Expenditure Statement.

Gwynedd Council is a Council Tax and Non-Domestic Rates billing authority. It collects Council Tax on behalf of itself and other authorities, and collects Non-Domestic Rates as an agent on behalf of Welsh Government.

I.37 Fair Value

The Authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a. in the principal market for the asset or liability, or
- b. in the absence of a principal market, in the most advantageous market for the asset or liability.

The Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Authority's financial statements are categorized within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

NOTE 1 – ACCOUNTING POLICIES (continued)

1.38 Other Policies

Gwynedd Council has policies in respect of the following, but they are not considered material for the 2016/17 financial year:

- Intangible Assets
- Contingent Assets
- Foreign Currency Conversion.

NOTE 2 – CHANGE IN ACCOUNTING POLICY

There were no changes to accounting policies during the 2016/17 financial year.

NOTE 3 – PRIOR PERIOD ADJUSTMENTS

There are no prior period adjustments during 2016/17.

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 requires the expected impact of any accounting standards that have been issued but not yet adopted be disclosed.

The related accounting standards in the 2017/18 Code of Practice affect statements within the Pension accounts.

The Code requires implementation from 1 April 2017 and there is therefore no impact on the 2016/17 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 judgements, estimates and assumptions relating to complex transactions, those involving uncertainty about future events and also the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The judgements, estimates and associated assumptions applied are based on current proper practices, historical experience, and other factors that include historical and current assumptions and projections, and actual future projections, professional assessments, current trends, and local factors that are considered to be relevant.

In recent years there has been some uncertainty about future levels of funding from Welsh Government relating to revenue and capital grants. This issue forms an important part of the Council's continually revised financial strategy, and where all known and forecasted factors are given due consideration.

All available and related information is sourced and applied in assessing and determining the position, which is particularly critical when considering such matters as the revaluation, depreciation and impairment of assets, actuarial valuation of pension fund assets and liabilities, earmarked reserves, provisions and contingent liability. However, because these issues cannot be determined with certainty, 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 2017 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 their useful life in accordance with standard accounting and associated practices. Any difference between the depreciation applied and actual deterioration to assets will be naturally reflected in future spending patterns. The current economic climate brings with it uncertainties for councils in their ability to sustain the necessary spending on repair and maintenance. This obviously would have implications on asset life. Land and buildings are revalued at least every five years, and since 2015/16 a rolling programme of revaluation has been introduced. A number of judgements are required to be made as part of the revaluation and impairment assessment process. This brings with it uncertainties, and assumptions have to be made and responded to accordingly. Where necessary, any resultant long-term implications would be incorporated into our financial strategy. Information relating to Property, Plant and Equipment is contained in Note 15.
- **Provisions** – Various separate provisions, the basis of which have been individually assessed from the latest information available, are contained within these accounts as detailed in Note 22, and include provisions for items such as Waste Sites and certain insurance liability aspects. We are unable to confirm the accuracy of the provisions until such matters are concluded.
- **Pension Liability** – The Pension Liability position as contained within the accounts is based on a number of complex assessments and judgements and varying profiles such as discount rate used, projected salary levels, changes in retirement ages, mortality rates and expected returns on pension fund assets, as provided by Actuaries engaged by the Pension Fund. Further details are contained in Note 37 and 38.
- **Doubtful Debts Impairment** – A specific impairment level policy in respect of doubtful debts is contained within the accounts. The impairment level is reviewed regularly in order to respond to any changes in the economic climate, and necessary action taken as appropriate within the accounts to respond accordingly. Doubtful Debts impairments are contained within the figures for Short-Term Debtors contained in Note 18.

NOTE 7 – MATERIAL ITEMS OF INCOME AND EXPENSE

Material items of income and expense include the following:-

- £51m on pensions, being the remeasurements of the net defined benefit assets relating to pensions, in line with Gwynedd Pension Fund's Actuary's assessment (Note 23).
- Following a revaluation of part of the Council's land and buildings portfolio (which is now carried out on a rolling programme basis), a net surplus of £7m on the revaluation of property, plant and equipment assets (Note 15 and 23).

NOTE 8 – NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

2016/17	ADJUSTMENTS BETWEEN FUNDING AND ACCOUNTING BASIS			
	Adjustments for Capital Purposes (i) £'000	Net change for the Pensions Adjustments (ii) £'000	Other Differences (iii) £'000	Total Adjustments £'000
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts				
Education	0	0	0	0
Corporate Support	0	0	0	0
Finance	0	0	0	0
Economy and Community	0	0	0	0
Adults, Health and Wellbeing	0	0	0	0
Children and Family Support	0	0	0	0
Highways and Municipal (including Trunk Roads*)	1,681	0	0	1,681
Environment	0	0	0	0
Corporate Management Team and Legal	0	0	0	0
Gwynedd Consultancy	0	0	0	0
Corporate	21,842	(484)	507	21,865
Cost of Services	23,523	(484)	507	23,546
Other Operating Expenditure	694	0	0	694
Financing and Investment Income and Expenditure	(13,428)	6,243	(68)	(7,253)
Taxation and non-specific grant income	(9,288)	0	0	(9,288)
(Surplus)/Deficit on Provision of Services	1,501	5,759	439	7,699

* Trunk Roads - Adjustments relating to the North and Mid Wales Trunk Road Agency

NOTE 8 – NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS (continued)

2015/16	ADJUSTMENTS BETWEEN FUNDING AND ACCOUNTING BASIS			
	Adjustments for Capital Purposes (i) £'000	Net change for the Pensions Adjustments (ii) £'000	Other Differences (iii) £'000	Total Adjustments £'000
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts				
Education	0	0	0	0
Corporate Support	0	0	0	0
Finance	0	0	0	0
Economy and Community	0	0	0	0
Adults, Health and Wellbeing	0	0	0	0
Children and Family Support	0	0	0	0
Highways and Municipal (including Trunk Roads*)	1,754	0	0	1,754
Environment	0	0	0	0
Corporate Management Team and Legal	0	0	0	0
Gwynedd Consultancy	0	0	0	0
Corporate	16,688	2,163	(395)	18,456
Cost of Services	18,442	2,163	(395)	20,210
Other Operating Expenditure	8,944	0	0	8,944
Financing and Investment Income and Expenditure	(17,622)	8,016	(83)	(9,689)
Taxation and Non-specific Grant Income	(13,970)	0	0	(13,970)
(Surplus)/Deficit on Provision of Services	(4,206)	10,179	(478)	5,495

* Trunk Roads - Adjustments relating to the North and Mid Wales Trunk Road Agency

(i) Adjustments for Capital Purposes

- For **services**, this column adds in depreciation, impairment and revaluation gains and losses.
- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charges for capital financing i.e. revenue provision for the financing of capital investment and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

NOTE 8 – NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS (continued)

(ii) Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 *Employee Benefits* pension related expenditure and income:

- For **Services**, this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For **Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.

(iii) Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For **Services**, this represents an adjustment for accumulated absences earned but not taken during the year.
- For **Financing and investment income and expenditure**, the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

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.

2016-17	Usable Reserves			
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movement in Unusable Reserves £'000
ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS				
Adjustments to the Revenue Resources				
<i>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements</i>				
Pensions costs (transferred to (or from) the Pensions Reserve)	(5,759)	0	0	5,759
Financial instruments (transferred to the Financial Instruments Adjustments Account)	75	0	0	(75)
Holiday pay (transferred to (or from) the Accumulated Absences Reserve)	(543)	0	0	543
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(14,929)	0	0	14,929
Total Adjustments to Revenue Resources	(21,156)	0	0	21,156
Adjustments between Revenue and Capital Resources				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	29	(1,632)	0	1,603
Revenue provision for the financing of supported capital investment	5,593	0	0	(5,593)
Revenue provision for the financing of unsupported capital investment	1,863	0	0	(1,863)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	5,972	0	0	(5,972)
Total Adjustments between Revenue and Capital Resources	13,457	(1,632)	0	(11,825)
Adjustments to Capital Resources				
Use of the Capital Receipts Reserve to finance capital expenditure	0	770	0	(770)
Application of capital grants to finance capital expenditure	0	0	61	(61)
Cash payments in relation to deferred capital receipts	0	0	0	0
Total Adjustments to Capital Resources	0	770	61	(831)
TOTAL ADJUSTMENTS	(7,699)	(862)	61	8,500

2015-16

**ADJUSTMENTS BETWEEN ACCOUNTING BASIS
AND FUNDING BASIS UNDER REGULATIONS**

	Usable Reserves			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000
Adjustments to the Revenue Resources				
<i>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements</i>				
Pensions costs (transferred to (or from) the Pensions Reserve)	(10,179)	0	0	10,179
Financial instruments (transferred to (or from) the Financial Instruments Adjustments Account)	49	0	0	(49)
Holiday pay (transferred to the Accumulated Absences Reserve)	428	0	0	(428)
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(13,402)	0	0	13,402
Total Adjustments to Revenue Resources	(23,104)	0	0	23,104
Adjustments between Revenue and Capital Resources				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(14)	(927)	0	941
Revenue provision for the financing of supported capital investment	5,641	0	0	(5,641)
Revenue provision for the financing of unsupported capital investment	1,734	0	0	(1,734)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	10,248	0	0	(10,248)
Total Adjustments between Revenue and Capital Resources	17,609	(927)	0	(16,682)
Adjustments to Capital Resources				
Use of the Capital Receipts Reserve to finance capital expenditure	0	1,622	0	(1,622)
Application of capital grants to finance capital expenditure	0	0	1,484	(1,484)
Cash payments in relation to deferred capital receipts	0	(2)	0	2
Total Adjustments to Capital Resources	0	1,620	1,484	(3,104)
TOTAL ADJUSTMENTS	(5,495)	693	1,484	3,318

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, and is a net reduction of £458k as compared to the balance on 31 March 2016:

2016/17	Balance	Transfers		Balance	
	31 March 2016 £'000	between reserves £'000	in £'000	out £'000	31 March 2017 £'000
School Balances	3,337	0	735	(1,193)	2,879
Total	3,337	0	735	(1,193)	2,879

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

Earmarked Reserves

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 2016/17, with a net reduction of £2.5m since the 31 March 2016 position.

2016-17		Balance	Transfers		Balance	
		31 March 2016	between reserves	in	out	31 March 2017
Note		£'000	£'000	£'000	£'000	£'000
10.1	Renewals Reserves	2,477	0	2,395	(2,079)	2,793
10.2	Capital Reserves	9,458	0	1,120	(757)	9,821
10.3	Insurance Reserves	2,035	0	800	(1,026)	1,809
10.4	Services Fund	4,750	(572)	762	(563)	4,377
10.5	Convergence Programme Fund	211	0	0	(78)	133
10.6	Redundancy Costs to Realise Savings Reserve	3,870	0	300	(369)	3,801
10.7	Central Training	255	10	35	0	300
10.8	Education Services Reserves	994	0	255	(324)	925
10.9	Economy and Community Reserves	67	134	246	(29)	418
10.10	Highways and Municipal Reserves	1,275	0	22	(295)	1,002
10.11	Waste Developments Reserve	278	0	0	(84)	194
10.12	Gwynedd Consultancy Reserves	361	(176)	0	0	185
10.13	Environment Reserves	810	35	11	(336)	520
10.14	Major Maintenance Work on County Roads Fund	420	0	0	(420)	0
10.15	Care Reserves	167	(18)	1,355	(43)	1,461
10.16	Ffordd Gwynedd Fund	334	0	42	0	376
10.17	Invest to Save Fund - Carbon Reduction Plan	484	(28)	62	(209)	309
10.18	Transformation / Invest to Save Fund	9,768	14	749	(1,988)	8,543
10.19	Committed Revenue Grants Fund	303	41	187	(45)	486
10.20	Contracts Tendering Fund	367	(150)	0	0	217
10.21	Housing Water and Sewerage Services Fund	606	0	0	(114)	492
10.22	Housing Environmental Warranty	480	0	0	0	480
10.23	Information Technology Reserve	365	0	173	(162)	376
10.24	Preparatory Work for European Grant Funding Schemes	150	0	0	(75)	75
10.25	Supporting the Financial Strategy Reserve	2,780	998	760	(2,778)	1,760
10.26	Welfare Fund	742	(200)	0	(320)	222
10.27	Electronic Document and Records Management System Fund	76	0	0	(75)	1
10.28	Partnering Arrangements	338	0	230	(46)	522
10.29	Liabilities Related to the Pension Fund	240	0	394	0	634
10.30	Council Tax Property Transfers Reserve	490	0	0	0	490
10.31	Bridges Inspection and Assessment Reserve	150	(35)	0	(115)	0
10.32	Various Other Reserves	978	(53)	218	(275)	868
Total		46,079	0	10,116	(12,605)	43,590

Earmarked reserves closing balance as at 31 March 2017 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)

- 10.1 The Renewals Reserve is used by the various departments of the Council to replace vehicles and equipment.
- 10.2 The Capital Reserve represents resources already committed to finance part of the Council's Capital Programme.
- 10.3 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.
- 10.4 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.
- 10.5 Convergence Programme Fund - fund was created for additional capital or revenue costs which arise from the requirements to develop plans under the convergence programme.
- 10.6 Redundancy Costs to Realise Savings Reserve – provision for financing redundancy costs to realise budgetary savings.
- 10.7 Central Training – relates to the Council's staff training programme.
- 10.8 Education Service 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'.
- 10.9 The Economy and Community Reserves include a number of balances relating to schemes operating on a partnership basis mainly, where the scheme balances must be accounted for separately.
- 10.10 The Highways and Municipal Reserves include mostly sums set aside to protect situations of uneven income and expenditure (equalisation accounts) and likely requirements from contracts.
- 10.11 The Waste Development Reserve is for relevant commitments and developments in the waste field including our commitment to the North Wales Residual Waste Partnership.
- 10.12 Gwynedd Consultancy Reserves – includes amounts set aside to protect against situations of uneven expenditure on some works field and possible additional employment requirements resulting from changes in the Consultancy Service's work programme.
- 10.13 Environment Reserves – include 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 Local Development Plan, and amounts for uneven expenditure situation.
- 10.14 Major Maintenance Work on County Roads Fund – to support the cost of large maintenance work on county roads.
- 10.15 Care Reserves – includes amounts set aside to protect against possible situations of uneven expenditure due to contract requirements.
- 10.16 Ffordd Gwynedd Fund – to aid the business transformation process, realise savings and assist the Council to achieve "Ffordd Gwynedd" aims and objectives.

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

- 10.17 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.
- 10.18 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.
- 10.19 Committed Revenue Grants Fund – includes revenue grants received and committed for future use.
- 10.20 Contracts Tendering Fund – in response to uneven spending situations as a result of the tendering process for transport.
- 10.21 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.
- 10.22 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.
- 10.23 Information Technology Reserve – for responding to the demands in the information technology field, including a renewals fund and to respond to uneven patterns of expenditure.
- 10.24 Preparatory Work for European Grant Funding Schemes – provision towards the cost of preparing business cases to attract European funding sources and grants.
- 10.25 Supporting the Financial Strategy Reserve – a fund established to assist and support the Council’s financial strategy.
- 10.26 Welfare Fund - provision to respond to uneven patterns in the related requirements.
- 10.27 Electronic Document and Records Management System (EDRMS) - provision for the work programme related to the documents and records management system.
- 10.28 Partnership Arrangements – includes amounts allocated in relation to various requirements of partnerships and joint working.
- 10.29 Liabilities Related to the Pension Fund – for various future requirements and commitments.
- 10.30 Council Tax Property Transfer Reserve – provision relating to the implications of properties transferring from Council Tax to National Domestic Rates.
- 10.31 Bridges Inspection and Assessment Reserve – develop an arrangement for the inspection and assessment of the condition of our bridges, culverts and some retaining walls.
- 10.32 Various Other Reserves – includes amounts set aside to meet a variety of other commitments.

NOTE 11 – OTHER OPERATING EXPENDITURE

2015/16		2016/17
£'000		£'000
1,677	Community Council's Precepts	1,829
	Levies	
11,733	North Wales Police and Crime Commissioner	11,990
5,603	North Wales Fire Authority	5,598
1,016	Snowdonia National Park Authority	962
68	Local Drainage Boards	87
18,420		18,637
8,945	(Gains)/losses on the disposal and de-recognition of non-current assets	694
29,042	Total	21,160

NOTE 12 – FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2015/16		2016/17
£'000		£'000
6,400	Interest payable and similar charges	6,380
8,013	Net interest on the net defined benefit liability (asset)	6,243
(370)	Interest receivable and similar income	(313)
14,043	Total	12,310

NOTE 13 – TAXATION AND NON-SPECIFIC GRANT INCOME

2015/16		Note	2016/17
£'000			£'000
(71,880)	Council Tax Income	13a	(74,640)
(35,646)	Non-Domestic Rates	13b	(37,158)
(133,950)	Non-ring-fenced Government Grants	32	(129,800)
(13,970)	Capital Grants and Contributions	32	(9,288)
(255,446)	Total		(250,886)

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 2016/17 was calculated as follows:-

CALCULATION OF THE COUNCIL TAX BASE FOR 2016/17			
Valuation Bands	Number of Properties following discounts	Statutory Multiplier	Equivalent Band D properties
A*	8	5/9	4.17
A	7,347	6/9	4,898.05
B	13,287	7/9	10,334.08
C	10,587	8/9	9,410.92
D	9,188	1	9,187.82
E	7,340	11/9	8,970.63
F	3,622	13/9	5,231.06
G	1,163	15/9	1,938.33
H	164	18/9	328.00
I	56	21/9	130.08
Total			50,433.14
Council Tax base after allowing for losses on collection			49,928.81

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

2015/16		2016/17
£'000		£'000
(72,323)	Council Tax raised	(74,750)
443	Less Increase in the provision for bad debts	110
(71,880)		(74,640)

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 (48.6p in 2016/17) 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 2016/17 financial year there were 7,593 properties on the local valuation list in Gwynedd, representing a rateable value of £101,816,158.

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

2015/16		2016/17
£'000		£'000
(37,136)	National Non-Domestic Rate raised	(37,789)
375	Cost of Collection allowance	381
289	Provision for Bad Debts	331
36,472	Sum paid to the National Pool	37,077
0		0
(35,646)	Receipts from the National Pool	(37,158)
(35,646)	Net Income from Non-Domestic Rates	(37,158)

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 surplus in 2016/17 and it can be seen that there is an accumulated surplus over the three year period.

2016/17	£'000
Total charges income received (excluding VAT)	(450)
Total expenditure incurred	430
(Surplus)/Deficit for 2016/17	(20)
(Surplus)/Deficit for 2015/16	(2)
(Surplus)/Deficit for 2014/15	(2)
(Surplus)/Deficit for the last three years	(24)

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT

Movements on Property, Plant and Equipment Balances

Movements in 2016/17:

	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
Value							
Balance at 01.04.16	272,021	193,750	38,395	1,073	2,581	10,351	518,171
Additions	5,487	4,422	3,006	17	3	11,414	24,349
Sales	(1,798)	0	(800)	0	(407)	0	(3,005)
Transfers	16,336	0	0	0	(69)	(16,258)	9
Revaluation - to Revaluation Reserve	1,855	0	0	0	0	0	1,855
Revaluation - to Services	(2,461)	0	0	0	0	0	(2,461)
Balance at 31.03.17	291,440	198,172	40,601	1,090	2,108	5,507	538,918
Depreciation							
Balance at 01.04.16	4,055	33,992	20,736	9	1	0	58,793
Depreciation in year	4,685	5,223	3,555	1	2	0	13,466
Sales	(102)	0	(780)	0	0	0	(882)
Transfers	0	0	0	0	(1)	0	(1)
Revaluation	(3,848)	0	0	0	0	0	(3,848)
Balance at 31.03.17	4,790	39,215	23,511	10	2	0	67,528
Impairment							
Balance at 01.04.16	32,132	63	68	230	63	0	32,556
Impairment in year - to Revaluation Reserve	2,374	0	0	0	0	0	2,374
Impairment in year - to Services	4,859	0	0	0	5	0	4,864
Sales	(175)	0	0	0	0	0	(175)
Transfers	0	0	0	0	(1)	0	(1)
Revaluation	(3,954)	0	0	0	0	0	(3,954)
Balance at 31.03.17	35,236	63	68	230	67	0	35,664
Net Book Value	251,414	158,894	17,022	850	2,039	5,507	435,726
31 March 2017							
Net Book Value	235,834	159,695	17,591	834	2,517	10,351	426,822
31 March 2016							

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT (continued)

Comparative Movements in 2015/16:

	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
Value							
Balance at 01.04.15	265,717	182,294	34,926	1,036	2,731	17,161	503,865
Additions	9,844	2,830	4,658	37	17	13,408	30,794
Sales	(9,636)	0	(1,189)	0	(48)	0	(10,873)
Transfers	11,244	8,626	0	0	0	(20,218)	(348)
Revaluation - to Revaluation Reserve	(5,344)	0	0	0	(89)	0	(5,433)
Revaluation - to Services	196	0	0	0	(30)	0	166
Balance at 31.03.16	272,021	193,750	38,395	1,073	2,581	10,351	518,171
Depreciation							
Balance at 01.04.15	5,409	29,456	18,565	8	21	0	53,459
Depreciation in year	4,340	4,536	3,331	1	0	0	12,208
Sales	(51)	0	(1,160)	0	0	0	(1,211)
Transfers	(13)	0	0	0	0	0	(13)
Revaluation	(5,630)	0	0	0	(20)	0	(5,650)
Balance at 31.03.16	4,055	33,992	20,736	9	1	0	58,793
Impairment							
Balance at 01.04.15	34,862	63	68	230	66	20	35,309
Impairment in year - to Revaluation Reserve	3,274	0	0	0	9	0	3,283
Impairment in year - to Services	3,442	0	0	0	8	0	3,450
Sales	(257)	0	0	0	(18)	0	(275)
Transfers	19	0	0	0	0	(20)	(1)
Revaluation	(9,208)	0	0	0	(2)	0	(9,210)
Balance at 31.03.16	32,132	63	68	230	63	0	32,556
Net Book Value	235,834	159,695	17,591	834	2,517	10,351	426,822
31 March 2016							
Net Book Value	225,446	152,775	16,293	798	2,644	17,141	415,097
31 March 2015							

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT (continued)

The Council's operational Land and Buildings were fully revalued 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. It was noted that the Authority has established a rolling programme for revaluing different categories of these assets annually. 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 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 narrative report.

Capital Commitments

Significant commitments under capital contracts at 31 March 2017 were as follows:

	Sum	Payments	Balance
	£'000	to date	£'000
		£'000	
Ysgol Y Berwyn - extension and refurbishment	8,897	2,857	6,040
New Glan Cegin School	4,439	2,333	2,106
Dolgellau Primary School - extension and adaptations	2,194	936	1,258

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:

	2015/16	2016/17
	£'000	£'000
Rental income from investment property	26	3
Net gain/(loss)	26	3

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 nor for its repair, maintenance or enhancement.

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

	2015/16	2016/17
	£'000	£'000
Balance 1 April	247	247
Net gains/(losses) from fair value adjustments	0	0
<u>Transfers:</u>		
to/(from) Property, Plant and Equipment	0	(50)
Balance 31 March	247	197

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
- Service Concession Arrangements (Private Finance Initiative (PFI)) contracts detailed in Note 41
- 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:

NOTE 17 – FINANCIAL INSTRUMENTS (continued)

- cash
- bank accounts
- fixed term deposits with banks and building societies
- loans to other local authorities
- 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 2016 £'000	31 March 2017 £'000	31 March 2016 £'000	31 March 2017 £'000
Loans at amortised cost:				
Principal sum borrowed	110,676	108,143	2,060	2,702
Accrued interest	0	0	697	633
Total Borrowing	110,676	108,143	2,757	3,335
Loans at amortised cost:				
Bank overdraft	0	0	39,430	30,035
Total Cash Overdrawn	0	0	39,430	30,035
Liabilities at amortised cost:				
Trade Payables	0	0	0	0
Finance leases	2,127	1,993	0	0
Total other Long-Term Liabilities	2,127	1,993	0	0
Liabilities at amortised cost:				
Trade Payables	0	0	53,722	54,912
Finance Leases	0	0	126	134
Included within Creditors*	0	0	53,848	55,046
Total Financial Liabilities	112,803	110,136	96,035	88,416

* The short-term creditors line on the Balance Sheet includes £1,927,000 (£838,000 at 31 March 2016) creditors (Note 21) that do not meet the definition of a financial liability.

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 2016 £'000	31 March 2017 £'000	31 March 2016 £'000	31 March 2017 £'000
Loans and Receivables:				
Principal at amortised cost	17	17	50,000	26,000
Accrued interest	0	0	55	44
Available for sale investments:				
Principal at amortised cost	2,324	2,154	0	0
Total Investments	2,341	2,171	50,055	26,044
Loans and Receivables:				
Cash	0	0	59	59
Cash equivalents at amortised cost	0	0	14,132	1,325
Total Cash and Cash Equivalents	0	0	14,191	1,384
Loans and Receivables:				
Trade Receivables	4,301	4,094	17,960	32,341
Included in Debtors*	4,301	4,094	17,960	32,341
Total Financial Assets	6,642	6,265	82,206	59,769

* The short-term debtors line on the Balance Sheet includes £22,547,000 (£14,565,000 at 31 March 2016) debtors (Note 18) that do not meet the definition of a financial asset.

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 Statement. The 2016/17 Code of Practice sets out specific accounting and disclosure requirements for soft loans. During 2016/17 Gwynedd Council identified the following “soft loans”:

- Deferred Payments on charges due from people under care (amount outstanding at 31.03.17 £2,027,329)
- Car and Bike Loans to employees (amount outstanding at 31.03.17 £951,760)

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.

	2015/16			2016/17		
	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	0	0	0	13,065	(13,065)	0
Total Financial Assets	0	0	0	13,065	(13,065)	0
Bank overdraft	(39,430)	0	(39,430)	(43,100)	13,065	(30,035)
Total Financial Liabilities	(39,430)	0	(39,430)	(43,100)	13,065	(30,035)

(c) Financial Instruments - Gains and Losses

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

	Financial Liabilities	Financial Assets	
	Liabilities measured at amortised cost	Loans and Receivables	Total 2016/17
	£'000	£'000	£'000
Interest expense	6,380	0	6,380
Interest payable and similar charges	6,380	0	6,380
Interest income	0	(311)	(311)
Interest and investment income	0	(311)	(311)
Net (gain)/loss for the year	6,380	(311)	6,069

(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 March 2017, 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 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 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.

	Carrying Amount 31 March 2016 £'000	Fair Value 31 March 2016 £'000	Carrying Amount 31 March 2017 £'000	Fair Value 31 March 2017 £'000
Financial Liabilities:				
Loans borrowed	(113,434)	(170,173)	(111,478)	(181,814)
Finance leases	(2,127)	(2,127)	(2,127)	(2,127)
Trade Payables	(53,722)	(53,722)	(54,912)	(54,912)
Total Financial Liabilities	(169,283)	(226,022)	(168,517)	(238,853)
Financial Assets:				
Long-term investments	2,341	2,341	2,171	2,171
Short-term investments	50,000	50,055	26,000	26,044
Trade Receivables	17,960	17,960	32,341	32,341
Total Financial Assets	70,301	70,356	60,512	60,556

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 two longer dated covered bonds maturing in 2018.

(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 is based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The main risks covered are:

- *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.

NOTE 17 – FINANCIAL INSTRUMENTS (continued)

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 2016/17 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 2016/17 a limit of 5% of the total portfolio was placed on the amount that can be invested with a single counterparty (reduced to £1m for some building societies and 2.5% for the RBS Group). The Council also set a total group investment limit of 5% for institutions that are part of the same banking group (reduced to 2.5% for the RBS Group). No more than £40m 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 £26m 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 31st March 2017 that this was likely to crystallise.

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 £3,938,407 equating to 98% from the administrators up to 31 March 2017. The administration is ongoing, but it is likely that the full amount should eventually be recovered.

The Council does not hold collateral against any investments.

The credit quality of £2.103m of the Council's investments is enhanced as they are covered bonds which have a pool of assets that secures the bond if the issuer fails. This collateral significantly reduces the likelihood of the Council suffering a credit loss on these investments.

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

Credit Rating	Short-Term	
	31 March 2016	31 March 2017
	£'000	£'000
AAA	0	0
AA+	0	0
AA	0	0
AA-	11,000	10,000
A+	4,000	0
A	18,000	8,000
A-	1,000	1,000
Unrated	16,000	7,000
Total Investments	50,000	26,000

NOTE 17 – FINANCIAL INSTRUMENTS (continued)

Credit Rating	Long-Term	
	31 March 2016	31 March 2017
	£'000	£'000
AAA	2,272	2,103
AA+	0	0
AA	0	0
AA-	0	0
A+	0	0
A	0	0
A-	0	0
Unrated	0	0
Total Investments	2,272	2,103

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.

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 2016	31 March 2017
	£'000	£'000
Less than 1 year	2,018	2,702
Over 1 but not over 2	2,550	333
Over 2 but not over 5	3,600	5,322
Over 5 but not over 10	13,829	17,613
Over 10 but not over 20	30,313	27,626
Over 20 but not over 30	15,464	13,697
Over 30 but not over 40	1,768	17,986
Over 40	25,585	9,367
Uncertain date*	16,200	16,200
Total	111,327	110,846

* 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.

NOTE 17 – FINANCIAL INSTRUMENTS (continued)

Market Risk: 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 2017, 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	76	16
Impact on Surplus or Deficit on the Provision of Services	76	16
Decrease in fair value of fixed rate investment assets	0	0
Impact on Other Comprehensive Income and Expenditure	0	0
Decrease in fair value of fixed rate borrowings / liabilities*	(26,046)	26,046

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

Market Risk: 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 Risk: Foreign Exchange Risk

The Council has no financial assets 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 2016	31 March 2017
	£'000	£'000
Welsh Government	6,491	28,921
Other Central Government Bodies	4,258	7,187
Other Local Authorities	2,065	2,608
National Health Service	486	2,594
Public Corporations and Trading Funds	262	18
Council Tax	1,902	1,846
Other Entities and Individuals	17,075	11,715
Total	32,539	54,889

NOTE 19 – CASH AND CASH EQUIVALENTS

	31 March 2016	31 March 2017
	£'000	£'000
Cash in hand	13	13
Bank current accounts	46	46
Call Accounts	14,132	1,325
Cash and Cash Equivalents	14,191	1,384
Bank overdraft	(39,430)	(30,035)
Total	(25,239)	(28,651)

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 £15.7m (£25m at 31 March 2016).

NOTE 20 – ASSETS HELD FOR SALE

	2015/16	2016/17
	£'000	£'000
Balance 1 April	1,040	459
<u>Assets newly classified as held for sale:</u>		
Property, Plant and Equipment	334	74
Expenditure in year	2	2
Revaluation Losses	(416)	0
Impairment Losses	(2)	(2)
<u>Assets declassified as held for sale:</u>		
Property, Plant and Equipment	0	(35)
Assets sold	(499)	(350)
Balance 31 March	459	148

NOTE 21 – SHORT-TERM CREDITORS

	31 March 2016	31 March 2017
	£'000	£'000
Welsh Government	2,285	2,774
Other Central Government Bodies	4,708	3,622
Other Local Authorities	14,376	7,333
National Health Service	499	358
Public Corporations and Trading Funds	290	250
Council Tax	1,203	1,310
Other Entities and Individuals	31,326	41,325
Total	54,687	56,972

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 2016 £'000	(Addition) / Reduction / Transfer £'000	Used during the year £'000	Balance at 31 March 2017 £'000
<u>Short-Term Provisions</u>				
Waste Sites Provision	(294)	(254)	291	(257)
Other	(1)	1	0	0
Equal Pay	(170)	170	0	0
Third Party Claims Provision	0	(100)	0	(100)
	(465)	(183)	291	(357)
<u>Long-Term Provisions</u>				
Waste Sites Provision	(7,817)	225	0	(7,592)
Third Party Claims Provision	(93)	0	0	(93)
MMI Insurance Provision	(198)	0	107	(91)
Other	(113)	113	0	0
	(8,221)	338	107	(7,776)
Total	(8,686)	155	398	(8,133)

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

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

Third Party Claims Provision – relating to cases of third party claims against the Council in the Adults and Consultancy areas.

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.

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

NOTE 23 – UNUSABLE RESERVES

31 March 2016		31 March 2017
£'000		£'000
67,131	Revaluation Reserve	71,974
142	Available For Sale Financial Instruments Reserve	(17)
186,954	Capital Adjustment Account	187,120
(835)	Financial Instruments Adjustment Account	(760)
(178,332)	Pensions Reserve	(235,413)
(3,392)	Accumulated Absences Account	(3,935)
71,668	Total Unusable Reserves	18,969

23.1 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.

2015/16		2016/17
£'000		£'000
62,580	Balance 1 April	67,131
17,470	Upward revaluation of assets	9,916
(11,375)	Downward revaluation of assets and impairment losses	(2,634)
6,095	Surplus/(deficit) on revaluation of assets	7,282
(971)	Difference between fair value depreciation and historical cost depreciation	(1,219)
(573)	Accumulated gains on assets sold	(1,220)
(1,544)	Amount written off to the Capital Adjustment Account	(2,439)
67,131	Balance 31 March	71,974

23.2 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 23 – UNUSABLE RESERVES (continued)

2015/16 £000	2016/17 £'000
85 Balance 1 April	142
57 Upward revaluation of investments	0
0 Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(159)
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
142 Balance 31 March	(17)

23.3 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.

2015/16 £'000	2016/17 £'000
179,024 Balance 1 April	186,954
<u>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</u>	
(15,910) Charges for depreciation and impairment of non-current assets	(20,793)
(4,844) Revenue Expenditure funded from Capital under Statute	(4,987)
(9,313) Adjustment to non-current balance on the sale of assets	(1,077)
971 Transfer from Capital Revaluation Reserve	1,219
<u>Capital financing applied in the year:</u>	
1,622 Capital Receipts	770
17,781 Grants and contributions credited to Comprehensive Income and Expenditure Statement that have been applied to capital financing	11,606
5,641 Revenue provision for the financing of supported capital investment	5,593
10,248 Capital expenditure charged in year against the General Fund	5,972
1,734 Capital receipts set aside / Revenue provision for the financing of unsupported capital investment	1,863
186,954 Balance 31 March	187,120

NOTE 23 – UNUSABLE RESERVES (continued)

23.4 Financial Instruments Adjustment Account

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 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.

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 are as follows:

2015/16		2016/17
£'000		£'000
(885) Balance 1 April		(835)
46	Proportion of premiums incurred in previous years charged to General Fund in accordance with statute	46
4	Deferred credit for receipt of charges due from people under care	29
(835) Balance 31 March		(760)

23.5 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.

2015/16		2016/17
£'000		£'000
2 Balance 1 April		0
(2)	Principal repayment of Right To Buy Mortgages	0
0 Balance 31 March		0

NOTE 23 – UNUSABLE RESERVES (continued)

23.6 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.

2015/16 £000		2016/17 £000
(248,721)	Balance 1 April	(178,332)
80,568	Remeasurements of the net defined benefit (liability) / assets	(51,322)
(30,226)	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	(26,259)
20,047	Employer's pensions contributions and direct payments to pensioners payable in the year	20,500
(178,332)	Balance 31 March	(235,413)

23.7 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.

2015/16 £'000		2016/17 £'000
(3,819)	Balance 1 April	(3,392)
427	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	(543)
(3,392)	Balance 31 March	(3,935)

NOTE 24a – CASH FLOW STATEMENT: ADJUSTMENTS TO NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES FOR NON-CASH MOVEMENTS

2015/16		2016/17
£'000		£'000
(12,208)	Depreciation	(13,466)
(3,702)	Impairment and downward valuations	(7,327)
14,228	(Increase)/Decrease in Creditors	(1,636)
(9,997)	Increase/(Decrease) in Debtors	22,340
(146)	Increase/(Decrease) in Stock	(35)
(10,179)	Pension Liability	(5,759)
(9,887)	Carrying amount of non-current assets sold or de-recognised	(2,297)
(679)	Other non-cash items charged to net surplus/deficit on the provision of services	(4,919)
(32,570)		(13,099)

NOTE 24b – CASH FLOW STATEMENT – ADJUST FOR ITEMS INCLUDED IN THE NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES THAT ARE INVESTING AND FINANCING ACTIVITIES

2015/16		2016/17
£'000		£'000
942	Proceeds from sale of property, plant and equipment, investment property and intangible assets	1,603
942		1,603

NOTE 24c – CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2015/16		2016/17
£'000		£'000
(552)	Interest received	(323)
5,698	Interest paid	5,616

NOTE 25 – CASH FLOW STATEMENT – INVESTING ACTIVITIES

2015/16		2016/17
£'000		£'000
28,821	Purchase of property, plant and equipment, investment property and intangible assets	24,438
362,420	Purchase of short-term and long-term investments	361,096
4,284	Other payments for investing activities	4,780
(929)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,633)
(348,328)	Proceeds from short-term and long-term investments	(385,107)
46,268	Net cash flows from investing activities	3,574

NOTE 26 – CASH FLOW STATEMENT – FINANCING ACTIVITIES

2015/16		2016/17
£'000		£'000
119	Cash payments for the reduction of the outstanding liability relating to Finance Leases	126
(1,421)	Repayments of short-term and long-term borrowing	1,955
(1,302)	Net cash flows from financing activities	2,081

NOTE 27 – EXPENDITURE AND INCOME ANALYSED BY NATURE

The Authority's expenditure and income is analysed as follows:

2015/16 £'000	<u>Expenditure/ Income</u>	2016/17 £'000
	Expenditure	
163,870	Employee benefits expenses	167,044
135,477	Other Services expenses	135,913
23,178	Support Services recharges	21,725
18,727	Depreciation, amortisation, impairment	23,503
14,551	Interest Payments	12,623
20,097	Precepts and Levies	20,466
9,189	Loss on the disposal of assets	734
385,089	Total Expenditure	382,008
	Income	
(47,153)	Fees, charges and other service income	(55,874)
(508)	Interest and investment income	(313)
(107,526)	Income from council tax and non-domestic rates	(111,806)
(220,674)	Government grants and contributions	(204,722)
(244)	(Gain) on the disposal of assets	(40)
(376,105)	Total Income	(372,755)
8,984	(Surplus) / Deficit on the Provision of Services	9,253

NOTE 28 – 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 2016/17 were £62.9m (£47.1m in 2015/16).

Gwynedd Council acts as an agent to the original 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 2016/17, loans amounting to £139k were allocated and £368k was repaid, a net movement of (£229k) (£166k in 2015/16).

During 2015/16, the Welsh Government established four new schemes with Gwynedd Council acting as agent on their behalf:

- Houses into Homes 2 – closing balance £396k (£431k in 2015/16)
- Home Improvement Loans – closing balance £315k (£300k in 2015/16)
- Shared Library Management System Implementation – closing balance £0 (£75k in 2015/16)
- Supporting Town Centre Regeneration in Caernarfon – closing balance £431k (£700k in 2015/16).

During 2016/17, the Welsh Government established a further scheme:

- Caernarfon and Bangor Town Centre Scheme – closing balance of £850k, which is yet to be allocated.

NOTE 29 – MEMBERS’ ALLOWANCES

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

2015/16		2016/17
£'000		£'000
1,256	Allowances	1,259
71	Expenses	61
1,327		1,320

NOTE 30 – OFFICERS’ REMUNERATION

30a. 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 (including termination benefits), but the employer’s national insurance contributions are excluded.

2015-16			Chief Officers	2016-17		
Employer's Pension				Employer's Pension		
Salary	Contributions	Total		Salary	Contributions	Total
£	£	£		£	£	£
103,805	23,252	127,057	Chief Executive	106,787	23,920	130,707
90,222	20,210	110,432	Corporate Director	91,125	20,412	111,537
87,967	19,705	107,672	Corporate Director	91,125	20,412	111,537
87,419	19,582	107,001	Head of Education ¹	91,589	20,516	112,105
76,582	17,154	93,736	Head of Finance	77,349	17,326	94,675
76,581	17,151	93,732	Head of Adults, Health and Wellbeing ²	77,009	17,350	94,359
22,465	16,054	38,519	Head of Adults, Health and Wellbeing (previous holder) ³	37,301	3,616	40,917
73,832	16,990	90,822	Head of Highways and Municipal	75,395	16,888	92,283
71,259	15,962	87,221	Head of Economy & Community	71,972	16,122	88,094
67,697	15,164	82,861	Head of Children and Families	70,174	15,719	85,893
64,134	14,360	78,494	Head of Environment ⁴	65,338	14,836	80,174
64,134	14,366	78,500	Head of Corporate Support	66,575	14,913	81,488
60,195	13,484	73,679	Head of Gwynedd Consultancy	60,798	13,619	74,417
42,756	9,577	52,333	Specialised Programmes Leader ⁵	42,979	9,627	52,606
42,756	9,577	52,333	Specialised Programmes Leader ⁵	42,979	9,627	52,606

1) Since 1 November 2016, the Head of Education acts as a temporary part time Corporate Manager for GwE. He is formally employed by Gwynedd Council and GwE is recharged 80% of his salary and other remuneration.

2) Holder permanently confirmed in post from 19 September 2016

3) Holder in post to 8 July 2016

4) Holder in post from 6 December 2016

5) Part time post

30b. The Accounts and Audit (Wales) Regulations 2014 require the Authority to include a ratio of remuneration. The ratio of the Chief Executive’s remuneration to the median remuneration of all the Authority’s employees for 2016/17 is 5.39 : 1 (5.29 : 1 in 2015/16).

NOTE 30 – OFFICERS' REMUNERATION (continued)

30c. 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 8 cases in 2016/17 and 10 cases in 2015/16. 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 2015-16				Number in 2016-17		
Schools	Other	Total		Schools	Other	Total
3	3	6	£60,000 - 64,999	6	6	12
6	2	8	£65,000 - 69,999	4	1	5
3	0	3	£70,000 - 74,999	6	1	7
2	0	2	£75,000 - 79,999	2	0	2
1	0	1	£80,000 - 84,999	1	0	1
0	1	1	£85,000 - 89,999	0	1	1
0	0	0	£90,000 - 94,999	0	1	1
2	0	2	£95,000 - 99,999	1	0	1
0	0	0	£100,000 - 104,999	0	0	0
1	1	2	£105,000 - 109,999	0	0	0
0	0	0	£110,000 - 114,999	0	0	0
0	0	0	£115,000 - 119,999	0	0	0
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	1	1

NOTE 31 – EXTERNAL AUDIT COSTS

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

2015/16		2016/17
£'000		£'000
183	Fees payable to auditors appointed by the Auditor General for Wales with regard to external audit services	183
99	Fees payable to auditors appointed by the Auditor General for Wales in respect of statutory inspections	99
96	Fees payable to auditors appointed by the Auditor General for Wales for the certification of grant claims and returns for the year	126
378		408
(2)	Less: Fees payable to auditors appointed by the Auditor General for Wales in respect of Joint Committees and Harbour Accounts	(2)
376	Gwynedd Council Net Fees	406

In 2015/16, Deloitte were appointed by the Auditor General for Wales as Gwynedd Council's external auditors.

NOTE 32 – GRANT INCOME

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

	Note	2015/16 £'000	2016/17 £'000
Credited to Taxation and Non Specific Grant Income			
Outcome Agreement Grant (Non-ringfenced Government Grants)	13	1,284	0
Revenue Support Grant (Non-ringfenced Government Grants)	13	132,666	129,792
Government Revenue Grants and Contributions - Other		1,428	8
Government Capital Grants and Contributions -			
21st Century Schools	5,197		3,199
General Capital Grant	2,511		2,516
Other	5,047		3,449
	13	12,755	9,164
Other Capital Grants and Contributions	13	1,215	124
Total		149,348	139,088
Grants and Contributions Credited to Services			
Welsh Government -			
Supporting People Grant (SPG & SPRG)	5,056		5,044
Improvement and Deprivation Grants (Education)	7,350		7,477
Sustainable Waste Management Grant	3,606		3,516
Post-16 Grant (Education)	3,148		3,257
Other	15,037		13,420
		34,197	32,714
Other Government Grants and Contributions -			
Department for Work and Pensions	30,059		30,237
Other	9,714		12,015
		39,773	42,252
Other Grants and Contributions		3,586	3,736
Total		77,556	78,702

NOTE 32 – 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 2016 £'000	31 March 2017 £'000
Grants Received in Advance		
<u>Long-Term</u>		
Revenue Grants and Contributions		
Environment (Planning, Transport and Public Protection) Grants	662	752
Adults, Health and Wellbeing Grants	4	0
	666	752
Capital Grants and Contributions		
Highways and Municipal Capital Contributions	1,665	1,519
Environment (Planning, Transport and Public Protection) Grants	1,217	1,231
	2,882	2,750
Total Long-Term	3,548	3,502
<u>Short-Term</u>		
Revenue Grants and Contributions		
Economy and Community Grants	343	376
Environment (Planning, Transport and Public Protection) Grants	630	420
Adults, Health and Wellbeing Grants	897	1,036
Other Grants	220	109
	2,090	1,941
Capital Grants and Contributions	274	255
Total Short-Term	2,364	2,196
Total	5,912	5,698

NOTE 33 – 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 27 which analyses expenditure and income by nature. The position as at 31 March is detailed in Note 32.

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 2016/17 is shown in Note 29.

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 made to these bodies under this heading during 2016/17 and balances at 31 March 2017 is as follows:

Payments made	Amounts owed by the Council	Amounts owed to the Council
£'000	£'000	£'000
14,142	1,749	(4,041)

Members have declared an interest or relationship (as defined) in companies or businesses which may have dealings with the Council. A breakdown of the payments made to these companies under this heading during 2016/17 and balances at 31 March 2017 is as follows:

Payments made	Amounts owed by the Council	Amounts owed to the Council
£'000	£'000	£'000
1,873	94	(6)

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 Council. A breakdown of the payments made to these bodies under this heading during 2016/17 and balances at 31 March 2017 is as follows:

Payments made	Amounts owed by the Council	Amounts owed to the Council
£'000	£'000	£'000
559	129	(90)

Other Public Bodies

The Authority is the administering authority for the Pension Fund. Details of transactions with the Pension Fund are shown in Note 38 on pages 69 to 73 and the Pension Fund Accounts on pages 77 to 106.

NOTE 33 – RELATED PARTIES (continued)

Welsh Joint Education Committee (WJEC)

Payments made	Amounts owed by the Council	Amounts owed to the Council
£'000	£'000	£'000
973	0	0

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, Penrallt, Caernarfon, Gwynedd, LL55 1BN. Payments to Cwmni Cynnal during 2016/17 for services to schools and balances at 31 March 2017 are as follows:

Payments made	Amounts owed by the Council	Amounts owed to the Council
£'000	£'000	£'000
1,194	12	(1)

Cwmni Gwastraff Môn-Arffon Cyf. was established as a Local Authority Waste Disposal Company in 1994. The two Councils decided to terminate the arrangement in 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 and the final accounts will be completed when the company is wound up. £52k is the current balance that is owed to the Council.

NOTE 34 – 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 2016		31 March 2017
£'000		£'000
427,588	Non-current Assets and Assets held for sale	436,131
(67,131)	Revaluation Reserve	(71,974)
(186,954)	Capital Adjustment Account	(187,120)
173,503	Capital Financing Requirement	177,037

NOTE 34 – CAPITAL EXPENDITURE AND CAPITAL FINANCING (continued)

The movement in the year is explained as follows:

2015/16		2016/17
£'000		£'000
174,889	Capital Financing Requirement 1 April	173,503
9,844	Land and Buildings	5,487
2,830	Infrastructure	4,422
4,658	Vehicles, Plant and Equipment	3,006
37	Community Assets	17
17	Surplus Assets	3
13,408	Assets under construction	11,414
2	Assets held for sale	2
4,844	Funded from capital under statute	4,987
(1,622)	Capital Receipts used	(770)
(17,781)	Government Grants and other contributions	(11,606)
(10,248)	Capital expenditure charged to revenue	(5,972)
(5,641)	Revenue provision for the financing of supported capital investment	(5,593)
	Additional voluntary set aside:	
(1,734)	Revenue provision for the financing of unsupported capital investment	(1,863)
173,503	Capital Financing Requirement 31 March	177,037

NOTE 35 – LEASES

Authority as Lessee

Finance Leases

The Council has property under finance leases which are carried as Property, Plant and Equipment in the Balance Sheet. Included here is the GwyrAD Service Concession Arrangements (Note 41) at the following net amount:

31 March		31 March
2016		2017
£'000		£'000
4,236	Property, Plant and Equipment	3,987
4,236		3,987

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 35 – LEASES (continued)

31 March 2016 £'000		31 March 2017 £'000
Finance Lease Liabilities (net present value of minimum lease payments):		
126	current	134
2,127	non-current	1,993
2,253	Minimum lease payments	2,127

The remaining asset shown above has been funded by a deferred credit (refer to Note 41).

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2016 £'000	31 March 2017 £'000	31 March 2016 £'000	31 March 2017 £'000
	No later than one year	126	134	126
Later than one year and not later than five years	587	623	587	623
More than five years	1,540	1,370	1,540	1,370
	2,253	2,127	2,253	2,127

In 2016/17, minimum lease payments were made by the Authority of £126,168 (£118,840 in 2015/16) in respect of those assets held as a finance lease.

Operating Leases

	31 March 2016 £'000	31 March 2017 £'000
No later than one year	485	457
Later than one year and not later than five years	817	587
Later than five years	208	142
	1,510	1,186

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

	2015/16 £'000	2016/17 £'000
Minimum lease payments	552	564
	552	564

NOTE 35 – LEASES (continued)

Authority as Lessor

Finance Leases

The Council has leased out property on a finance lease, including:

- The Sailing Academy in Pwllheli,
- Rhyd Ddu Centre

These leases are on a peppercorn rent basis and for a term that equates to the economic life of the assets. No premium has been received for these leases.

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 centres
- 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:

	31 March 2016 £'000	31 March 2017 £'000
No later than one year	439	394
Later than one year and not later than five years	599	629
Later than five years	2,243	2,732
	3,281	3,755

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 2016/17 £908,227 minimum lease payments were receivable by the Authority (£828,936 in 2015/16).

NOTE 36 – 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 2017 are included. Included below are the related gross costs but not the financial savings to the Council, where appropriate.

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16 £'000	2016/17 £'000
£								
0 - 20,000	77	32	11	35	88	67	397	485
20,001 - 40,000	31	2	5	17	36	19	1,018	517
40,001 - 60,000	3	3	1	0	4	3	207	136
60,001 - 80,000	2	0	1	2	3	2	193	123
80,001 - 100,000	0	0	0	1	0	1	0	81
Reflects adjustment to previous year estimates							11	23
Total	113	37	18	55	131	92	1,826	1,365

NOTE 37 – 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 2016/17 the Council paid £6.63m (£6.42m in 2015/16) in respect of teachers' pension costs, which represented 15.74% (15.15% in 2015/16) 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 2016/17 these amounted to £1.17m (£1.18m in 2015/16) representing 2.79% (2.75% in 2015/16) of teachers' pensionable pay. These costs are accounted for on a defined benefits basis and are included in Note 38.

NOTE 38 – 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 38 – PENSION COSTS (continued)

Change in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liability	Period ended 31 March 2016			Period ended 31 March 2017		
	Assets	Liabilities	Net (liability) /asset	Assets	Liabilities	Net (liability) /asset
	£'000	£'000	£'000	£'000	£'000	£'000
Fair Value of Employer Assets	530,343	0	530,343	547,025	0	547,025
Present Value of Funded Liabilities	0	(750,818)	(750,818)	0	(699,750)	(699,750)
Present Value of Unfunded Liabilities	0	(28,246)	(28,246)	0	(25,607)	(25,607)
Opening Position at 31 March	530,343	(779,064)	(248,721)	547,025	(725,357)	(178,332)
Service Cost						
Current Service Cost*	0	(21,913)	(21,913)	0	(19,784)	(19,784)
Past Service Costs (including curtailments)	0	(297)	(297)	0	(232)	(232)
Total Service Cost	0	(22,210)	(22,210)	0	(20,016)	(20,016)
Net interest						
Interest Income on Plan Assets	17,023	0	17,023	19,183	0	19,183
Interest Cost on Defined Benefit Obligation	0	(25,039)	(25,039)	0	(25,426)	(25,426)
Total Net Interest	17,023	(25,039)	(8,016)	19,183	(25,426)	(6,243)
Total Defined Benefit Cost Recognised in Profit/(Loss)	17,023	(47,249)	(30,226)	19,183	(45,442)	(26,259)
Cash flows						
Plan participants' contributions	4,683	(4,683)	0	4,992	(4,992)	0
Employer contributions	16,894	0	16,894	17,962	0	17,962
Contributions in respect of unfunded benefits	1,709	0	1,709	1,706	0	1,706
Benefits Paid	(18,303)	18,303	0	(20,072)	20,072	0
Unfunded Benefits Paid	(1,709)	1,709	0	(1,706)	1,706	0
Expected Closing Position	550,640	(810,984)	(260,344)	569,090	(754,013)	(184,923)
Remeasurements						
Change in demographic assumptions	0	0	0	0	3,839	3,839
Change in financial assumptions	0	77,463	77,463	0	(109,365)	(109,365)
Other experience	0	8,164	8,164	0	(25,588)	(25,588)
Return on Assets excluding amounts included in net interest	(3,615)	0	(3,615)	80,624	0	80,624
Total remeasurements recognised in Other Comprehensive Income (OCI)	(3,615)	85,627	82,012	80,624	(131,114)	(50,490)
Fair Value of Employer Assets	547,025	0	547,025	649,714	0	649,714
Present Value of Funded Liabilities	0	(699,750)	(699,750)	0	(856,715)	(856,715)
Present Value of Unfunded Liabilities**	0	(25,607)	(25,607)	0	(28,412)	(28,412)
Closing Position at 31 March	547,025	(725,357)	(178,332)	649,714	(885,127)	(235,413)

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

** This liability comprises approximately £10,925,000 in respect of LGPS unfunded pensions and £17,487,000 in respect of Teachers' unfunded pensions. For unfunded liabilities as at 31 March 2017, it is assumed that all unfunded pensions are payable for the remainder of the member's life. It is further assumed that 90% of pensioners are married (or cohabiting) at death and that their spouse (cohabitee) will receive a pension of 50% of the member's pension as at the date of the member's death.

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 2016. The split is shown in the table below. The actuary estimates the bid value of the Fund's assets as at 31 March 2017 to be £1,843m based on information provided by the Administering Authority and allowing for index returns where necessary.

NOTE 38 – 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 2016				At 31 March 2017			
	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	%
Equity Securities								
Consumer	17,398	0	17,398	3	22,276	0	22,276	3
Manufacturing	0	0	0	0	20,119	0	20,119	3
Energy and Utilities	2,997	0	2,997	1	3,618	0	3,618	1
Financial Institutions	8,917	0	8,917	2	12,461	0	12,461	2
Health and Care	31,539	0	31,539	6	32,068	0	32,068	5
Information Technology	18,103	0	18,103	3	26,123	0	26,123	4
Other	21,793	0	21,793	4	1,780	0	1,780	0
Private Equity								
All	0	22,227	22,227	4	0	29,349	29,349	5
Debt Securities								
Other	0	73,108	73,108	13	0	81,166	81,166	12
Real Estate								
UK Property	10,439	46,057	56,496	10	14,275	35,476	49,751	8
Overseas Property	0	1,033	1,033	0	0	1,319	1,319	0
Investment Funds and Unit Trusts								
Equities	111,036	160,978	272,014	50	138,871	197,659	336,530	52
Bonds	0	0	0	0	0	0	0	0
Infrastructure	0	4,552	4,552	1	0	8,711	8,711	1
Cash and Cash Equivalents								
All	16,848	0	16,848	3	24,443	0	24,443	4
Total	239,070	307,955	547,025	100	296,034	353,680	649,714	100

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 were based on the latest full valuation of the scheme as at 31 March 2016. The significant assumptions used by the actuary in the following table have had a significant impact on the values of the assets and liabilities as follows:-

NOTE 38 – PENSION COSTS (continued)

	31 March 2016	31 March 2017
Financial Assumptions	% p.a.	% p.a.
Pensions Increase Rate	2.2	2.4
Salary Increase Rate*	4.2	2.4
Inflation Rate	2.2	2.4
Discount Rate	3.5	2.6
Long-term expected rate of return on all categories of assets	3.5	2.6
Take-up option to convert annual pension into retirement lump sum		
for pre-April 2008 service	50	50
for post-April 2008 service	75	75
Mortality assumptions	Years	Years
Longevity at 65 for current pensioners		
Men	22	22
Women	24	24
Longevity at 65 for future pensioners		
Men	24.4	24.0
Women	26.6	26.4

*For unfunded liabilities as at 31 March 2017, it is assumed that all unfunded pensions are payable for the remainder of the member's life. It is further assumed that 90% of pensioners are married (or cohabiting) at death and that their spouse (cohabitee) will receive a pension of 50% of the member's pension at the date of the member's death.

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 2017 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 a 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 March 2016, 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.

Impact on the Defined Benefit Obligation in the Scheme		
Change in assumption	Approximate increase to Employer 31 March 2017	Approximate monetary amount 31 March 2017
	%	£'000
0.5% decrease in real discount rate	11	93,116
0.5% increase in the salary increase rate	2	18,421
0.5% increase in the pension increase rate	8	73,112

NOTE 38 – PENSION COSTS (continued)

The principal demographic assumption is the longevity assumption (i.e. member life expectancy). For sensitivity purposes, we estimate that a one year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3-5%. In practice the actual cost of a 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).

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 2016), or at any other time as instructed to do so by the Administering Authority. The contributions payable over the period to 31 March 2020 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 2016 actuarial report dated 31 March 2017.

Information about the Defined Benefit Obligation

	Liability Split		Weighted Average Duration
	£'000	%	
Active Members	445,625	52.0	24.7
Deferred Members	135,913	15.9	25.3
Pensioner Members	275,177	32.1	12.0
Total	856,715	100.0	19.6

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 2016.

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 2018 are £23.2m

As the Actuary's report is based on estimates and due to timing issues, there is a variance of £831,890 in 2016/17 (£1,443,736 in 2015/16) 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 39 – 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 two specific contingent liabilities:

- 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.

NOTE 39 – CONTINGENT LIABILITIES (continued)

- 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, 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. An initial levy of 15% of the payments made since 30 September 1992 was paid during 2013/14, and a further 10% was paid in 2016/17.

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 40 – TRUSTS

The Council acts as sole trustee for 172 bequests such as school prize funds, and comforts and improvements funds for numerous Council Establishments. The total balance of these Trusts on the balance sheet on 31 March 2017 was £679,691 (£646,045 on 31 March 2016). 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 Council and therefore they have not been included in the Balance Sheet.

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

NOTE 41 – 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 value of the related assets was £4.0m as at 31 March 2017 (£4.2m as at 31 March 2016). 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.

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Total
	£'000	£'000	£'000	£'000
Paid in 2016/17	498	126	139	763
Payable in 2017/18	498	134	131	763
Payable within 2 to 5 years	1,991	623	437	3,051
Payable within 6 to 10 years	2,489	1,022	304	3,815
Payable within 11 to 15 years	704	348	28	1,080
Total	6,180	2,253	1,039	9,472

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:

	2016/17	
	Lease Liability	Deferred Income
	£'000	£'000
Balance outstanding at 1 April 2016	(2,253)	(1,810)
Repayment of principal during the year	126	0
Release of deferred income	0	146
Balance outstanding at 31 March 2017	(2,127)	(1,664)

Either party can terminate the agreement at any time should there be deficiencies, subject to giving notice in accordance with the terms of the agreement. Equally, the Authority can unilaterally terminate the agreement in accordance with the terms therein. There would be compensation payments linked to any termination arrangement. At the expiry of the agreement, the Authority has the right to re-tender for a contractor to provide the service.

NOTE 42 – JOINT OPERATIONS AND JOINT COMMITTEES

The Council currently participates in a number of joint operations with neighbouring North Wales authorities.

During 2016/17, Gwynedd Council participated in four joint-committees, collaborating in particular areas between Local Authorities. Separate accounts are required for joint-committees. The four joint-committees relating to Gwynedd in 2016/17 are:

- Special Educational Needs Joint Committee (SEN)
- Joint Planning Policy Committee
- GwE
- 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%	779
Joint Planning Policy Committee	Gwynedd Council	Gwynedd Council Isle of Anglesey County Council	50%	483
GwE	Gwynedd Council	Conwy County Borough Council Denbighshire County Council Flintshire County Council Gwynedd Council Isle of Anglesey County Council Wrexham County Borough Council	17.77%	728
North Wales Residual Waste Treatment Project	Flintshire County Council	Conwy County Borough Council Denbighshire County Council Flintshire County Council Gwynedd Council Isle of Anglesey County Council	20%	83

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

NOTE 43 – EVENTS AFTER THE BALANCE SHEET DATE

There are no known events after the balance sheet date.

GWYNEDD PENSION FUND ACCOUNTS

31 March 2016		Notes	31 March 2017
£'000			£'000
	Dealings with members, employers and others directly involved in the Fund		
67,317	Contributions receivable	7	67,695
8	Interest on deferred contributions		7
3	Income from divorce calculations		2
5,075	Transfers in from other pension schemes	8	5,893
72,403	Total contributions received		73,597
(55,186)	Benefits payable	9	(53,982)
(2,852)	Payments to and on account of leavers	10	(3,970)
(58,038)	Total benefits paid		(57,952)
14,365			15,645
(10,060)	Management Expenses	11	(11,641)
	Returns on Investments		
11,874	Investment income	14	12,886
(530)	Taxes on income	15	(378)
12,383	Profit and (loss) on disposal of investments and changes in the market value of investments	16	322,316
23,727	Returns on investments net of tax		334,824
28,032	Increase in the net assets available for benefits during the year		338,828
	Net assets of the Fund		
1,497,373	At 1 April		1,525,405
28,032	Increase in net assets		338,828
1,525,405			1,864,233

NET ASSETS STATEMENT

31 March 2016		Notes	31 March 2017
£'000			£'000
1,455,230	Investment assets	16	1,798,325
42,631	Cash deposits	16	49,248
1,497,861			1,847,573
(64)	Investment liabilities	16	(235)
31,887	Current assets	21	20,984
(4,279)	Current liabilities	22	(4,089)
1,525,405			1,864,233

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 summarises 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 2016) 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 2016/17 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 I – DESCRIPTION OF FUND (continued)

The following bodies are active employers within the Pension Fund:

Scheduled Bodies	
Gwynedd Council	Snowdonia National Park
Conwy County Borough Council	Bryn Eilian School
Isle of Anglesey County Council	Emrys ap Iwan School
Police and Crime Commissioner for North Wales	Pen y Bryn School
Llandrillo – Menai Group	Eirias High School
GWE	NWTRA
Resolution Bodies	
Llanllyfni Community Council	Ffestiniog Town Council
Bangor City Council	Llandudno Town Council
Abergele Town Council	Llangefni Town Council
Colwyn Bay Town Council	Menai Bridge Town Council
Beaumaris Town Council	Towyn and Kinmel Bay Town Council
Holyhead Town Council	Tywyn Town Council
Caernarfon Town Council	Conwy Town Council
Admission Bodies	
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	
Community Admission Bodies	
Cartrefi Conwy	Cartrefi Cymunedol Gwynedd
Transferee Admission Bodies	
Caterlink	Jewsons
Superclean I	Antur Teifi
ABM Catering	

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 2017. Employers also make contributions which are set based on triennial actuarial funding valuations. New employer contribution rates were applied for the three years from 1 April 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:

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

NOTE 1 – DESCRIPTION OF FUND (continued)

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

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

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

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

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

NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2016/17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 accruals 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

In addition the Fund 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 2017 was £110 million (£82 million at 31 March 2016).

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 2017 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
Debtors	At 31 March 2017, the Fund had a balance of sundry debtors of £5.6m. 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 £110 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 are no significant events after the balance to report.

NOTE 7 – CONTRIBUTIONS RECEIVABLE

By category

2015/16		2016/17
£'000		£'000
52,149	Employers	52,439
15,168	Employees/Members	15,256
67,317		67,695

By authority

2015/16		2016/17
£'000		£'000
22,722	Gwynedd Council	23,210
40,256	Other scheduled bodies	40,231
1,660	Admission bodies	1,514
2,227	Community admission bodies	2,215
203	Transferee admission bodies	252
195	Resolution bodies	219
54	Closed fund*	54
67,317		67,695

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

By contribution

2015/16		2016/17
£'000		£'000
15,168	Employees' normal contributions	15,256
45,106	Employers' normal contributions	46,570
7,043	Employers' deficit recovery contributions	5,869
67,317		67,695

NOTE 8 – TRANSFERS IN FROM OTHER PENSION FUNDS

2015/16		2016/17
£'000		£'000
3,889	Group transfers	1,315
1,186	Individual transfers	4,578
5,075		5,893

NOTE 9 - BENEFITS PAYABLE

By category

2015/16		2016/17
£'000		£'000
39,477	Pensions	41,081
14,070	Commutation and lump sum retirement benefits	11,093
1,639	Lump sum death benefits	1,808
55,186		53,982

By authority

2015/16		2016/17
£'000		£'000
15,094	Gwynedd Council	15,233
27,319	Other scheduled bodies	25,701
1,275	Admission bodies	1,561
709	Community admission body	1,095
35	Transferee admission body	173
86	Resolution body	58
10,668	Closed fund	10,161
55,186		53,982

NOTE 10 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2015/16		2016/17
£'000		£'000
96	Refunds to members leaving service net of tax repayments	103
77	Payments for members joining state scheme	11
2,679	Individual transfers	3,856
2,852		3,970

NOTE 11 – MANAGEMENT EXPENSES

2015/16		2016/17
£'000		£'000
1,186	Administrative costs	1,242
8,815	Investment management expenses (Note 13)	10,343
59	Oversight and governance costs	56
10,060		11,641

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

2015/16 £'000		2016/17 £'000
	Administrative costs	
447	Direct employee costs	486
368	Other direct costs	293
257	Support services, including IT	303
29	External audit fees	33
85	Actuarial fees	128
1,186		1,243
	Oversight and governance costs	
59	Pensions Committee	55
1,245		1,298

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

2015/16 £'000		2016/17 £'000
8,685	Management fees	10,258
54	Custody fees	45
19	Performance monitoring service	3
57	Investment consultancy fees	37
8,815		10,343

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 £322,972 (2015/16 £748,579) 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. They are reflected in the cost of investment purchases and in the proceeds of sales of investments (see Note 16a).

NOTE 14 – INVESTMENT INCOME

2015/16		2016/17
£'000		£'000
788	UK equities	427
6,019	Overseas equities	6,405
853	Private equity	1,239
302	Infrastructure	207
3,764	Pooled property investments	4,475
148	Interest on cash deposits	133
11,874		12,886

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. There were no distributions during 2016/17. During 2015/16 a distribution of £22,615.66 was received by the Pension Fund. This amount has been included in the interest on cash deposits figure for 2015/16 in the above table. Further information is included in Note 27.

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

NOTE 15 – TAXES ON INCOME

2015/16		2016/17
£'000		£'000
530	Withholding tax – equities	378
530		378

NOTE 16 – INVESTMENTS

2015/16		2016/17
£'000		£'000
Investment assets		
198,845	Fixed interest absolute return	236,625
269,784	Equities	345,284
746,944	Pooled equity investments	963,262
157,734	Pooled property investments	142,448
66,278	Private equity	82,023
15,262	Infrastructure	28,053
1,454,847		1,797,695
42,631	Cash deposits	49,248
383	Debtors	630
1,497,861	Total investment assets	1,847,573
Investment liabilities		
(64)	Amounts payable for purchases	(235)
(64)	Total investment liabilities	(235)
1,497,797	Net investment assets	1,847,338

Note 16a – Reconciliation of movements in investments and derivatives

2016/17	Market value at 1 April 2016	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2017
	£'000	£'000	£'000	£'000	£'000
Fixed interest absolute return securities	198,845	30,000	0	7,780	236,625
Equities	269,784	73,681	(76,100)	77,919	345,284
Pooled investments	746,944	15,347	(13,492)	214,463	963,262
Pooled property investments	157,734	18,373	(31,465)	(2,194)	142,448
Private equity / infrastructure	81,540	29,118	(18,212)	17,630	110,076
	1,454,847	166,519	(139,269)	315,598	1,797,695
Cash deposits	42,631			(387)	49,248
Amount receivable for sales of investments	383			(4)	630
Amounts payable for purchases of investments	(64)			(1)	(235)
Fees within pooled vehicles				7,110	
Net investment assets	1,497,797	166,519	(139,269)	322,316	1,847,338

2015/16	Market value at 1 April 2015	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2016
	£'000	£'000	£'000	£'000	£'000
Fixed interest absolute return securities	197,323	0	0	1,522	198,845
Equities	272,050	66,295	(82,842)	14,281	269,784
Pooled investments	773,481	7,279	(5,532)	(28,284)	746,944
Pooled property investments	143,288	2,266	0	12,180	157,734
Private equity / infrastructure	71,463	13,516	(12,066)	8,627	81,540
	1,457,605	89,356	(100,440)	8,326	1,454,847
Cash deposits	22,082			(47)	42,631
Amount receivable for sales of investments	420				383
Amounts payable for purchases of investments	(229)				(64)
Fees within pooled vehicles				4,104	
Net investment assets	1,479,878	89,356	(100,440)	12,383	1,497,797

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 £171,393 (2015/16 £193,820). 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 2016 £'000		31 March 2017 £'000
	Equities	
	UK	
32,396	Quoted	37,453
	Overseas	
237,388	Quoted	307,832
	Pooled funds	
	UK	
234,401	Unit trusts	301,034
	Global (including UK)	
198,845	Fixed income	236,625
274,408	Unit trusts	355,661
	Overseas	
238,135	Unit trusts	306,567
157,734	Property unit trusts	142,447
66,278	Private equity	82,023
15,262	Infrastructure	28,053
1,454,847		1,797,695

Investments analysed by fund manager

Market Value at 31 March 2016			Market Value at 31 March 2017		
£'000	%		£'000	%	
470,435	31.4	BlackRock	601,837	32.6	
305,122	20.4	Fidelity	399,686	21.6	
198,852	13.3	Insight	236,632	12.8	
29,845	2.0	Lothbury	39,599	2.1	
81,540	5.4	Partners Group	110,076	6.0	
15,931	1.0	Threadneedle	16,476	0.9	
83,346	5.6	UBS	48,112	2.6	
312,726	20.9	Veritas	394,920	21.4	
1,497,797	100.0		1,847,338	100.0	

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

Market value 31 March 2016 £'000	% of total Fund	Security	Market value 31 March 2017 £'000	% of total Fund
274,408	17.99	Fidelity Institutional Select Global Equity	355,661	19.08
234,400	15.37	BlackRock Asset Management Aquila Life UK Equity Index Fund	301,033	16.15
198,845	13.04	Insight Umbrella Holdings	236,625	12.69
95,490	6.26	BlackRock Asset Management Aquila Life Global Dev Fundamental Fund	129,078	6.92

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 by category and net assets statement heading. No financial assets were reclassified during the accounting period.

As at 31 March 2016			As at 31 March 2017		
Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at cost
£'000	£'000	£'000	£'000	£'000	£'000
Financial assets					
198,845			236,625		
269,784			345,284		
746,944			963,262		
157,734			142,448		
66,278			82,023		
15,262			28,053		
	63,065			64,623	
	11,836			6,239	
1,454,847	74,901	0	1,797,695	70,862	0
Financial liabilities					
(64)		(4,279)			(4,324)
(64)		(4,279)			(4,324)
1,454,783	74,901	(4,279)	1,797,695	70,862	(4,324)

Note 17b – Net gains and losses on financial instruments

31 March 2016		31 March 2017	
Fair value		Fair value	
£'000		£'000	
Financial assets			
8,325	Fair value through profit and loss	315,598	
(36)	Loans and receivables	(392)	
8,289	Total financial assets	315,206	
Financial liabilities			
0	Fair value through profit and loss	0	
0	Financial liabilities at cost	0	
0	Total financial liabilities	0	
8,289	Net financial assets	315,206	

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 2016			31 March 2017	
Carrying value	Fair value		Carrying value	Fair value
£'000	£'000		£'000	£'000
Financial assets				
1,057,007	1,454,847	Fair value through profit and loss	1,120,845	1,797,695
74,901	74,901	Loans and receivables	70,815	70,811
1,131,908	1,529,748	Total financial assets	1,191,660	1,868,506
Financial liabilities				
(64)	(64)	Fair value through profit and loss	(235)	(235)
(4,279)	(4,279)	Financial liabilities at cost	(4,038)	(4,038)
(4,343)	(4,343)	Total financial liabilities	(4,273)	(4,273)
1,127,565	1,525,405	Net financial assets	1,187,387	1,864,233

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	Total
Values at 31 March 2017	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	822,831	864,788	110,076	1,797,695
Loans and receivables	70,811	0	0	70,811
Total financial assets	893,642	864,788	110,076	1,868,506
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(235)	0	(235)
Financial liabilities at cost	(4,038)	0	0	(4,038)
Total financial liabilities	(4,038)	(235)	0	(4,273)
Net financial assets	889,604	864,553	110,076	1,864,233

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2016	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	633,363	739,944	81,540	1,454,847
Loans and receivables	74,901	0	0	74,901
Total financial assets	708,264	739,944	81,540	1,529,748
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(64)	0	(64)
Financial liabilities at cost	(4,279)	0	0	(4,279)
Total financial liabilities	(4,279)	(64)	0	(4,343)
Net financial assets	703,985	739,880	81,540	1,525,405

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

Risk and risk management

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

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

a) Market risk

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

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

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

The Fund manages these risks in two ways:

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

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2016/17 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 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 2016	31 March 2017
	%	%
UK Equities	9.3	15.8
Global Equities	9.3	18.4
Private Equity	9.3	28.5
Absolute Return Bonds	1.5	2.9
Alternatives (Infrastructure)	6.5	11.3
Property	2.3	14.2
Cash	0.0	0.0
Whole Fund		12.8

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 2017	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
UK Equities	338,486	15.8	391,966	285,005
Global Equities	970,060	18.4	1,148,552	791,569
Private Equity	82,023	28.5	105,399	58,646
Absolute Return Bonds	236,625	2.9	243,487	229,763
Alternatives (Infrastructure)	28,053	11.3	28,867	27,240
Property	142,448	14.2	158,545	126,351
Cash	49,248	0.0	56,241	42,255
Total assets available to pay benefits	1,846,943	12.8	2,083,352	1,610,534

* The whole fund values in the table above are based on 12.8% rather than the total of the individual asset types.

Asset type	Value as at 31 March 2016	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
UK Equities	266,797	9.3	291,475	242,118
Global Equities	749,931	9.3	819,300	680,563
Private Equity	66,278	9.3	70,613	61,943
Absolute Return Bonds	198,845	1.5	201,788	195,902
Alternatives (Infrastructure)	15,262	6.5	16,260	14,264
Property	157,734	2.3	161,409	154,059
Cash	42,950	0.0	42,954	42,946
Total assets available to pay benefits	1,497,797		1,603,799	1,391,795

Interest rate risk

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

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March 2016	As at 31 March 2017
	£'000	£'000
Cash and cash equivalents	20,434	15,375
Cash balances	42,631	49,248
Fixed interest securities	198,845	236,625
Total	261,910	301,248

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 2017 £'000	Change in year in the net assets available to pay benefits	
		+1%	-1%
		£'000	£'000
Cash and cash equivalents	15,375	154	(154)
Cash balances	49,248	492	(492)
Fixed interest securities*	236,625	(1,538)	1,538
Total change in assets available	301,248	(892)	892

* 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 2016 £'000	Change in year in the net assets available to pay benefits	
		+1%	-1%
		£'000	£'000
Cash and cash equivalents	20,434	204	(204)
Cash balances	42,631	426	(426)
Fixed interest securities*	198,845	1,869	(1,869)
Total change in assets available	261,910	2,499	(2,499)

* 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 0.53%, amounting to interest of £132,567 for the year.

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

Currency risk

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

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

The Fund has made commitments to private equity and infrastructure in foreign currency, (€214 million and \$88.6 million). These commitments are being drawn down on request from the investment manager over a number of years. The current commitments still outstanding are shown in Note 25. The risk is that the pound is weak relative to the dollar and euro at the time of the drawdown and then strengthens when the Fund is fully funded. The Fund has been funding the commitments since 2005 and therefore the liability is balanced out over a long period.

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

The following table summarises the Fund's currency exposure as at 31 March 2017 and as at the previous year end:

Currency exposure - asset type	As at	As at
	31 March 2016	31 March 2017
	£'000	£'000
Overseas and Global Equities	749,931	970,060
Global Fixed Income	198,845	236,625
Overseas Alternatives (Private Equity and infrastructure)	81,540	110,076
Overseas Property	3,116	3,636
Overseas Currency	0	0
Total overseas assets	1,033,432	1,320,397

Currency risk – sensitivity analysis

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

A 10% fluctuation in the currency is considered reasonable based on the Fund investment advisors' analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period to 31 March 2017. The equivalent rate for the year ended 31 March 2016 was 6 %. This analysis assumes that all other variables, in particular interest rates, remain constant.

The tables below show a breakdown of the Fund's exposure to individual currencies as at March 31, 2017 and at the end of the previous financial year:

Currency exposure - by asset type	Carrying amount as at 31 March 2017	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	970,060	1,067,066	873,054
Global Fixed Income	236,625	260,288	212,963
Overseas Alternatives (Private Equity and infrastructure)	110,076	121,084	99,068
Overseas Property	3,636	4,000	3,273
Total change in assets available	1,320,397	1,452,438	1,188,358

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

Currency exposure - by asset type	Carrying amount as at 31 March 2016	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	749,931	794,521	705,341
Global Fixed Income	198,845	210,668	187,022
Overseas Alternatives (Private Equity and infrastructure)	81,540	86,388	76,692
Overseas Property	3,116	3,301	2,931
Total change in assets available	1,033,432	1,094,878	971,986

b) Credit risk

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

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

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

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

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

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

In order to maximise the returns from Short-Term Investments and Cash Deposits, the Council invests any temporarily surplus funds in its bank accounts along with any surplus funds in the Gwynedd Pension Fund bank accounts. An appropriate share of the interest earned is paid to the Pension Fund and any losses on investment are shared with the Pension Fund in the same proportion. Due to the nature of the banking arrangements any surplus cash in the Pension Fund bank accounts is not transferred to the Council's bank accounts. As the Short-Term Investments are made in the name of Gwynedd Council they are shown in full on the Council's Balance Sheet. The Pension Fund element of the Short-Term Investments and Cash Deposits at 31 March 2017 was £15.7m (£25.0m at 31 March 2016).

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

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

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

New employers to the Fund will need to agree to the provision of a bond or obtain a guarantee to reduce the risk of future financial loss to the Fund in the event of not being able to meet its pension liability on cessation. As shown in Note 26 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 be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions under Regulation 38 of the LGPS (Administration) Regulations 2008 between triennial valuations.

c) Liquidity risk

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

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

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

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

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 2017 the value of illiquid assets was £158m, which represented 8.5% of the total Fund assets (31 March 2016: £143m, which represented 9.4% 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 2017 are due within one year as was the case at 31 March 2016.

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 2016.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS) reviewed as part of the 2016 valuation.

The key elements of the funding policy are:

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

The 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 to return their portion of the Fund to full funding over 20 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 around a 66% chance that the Fund will return to full funding over the 20 years.

Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £1,525 million, were sufficient to meet 91% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £145 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measured as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 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 2017.

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.

NOTE 19 – FUNDING ARRANGEMENTS (continued)

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	3.9%
Salary increase	2.1%
Benefit increase	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Mortality assumption	Male Years	Female Years
Current pensioners	22.0	24.2
Future pensioners (aged 45 at the 2016 valuation)	24.0	26.4

Copies of the 2016 valuation report and the Funding Strategy Statement are available on the Pension Fund's website www.gwynedd-pensionfund.org.uk

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. The effect of this has been broadly offset by strong asset returns. Both events have roughly cancelled each other out in terms of the impact on the funding position as at 31 March 2017.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

NOTE 20 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS19 basis every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19) and has also used them to provide the IAS19, and FRS102 reports for individual employers in the Fund. The actuary has also valued ill health and death benefits in line with IAS19.

The actuarial present value of promised retirement benefits at 31 March 2017 is shown below:

	31 March 2016	31 March 2017
	£'m	£'m
Active members	1,285	1,214
Salary increase rate	388	246
Discount rate	747	514
Total	2,420	1,974

As noted above the liabilities above are calculated on an IAS19 basis and therefore differ from the results of the 2016 triennial funding valuation (see Note 19) because IAS19 stipulates a discount rate rather than a rate that reflects market rates.

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

Assumptions used

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

Assumption	31 March 2016	31 March 2017
	%	%
Inflation/pension increase rate	2.2	2.4
Salary increase rate	4.2	2.4
Discount rate	3.5	2.6

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.

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

Sensitivity to the assumptions for the year ended 31 March 2017	Approximate % increase to liabilities	Approximate monetary amount
	%	£m
0.5% p.a. increase in the pension increase rate	8	189
0.5% p.a. increase in the salary increase rate	3	73
0.5% p.a. decrease in the discount rate	11	267

The principal demographic assumption is the longevity assumption. For sensitivity purpose the actuary estimates that a 1 year increase in life expectancy would increase the liabilities by approximately 3 – 5%.

NOTE 21 – CURRENT ASSETS

2015/16		2016/17
£'000		£'000
932	Contributions due - employees	820
3,221	Contributions due – employers	2,845
3,901	Transfer value received (individuals who join)	0
3,399	Sundry debtors	1,944
11,453	Total debtors	5,609
20,434	Cash	15,375
31,887	Total	20,984

Analysis of debtors

2015/16		2016/17
£'000		£'000
2,073	Gwynedd Council	2,352
732	Central government bodies	560
5,631	Other local authorities	1,209
3	NHS bodies	3
3,014	Other entities and individuals	1,485
11,453	Total	5,609

NOTE 22 – CURRENT LIABILITIES

2015/16		2016/17
£'000		£'000
1,714	Sundry creditors	2,591
27	Transfer value payable (leavers)	282
2,538	Benefits payable	1,216
4,279	Total	4,089

Analysis of creditors

2015/16		2016/17
£'000		£'000
901	Gwynedd Council	1,051
43	Central government bodies	37
1	Other Local Authorities	138
19	NHS bodies	58
3,315	Other entities and individuals	2,805
4,279	Total	4,089

NOTE 23 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

The market value of the funds is stated below:

	Market value at 31 March 2016	Market value at 31 March 2017
	£'000	£'000
Clerical Medical	2,936	3,349
Equitable Life	258	229
Standard Life	51	53
Total	3,245	3,631

AVC contributions were paid directly to the three managers as follows:

	2015/2016	2016/2017
	£'000	£'000
Clerical Medical	526	561
Equitable Life	0	0
Standard Life	1	0
Total	527	561

NOTE 24 - RELATED PARTY TRANSACTIONS

Gwynedd Council

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

The Council incurred costs of £1,008,589 (£1,075,225 in 2015/16) 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 £17.63m to the Fund in 2016/17 (£17.31m in 2015/16). At the end of the year the Council owed £2.35m to the Fund (see Note 21) which was primarily in respect of contributions for March 2017 and the Fund owed £1.05m to the council (see Note 22) which was primarily in respect of recharges from the Council.

NOTE 24 - RELATED PARTY TRANSACTIONS (continued)

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 2016/17, the Fund received interest of £132,567 (£147,611 in 2015/16) from Gwynedd Council.

Governance

There were two members of the Pensions Committee who were in receipt of pension benefits from the Gwynedd Pension Fund during 2016/17 (committee members T.O. Edwards and P. Jenkins). In addition, committee members T.O. Edwards, S. Glyn, P. Jenkins, H.E. Jones, W.T. Owen, and P. Read were active members of the Pension Fund.

There was one member of the Pension Board who was in receipt of pension benefits from the Gwynedd Pension Fund during 2016/17 (Board member S. Warnes). In addition, Board members A.W. Deakin, V. Halloran, A.L Lloyd Evans, O. Richards and H. Trainor are active members of the Pension Fund.

Key Management Personnel

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

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

NOTE 25 - COMMITMENTS UNDER INVESTMENT CONTRACTS

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

	Total commitments €'000	Commitment at 31 March 2016 €'000	Commitment at 31 March 2017 €'000
P.G. Direct 2006	20,000	776	776
P.G. Global Value 2006	50,000	3,477	3,477
P.G. Secondary 2008	15,000	1,960	1,960
P.G. Global Value 2011	15,000	5,044	3,372
P.G. Global Infrastructure 2012	40,000	22,005	15,894
P.G. Direct 2012	12,000	1,813	1,181
P.G. Global Value 2014	12,000	7,119	4,638
P.G Direct 2016	50,000	18,202	34,373
Total Euros	214,000	60,396	65,671
	\$'000	\$'000	\$'000
P.G. Emerging Markets 2011	7,000	2,078	1,623
P.G Secondary 2015	38,000	34,804	32,723
P.G Direct Infrastructure 2015	43,600	42,111	35,219
Total Dollars	88,600	78,993	69,565

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

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

NOTE 26 - CONTINGENT ASSETS

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 £3,938,407, equating to 98% from the administrators up to 31 March 2017.

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 on the investment page or by contacting Mrs Caroline Roberts on 01286 679128.

THE WELSH CHURCH FUND

2015/16		2016/17	
£'000		£'000	£'000
952	Amount of Fund at 1 April		952
	Add - Income during the year:-		
5	Interest on Investments		5
0	Increase in land value		0
	Less - Expenditure during the year:-		
0	Transfer of Gwynedd's previous year's interest	0	
(16)	Loss on sale of investments	(11)	
11	Grants and expenses	6	
			(5)
952	Amount of Fund at 31 March		952
	Represented by the following Assets:-		
365	Land and Buildings		365
30	Debtors		23
1,798	Cash in Hand		1,803
2,193			2,191
(1,232)	Less - Proportion owing to Anglesey and Conwy Councils		(1,232)
961			959
(16)	Less - Creditors		(13)
7	Add - Proportion owing from Anglesey and Conwy Councils		6
952	Total		952

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.

FMG MORGAN TRUST FUND

2015/16 £'000		2015/17 £'000
160	Amount of Fund at 1 April	167
	Add - Income during the year	
11	Interest on Assets	10
	Less - Expenditure during the year	
(4)	Grants	(3)
167	Amount of Fund at 31 March	174
	Assets	
144	Investments	144
23	Cash in Hand	30
167		174

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 2017 was £351,416 (£313,376 at 31 March 2016).
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.

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	13 JULY 2017
TITLE:	TREASURY MANAGEMENT 2016/17
PURPOSE:	CIPFA's Code of Practice requires that a report on the results of the Council's actual treasury management is produced.
RECOMMENDATION:	RECEIVE THE REPORT FOR INFORMATION
AUTHOR:	CAROLINE ROBERTS, INVESTMENT MANAGER

Executive Summary

During 2016/17 the Council's borrowing remained well within the limits originally set, total interest received on deposits was £313,000 which was below the budgeted level of £358,470. 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 2016/17 against the strategy which was set out in February 2016 for the financial year and was approved by the full Council at its meeting on 3 March 2016 and can be accessed at

<https://democracy.cyngor.gwynedd.gov.uk/ielistdocuments.aspx?cid=136&mid=1700&ver=4>

The report looks at:

- the economic background;
- the borrowing requirement and debt management;
- investment activity;
- compliance with Prudential Indicators.

This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Welsh Government's Investment Guidance.

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

2. External Context

Economic background: Politically, 2016/17 was an extraordinary twelve month period which defied expectations when the UK voted to leave the European Union and Donald Trump was elected the 45th President of the USA. Uncertainty over the outcome of the US presidential election, the UK's future relationship with the EU and the slowdown witnessed in the Chinese economy in early 2016 all resulted in significant market volatility during the year. Article 50 of the Lisbon Treaty, which sets in motion the 2-year exit period from the EU, was triggered on 29th March 2017.

UK inflation had been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. However the sharp fall in the Sterling exchange rate following the referendum had an impact on import prices which, together with rising energy prices, resulted in CPI rising from 0.3% year/year in April 2016 to 2.3% year/year in March 2017.

In addition to the political fallout, the referendum's outcome also prompted a decline in household, business and investor sentiment. The repercussions on economic growth were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August and embark on further gilt and corporate bond purchases as well as provide cheap funding for banks via the Term Funding Scheme to maintain the supply of credit to the economy.

Despite growth forecasts being downgraded, economic activity was fairly buoyant and GDP grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016. The labour market also proved resilient, with the ILO unemployment rate dropping to 4.7% in February, its lowest level in 11 years.

Following a strengthening labour market, in moves that were largely anticipated, the US Federal Reserve increased rates at its meetings in December 2016 and March 2017, taking the target range for official interest rates to between 0.75% and 1.00%.

Financial markets: Following the referendum result, gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. After September there was a reversal in longer-dated gilt yields which moved higher, largely due to the MPC revising its earlier forecast that Bank Rate would be dropping to near 0% by the end of 2016. The yield on the 10-year gilt rose from 0.75% at the end of September to 1.24% at the end of December, almost back at pre-referendum levels of 1.37% on 23rd June. 20- and 50-year gilt yields also rose in Q3 2017 to 1.76% and 1.70% respectively, however in Q4 yields remained flat at around 1.62% and 1.58% respectively.

After recovering from an initial sharp drop in Q2, equity markets rallied, although displaying some volatility at the beginning of November following the US presidential election result. The FTSE-100 and FTSE All Share indices closed at 7342 and 3996 respectively on 31st March, both up 18% over the year. Commercial property values fell around 5% after the referendum, but had mostly recovered by the end of March.

Money market rates for overnight and one week periods remained low since Bank Rate was cut in August. 1- and 3-month LIBID rates averaged 0.36% and 0.47% respectively during 2016-17. Rates for 6- and 12-months increased between August and November, only to gradually fall back to August levels in March, they averaged 0.6% and 0.79% respectively during 2016-17.

Credit background: Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune, although the fall in their share prices was less pronounced.

Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA. Fitch, S&P and Moody's have a negative outlook on the UK. Moody's has a negative outlook on those banks and building societies that it perceives to be exposed to a more challenging operating environment arising from the 'leave' outcome.

None of the banks on the Council's lending list failed the stress tests conducted by the European Banking Council in July and by the Bank of England in November, the latter being designed with more challenging stress scenarios, although Royal Bank of Scotland was one of the weaker banks in both tests. The tests were based on banks' financials as at 31st December 2015, 11 months out of date for most. As part of its creditworthiness research and advice, the Council's treasury advisor Arlingclose regularly undertakes analysis of relevant ratios - "total loss absorbing capacity" (TLAC) or "minimum requirement for eligible liabilities" (MREL) - to determine whether there would be a bail-in of senior investors, such as local Council unsecured investments, in a stressed scenario.

In July, following a review of unrated building societies' annual financial statements, Cumberland, Harpenden and Vernon building societies were removed from the Council's list due to a deterioration in credit indicators. The maximum advised maturity was also lowered for eleven other societies from 6 months to 100 days due to the uncertainty facing the UK housing market following the EU referendum.

Local Context

At 31 March 2017 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £177.1m, while usable reserves and working capital which are the underlying resources available for investment were £86m.

At 31 March 2017, the Council had £112.8m of loans and leases, and £29.4m of investments. The Council's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.

The Council has a decreasing CFR over the next 2 years and a reducing level of investments and therefore may need to borrow over the forecast period.

	31.3.16 Actual £m	2016/17 Movement £m	31.3.17 Actual £m
CFR	173	4	177
Less: Other debt liabilities	-2	0	-2
Borrowing CFR	171	4	175
Less: Usable reserves	-58	1	-57
Less: Working capital	-67	31	-36
Net investments	46	36	82

Borrowing Strategy

At 31 March 2017 the Council held £112.7m of loans, (a decrease of £2.1m from 31 March 2016) as part of its strategy for funding previous years' capital programmes.

The Council'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 Council's long-term plans change being a secondary objective.

Affordability and the "cost of carry" remained important influences on the Council'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 Council 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 Council with this 'cost of carry' and breakeven analysis.

Treasury management summary

	31.3.16 Balance £m	2016/17 Movement £m	31.3.17 Balance £m	31.3.17 Rate %
Long-term borrowing	(110,676)	2,533	(108,143)	5.71
Short-term borrowing	(2,067)	(578)	(2,645)	10.63
Total borrowing	(112,743)	1,955	(110,788)	5.98
Long-term investments	2,341	(170)	2,171	1.59
Short-term investments	49,821	(24,011)	25,810	0.51
Cash and cash equivalents	14,191	(12,807)	1,384	0.15
Total investments	66,353	(36,988)	29,365	0.53
Net borrowing	46,390	(35,033)	81,423	5.95

3. Borrowing Activity in 2016/17

At 31st March 2017, the Council held £108.7m of loans, a decrease of £1.8m on the previous year, as part of its strategy for funding previous years' capital programmes. The year-end borrowing position and the year-on-year change are in the table below.

Borrowing Position

	31.3.16 Balance £m	2016/17 Movement £m	31.3.17 Balance £m	31.3.17 Rate %	31.3.17 WAM* years
Public Works Loan Board	94.3	(1.8)	92.5	6.05	25
Banks (fixed-term)	16.2	0	16.2	4.22	61
Total borrowing	110.5	(1.8)	108.7	5.72	30

*Weighted average maturity

The Council'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 Council's long-term plans change being a secondary objective.

In furtherance of these objectives, no new borrowing was undertaken in 2016/17, while existing loans were allowed to mature without replacement. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

The "cost of carry" analysis performed by the Council's treasury management advisor Arlingclose did not indicate any value in borrowing in advance for future years' planned expenditure and therefore none was taken.

At the beginning of the year the Council continued to hold £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 as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during 2016/17. However, Barclays Bank informed the Council that it had revoked its right to exercise their options in future, and £16.2m has therefore been reclassified as fixed rate bank loans.

4. Investment Activity

The Council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2016/17 the Council's investment balances have ranged between £87.9million and £29.5 million.

The Welsh Government's Investment Guidance gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

Investment Position

	31.3.16 Balance £m	2016/17 Movement £m	31.3.17 Balance £m	31.3.17 Rate %	31.3.17 WAM* days
Banks & building societies (unsecured)	51.1	(29.8)	21.3	0.5	442
Covered bonds (secured)	2.3	(0.2)	2.1	0.7	1262
Government (incl. local authorities)	13.0	(7.0)	6.0	0.4	189
Total investments	66.4	(37.0)	29.4	0.6	603

*Weighted average maturity

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

Budgeted Income and Outturn

The average cash balances were £58.7m 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 0.53%. Investments in Money Market Funds generated an average rate of 0.45%.

The Council's budgeted investment income for the year was £0.34m. The Council's investment income outturn for the year was £0.31m.

Compliance Report

The Head of Finance is pleased to report that all treasury management activities undertaken during 2016/17 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in the table below.

Investment Limits

	2016/17 Maximum	31.3.17 Actual	2016/17 Limit	Complied
Any single organisation, except UK Government	£5m	£4m and below	£8m each	✓
Any group of funds under the same management	£0	£4m and below	£8m per group	✓
Foreign countries	£5m	£4m and below	£8m per country	✓
Unsecured investments with Building Societies	£6m in total	£6m in total	£8m in total	✓
Money Market Funds	£40m in total	£0	£40m in total	✓
Non-specified investments	£40m in total	£0	£80m in total	✓

Compliance with the authorised limit and operational boundary for external debt is demonstrated in the table below.

Debt Limits

	2016/17 Maximum	31.3.17 Actual	2016/17 Operational Boundary	2016/17 Authorised Limit	Complied
Borrowing	£113m	£111m	£180m	£190m	✓

Treasury Management Indicators

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

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

	31.3.17 Actual	2016/17 Target	Complied
Portfolio average credit score	3.27	a score of 7 or lower	✓

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing / it can borrow each quarter without giving prior notice.

	31.3.17 Actual	2016/17 Target	Complied
Total cash available within 3 months	18.325m	£10m	✓

Interest Rate Exposures: This indicator is set to control the Council'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 was:

	31.3.17 Actual	2016/17 Limit	Complied
Upper limit on fixed interest rate exposure	100%	100%	✓
Upper limit on variable interest rate exposure	0	50%	✓

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31.3.17 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	2.2%	25%	0%	✓
12 months and within 24 months	0	25%	0%	✓
24 months and within 5 years	4.2%	50%	0%	✓
5 years and within 10 years	15.6%	75%	0%	✓
10 years and within 20 years	25.4%	100%	0%	✓
20 years and within 30 years	12.6%	100%	0%	✓
30 years and within 40 years	16.5%	100%	0%	✓
40 years and within 50 years	8.6%	100%	0%	✓
50 years and above	14.9%	100%	0%	✓

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

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

	2016/17	2017/18	2018/19
Actual principal invested beyond year end	£2.1m	£2.1m	£0
Limit on principal invested beyond year end	£40m	£20m	£10m
Complied	✓	✓	✓

Prudential Indicators 2016/17

The Local Government Act 2003 requires the Council 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 Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

This report compares the approved indicators with the outturn position for 2016/17. Actual figures have been taken from or prepared on a basis consistent with, the Council's statement of accounts.

Estimates of Capital Expenditure: The Council's capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2016/17 Estimate £m	2016/17 Actual £m	Difference £m
General Fund Expenditure	27.7	29.3	1.6
Capital receipts	0.7	0.8	0.1
Government Grants	10.7	11.5	0.8
Revenue contributions	5.5	5.9	0.4
Supported borrowing	4.1	4.1	0.0
Prudential borrowing	6.7	7.0	0.3
Total Financing	27.7	29.3	1.6

Capital Financing Requirement

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

Capital Financing Requirement	31/03/17 Estimate £m	31/03/17 Actual £m	Difference £m
General Fund	182.1	177.0	5.1

The CFR rose by £1.6m as capital expenditure financed by debt outweighed the resources put aside for debt repayment.

Actual Debt: The Council's actual debt at 31 March 2017 was as follows:

Debt	31/03/17 Estimate £m	31/03/17 Actual £m	Difference £m
Borrowing	113.4	113.4	0
Finance leases	0.0	2.3	2.3
Total Debt	113.4	115.7	2.3

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 Council 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.

Debt and CFR	31/03/17 Estimate £m	31/03/17 Actual £m	Difference £m
Total debt	113.4	113.4	0
CFR	175	177	2
Headroom	61.6	63.6	2

Total debt remained below the CFR during the year.

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary and Total Debt	31/03/17 Boundary £m	31/03/17 Actual Debt £m	Difference £m
Borrowing	175	113.4	61.6
Other long-term liabilities	0	2.3	(2.3)
Total Debt	175	115.7	59.3

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 Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Boundary and Total Debt	31/03/17 Boundary £m	31/03/17 Actual Debt £m	Difference £m
Borrowing	195	113.4	81.6
Other long-term liabilities	0	2.3	(2.3)
Total Debt	195	115.7	79.3

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.

Ratio of Financing Costs to Net Revenue Stream	31/03/17 Estimate %	31/03/17 Actual %	Difference %
Total	5.91	5.20	0.71

Credit Score Analysis

Scoring:

Long-Term Credit Rating	Score
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 Council aimed to achieve a score of 7 or lower, to reflect the Council's overriding priority of security of monies invested and the minimum credit rating threshold of A- for investment counterparties.



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

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Auditor General for Wales

Good Governance when Determining Significant Service Changes – **Gwynedd Council**

Audit year: 2016-17

Date issued: April 2017

Document reference: 678A2016

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

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

Ni fydd gohebu yn Gymraeg yn arwain at oedi.

The team who delivered the work comprised Nigel Griffiths, Sian Clark, Andy Bruce and Non Jenkins under the direction of Jane Holownia.

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Summary report

Summary

- 1 Governance is about how public bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and cultures and values, by which public bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.¹
- 2 Good governance is essential for the effective stewardship of public money and the continued delivery of efficient and trusted public services. The current financial climate and reduced settlements for local government as well as rising demand for some services mean that all councils are likely to continue to need to make decisions regarding the future configuration and level of service delivery. Good governance is critical when determining service changes. Such decisions are often controversial, generate considerable local interest and can have significant impacts on the individuals and groups affected.
- 3 From April 2016 councils are required to comply with the Well-being of Future Generations (Wales) Act and associated Statutory Guidance. The Statutory Guidance states that: 'Together, the seven well-being goals and five ways of working provided by the Act are designed to support and deliver a public service that meets the needs of the present without compromising the ability of future generations to meet their own needs'.² This legislation emphasises the importance of effective governance in achieving well-being goals.
- 4 The focus of this review is on the effectiveness of Gwynedd Council's (the Council) governance arrangements for determining service changes. We define service change as any significant change in delivering services and/or any significant change in how services are experienced by external service users. Changes could include, for example, the way the service is delivered, the level of service provided, the availability of the service or the cost of the service.

¹ CIPFA/SOLACE Delivering Good Governance in Local Government: Framework 2007

² Shared Purpose: Shared Future, Statutory guidance on the Well-being of Future Generations (Wales) Act 2015, Welsh Government

- 5 Taking the Chartered Institute of Public Finance and Accountancy's (CIPFA) revised framework for 'Delivering good governance in local government' as an appropriate standard, this review provides the Council with a baseline, from which to plan further improvement. In this assessment, undertaken during the period September to November 2016, we looked at aspects of decision-making arrangements in relation to a range of significant service change proposals. The examples of service changes we looked at were:
- changes to residual (non-recyclable) waste collection; and
 - review and modernising libraries to provide a fit for purpose services within a smaller operating budget.

We did not look in detail at each of the individual service change decisions, but rather used them as examples to draw from and inform how the Council goes about making decisions in relation to service changes.

- 6 We concluded that **Gwynedd Council's governance arrangements for service change are sound and improving, better supporting effective decision-making**. We reached this conclusion because:
- service changes are planned and implemented within a clear strategic framework;
 - governance and accountability arrangements for determining the need for, and nature of, service changes are generally clearly defined and well understood;
 - business cases are well structured and informative, but the review and challenge of service delivery options by scrutiny committees is not always timely;
 - stakeholder engagement is comprehensive and wide-ranging;
 - arrangements to monitor, assess and report the impact of service changes continue to strengthen; and
 - annual self-assessments of the Council's governance arrangements are risk-based and promote continuous improvement.

Proposals for improvement

Exhibit 1: proposals for improvement

The table below sets out the areas of improvement identified through our review.

Proposals for improvement	
	The Council's governance arrangements for significant service change could be strengthened by:
P1	Scrutiny committees having the opportunity to review and challenge service change business cases in a timely manner before a final decision is made by Cabinet.

Detailed report

Gwynedd Council's governance arrangements for service change are sound and are improving, better supporting effective decision-making

Service changes are planned and implemented within a clear strategic framework

- 7 The Council's vision – as set out in its 2013-17 Strategic Plan – is to 'do the best for the people of Gwynedd in a difficult time'. The vision includes a commitment to 'transform services so that they will be sustainable in the future'. The 2013-17 Strategic Plan makes specific reference to the importance of cross-cutting issues such as sustainability, equalities and the Welsh Language in the achievement of the Council's vision, the attainment of its improvement objectives, and in the implementation of service change and delivery.
- 8 Service change proposals are linked to the Council's vision via the priorities and improvement objectives in the 2013-17 Strategic Plan and/or the requirements of the 2015-18 Savings and Efficiencies Plan. The Council's Ffordd Gwynedd governance project provides the framework for the implementation of its vision through the development of a culture within the Council that 'puts the people of Gwynedd at the centre of everything we do'.
- 9 Changes to the Council's services are also made to meet wider objectives, such as statutory requirements (national waste targets and library standards). The change it has made to its Residual Waste Collection Service – moving to three weekly collections of household waste in the County – proposes to assist the Council in meeting the requirements of the Welsh Government's Towards Zero – One Wales: One Planet Strategy, as well as the objectives in its 2013-17 Strategic Plan, 2015-18 Savings and Efficiency Plan and 2010 - 2025 Waste Strategy. The Council's changes to its Library Service propose to assist the Council in complying with the Welsh Public Library Standards in addition to meeting the objectives in its own plans.

Governance and accountability arrangements for determining the need for, and nature of, service changes are generally clearly defined and well understood

- 10 Rules and procedures, including roles and responsibilities for making decisions and managing all aspects of the Council's business, are contained in the Council's Constitution. The Constitution was updated in May 2015 and describes the structure of the Council's decision-making process including full Council, Cabinet and, scrutiny committees. This provides clear guidance on the different roles and duties of officers and Members in the decision-making process.
- 11 The Council has not formally set-out specific procedures to be followed when determining service changes. However, officers and Members are well versed in the governance and accountability framework contained in the Constitution and are generally clear about how these are applied to the decision-making process in all aspects of the Council's business, including service changes.
- 12 Compliance with the Constitution is overseen by the Monitoring Officer. All Cabinet reports, including those of the Portfolio Holders on service changes, are reviewed by the Monitoring Officer to ensure adherence to legal and constitutional requirements. The Monitoring Officer, or a representative of the Legal Department, are Members of the project teams for some large service change projects, such as schools re-organisation, where there are significant constitutional and/or legal issues.

Business cases are well structured and informative, but the review and challenge of service delivery options by scrutiny committees is not always timely

- 13 Service change business cases are comprehensive and contain a wide range of information including delivery options, financial and performance analysis, sustainability considerations, results of consultations, consultants' reports, standards' requirements and equality assessments.
- 14 For example, the business case for the changes to the Residual Waste Collection Service contains comprehensive information for officers and Members to help them make an informed decision. It includes the findings of a 2013 consultant's report commissioned under the Welsh Government's Waste and Resources Action Programme. The report contains a detailed analysis of the Council's waste recycling performance and a range of options, including the move to a three weekly collection cycle for household waste, designed to assist in achieving the requirements of the Council's 2013-17 Strategic Plan, 2015-18 Savings and Efficiencies Plan, 2010-25 Waste Strategy, the Welsh Government's Towards Zero Waste – One Wales: One Planet Strategy and its collection blueprint for sustainable waste management services.

- 15 The Council also undertook a consultation exercise to provide user feedback on the proposed changes. Over 2,500 responses to the consultation were received including over 600 from the Council's Citizens' Panel. A detailed analysis of the results of the consultation is included in the business case.
- 16 A breakdown of the risks associated with the Residual Waste Collection service change, and the actions proposed to mitigate the risks, is also included in the business case together with an explanation of the financial and savings implications, and an equality impact assessment.
- 17 The Libraries Service business case is constructed around the same framework and criteria as that used in the Residual Waste Collection Service business case. The findings and recommendations of a consultant's report are included together with the results of a detailed consultation exercise, a financial analysis, a summary of sustainability considerations and an equality impact assessment.
- 18 Once the Council decision to include the changes to the Residual Waste Collection and Libraries in the 2015-18 Savings and Efficiencies Plan was made, the review and challenge of the individual business cases was undertaken by the Corporate Management Team and Cabinet. The process of review and challenge was thorough and well documented. Key decisions concerning service changes are contained in meetings' agendas and documents which are available on the Council's website.
- 19 Although the review and challenge of business cases by the Corporate Management Team and Cabinet is robust, there is some inconsistency in how and when the scrutiny committees are involved in the decision-making process and, in particular, whether they are able to challenge proposed alterations to services before they are agreed by Cabinet. The decision to change the Residual Waste Collection Service was made by Cabinet before the Communities Scrutiny Committee had the opportunity to challenge the new delivery model. Although the decision was eventually 'called in' by the Communities Scrutiny Committee, there was a lack of opportunity (time) for the Committee to provide its input before the Cabinet decision was made.
- 20 However, post-decision scrutiny arrangements to challenge both the need to include service changes in the 2013-17 Strategic Plan and 2015-18 Savings and Efficiencies Plan, and of the individual business cases themselves, are robust and effective. Proposals to change the Residual Waste Collection, Libraries and the Pest Control Services were included in the 2015-18 Savings and Efficiencies Plan, that was submitted to an informal meeting of the Cabinet and Corporate Directors during 2014. Workshops were held for all Council Members to consider the proposals. The proposals and the views of the Members were then examined by the Chairs and Vice-Chairs of the three scrutiny committees, followed by a report to the Corporate Scrutiny Committee and Cabinet.
- 21 The Council is aware of the need to improve the consistency and effectiveness of its scrutiny arrangements and has established a Scrutiny Review Sub-Group which is currently examining a number of possible alternative scrutiny models.

- 22 In addition, the Council is in the process of changing its performance management framework to include nine-weekly meetings of individual Heads of Service, Portfolio Holder, and a member of the Corporate Management Team and, for a trial period, two Members of a scrutiny committee. The new arrangements are being introduced to combine oversight of service change and delivery issues with the monitoring of service performance and to increase the involvement of scrutiny Members in these aspects of the Council's business.

Stakeholder engagement is comprehensive and wide-ranging

- 23 One of the main aims of the Ffordd Gwynedd project is to ensure that the Council has an effective method of communicating with stakeholders 'to ensure that there is focus on the right things in terms of what matters to the people of Gwynedd'. The Council developed its 2013-17 Engagement Strategy to assist with the achievement of this aim.
- 24 The 2013-17 Engagement Strategy and Handbook provide a framework for how and when consultation is to be undertaken. It provides detailed guidance on all aspects of engagement including steps to be taken to identify the different types of relevant stakeholders through stakeholder mapping.
- 25 By applying the principles and guidance in the 2013-17 Engagement Strategy and Handbook, the Council has gained the views of a wide range of stakeholders before making decisions on service changes. The Council undertook an extensive consultation in 2015 as part of its Gwynedd Challenge project. The Gwynedd Challenge survey was well planned and executed and provided residents, businesses and other organisations with an opportunity to comment on, and prioritise 118 potential service changes before they were discussed and finalised by the Council. Over 2,100 questionnaire responses were received and over 600 members of the public attended 32 forums or drop in sessions.
- 26 Results of the consultation were analysed over a number of categories including secondary school catchment areas, young people (up to age 25 years), older people (aged 65 years and above) and people with disabilities. Partner organisations and third sector groups were contacted directly with an invitation to participate in Gwynedd Challenge. Over 70 responses were received from businesses, charities, town and community councils and arts or educational organisations.
- 27 The Council also undertakes consultations on proposals for individual service changes effectively. The detailed consultations on proposed changes to the Residual Waste Collection and Libraries Services are referred to earlier in this report. The results of the Gwynedd Challenge and individual service change consultations are well-signposted and easily accessible on the Council's website.

Arrangements to monitor, assess and report the impact of service changes continue to strengthen

- 28 The introduction of new arrangements to improve the Council's performance management framework is outlined in paragraph 22 above. The Council's previous performance management arrangements included a requirement for service change monitoring reports to be reviewed by a number of officer, member and officer/member groups including 'Improvement Panels'. Under the new framework which is being introduced now, Improvement Panels are to be abolished as part of a streamlining of the Council's governance arrangements. As reported earlier, the performance and financial consequences of service changes will be reported on a nine-weekly basis to a group of senior officers and Members. The reports will then be reviewed by the Corporate Management Team, Cabinet and the scrutiny committee.
- 29 The requirement to monitor the effect of changes to the Household Waste Collection Service was an integral part of the service change business case. In order to minimise any disruption to residents, service changes were introduced on a phased basis. Implementation of the three weekly waste collection cycle was introduced in the Dwyfor region of the County in October 2014. Two teams – the Operation Team and the Engagement Team – were established in the Highways and Municipal Department to implement and monitor the effect of service changes.
- 30 The Council's report summarising the effect of the service changes on residents in Dwyfor was submitted to the Communities Scrutiny Committee in February 2015. The report provides a detailed analysis of the performance and financial improvements achieved from the introduction of the new service, including a 22% reduction in residual waste collected in Dwyfor and a resultant £100,000 savings to the Council in annual landfill costs. The Council's report also includes the results of a Dwyfor resident's participation survey undertaken as part of the Welsh Government's Waste and Resources Action Programme.
- 31 The Council is also committed to ensuring that it complies with its responsibilities under the Equality Act 2010 to undertake equalities and impact assessments and to monitor the effects of service changes on protected groups. The Library Services' More than Books Strategy includes arrangements to monitor and review the effects of the service changes. The arrangements include the requirement for the designation of a Lead Officer for reviewing equalities matters.
- 32 Monitoring arrangements have also been introduced to measure the effects of changes to the Household Waste Collection Service on the protected groups identified in the equalities impact assessment. As a result of the feedback, changes have been made to the service to better reflect the needs of young people/families and the elderly and people with disabilities. A county wide equalities assessment to measure the first full-year impact of changes to the Household Waste Collection Service is planned for 2017.

Annual self-assessments of the Council's governance arrangements are risk-based and promote continuous improvement

- 33 The Council's annual assessment of its governance framework has significantly improved since the establishment of the Governance Arrangements Assessment Group (GAAG) in 2013. The GAAG comprises a number of senior officers including the Chief Executive, Monitoring Officer, Head of Corporate Support and the Senior Manager, Revenues and Risk.
- 34 The main objective of the GAAG is to maintain a continuous overview of all governance matters, including managing the annual assessment of the Council's governance framework. The GAAG annually assesses and scores the impact and effectiveness of the 33 elements of the Council's governance framework (1 – low impact/very ineffective to 5 – high impact/very effective). The assessment also takes account of the views and opinions on the Council's governance arrangements from a number of external sources including the Wales Audit Office, Estyn and the Care and Social Services Inspectorate of Wales.
- 35 The results of the assessment are reported to the Corporate Management Team and Audit Committee as part of the process for the production, review and scrutiny of the Council's Annual Governance Statement (AGS). No elements of the Council's governance framework are identified as very high priorities (on a scale of very low to very high) for improvement in the 2015-16 AGS. However, ten areas of governance are categorised as high priorities for improvement including scrutiny arrangements, performance management and risk management.
- 36 The AGS includes a summary of the actions the Council is undertaking to improve the high priority areas. The Council's review and subsequent improvements to the structure and operation of the scrutiny process and the performance management framework have been referred to earlier in this report.

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Agenda Item 9

COMMITTEE	AUDIT AND GOVERNANCE COMMITTEE
DATE	13 JULY 2017
TITLE	REPORT OF THE CONTROLS IMPROVEMENT WORKING GROUP
PURPOSE OF THE REPORT	TO REPORT ON THE MEETING HELD ON 9 MARCH 2017
AUTHOR	COUNCILLOR ANGELA RUSSELL
ACTION	TO ACCEPT THE REPORT AND CONSIDER THE RECOMMENDATION

1. INTRODUCTION

1.1 A meeting of the Working Group was held on 9 March 2017 with the Vice-chair of the Audit Committee and Councillors John Brynmor Hughes, Dilwyn Morgan and Michael Sol Owen, Luned Fôn Jones, Audit Manager and Bleddyn Rhys, Audit Leader present. In the absence of Councillor Trefor Edwards, Chair of the Audit Committee, the Working Group was chaired by Councillor Angela Russell.

1.2 The reports that the Working Group addressed were:

TITLE	DEPARTMENT	SERVICE	OPINION
Support Workers (Derwen)	Children and Families	Children and Families	C
Sales of Diesel	Economy and Community	Maritime and Country Parks	C
YGC Overtime	YGC	Across the Department	C
Plas Gwilym	Adults, Health and Wellbeing	Residential and Day	C

2.3 Officers attended to discuss the individual reports with the exception of Plas Gwilym.

2.4 Support Workers (Derwen)

2.4.1 The main findings of the audit were as follows:

The Person Specification for the post of a Support Worker states that it is 'essential' that workers have a 'NVQ Level 3 Health and Social Care - Childcare Pathway' qualification or are willing to work towards it. The Service's training database and purposeful spreadsheet were verified for a sample of workers and a variety of different qualifications were seen, some with a lot and some with not many. An example was seen of a Support Worker providing a service to a client where there was no evidence that 'Respect' training had been received, in accordance with the risk assessment. It was found that not many workers had the NVQ Level 3 qualification. Workers are required to work a minimum number of hours as part of the qualification which makes it difficult for casual workers to qualify. There is also not as much financial support for workers aged 25+ to train to NVQ level. In addition, it was stated that qualified workers tend to move on to other posts after they qualify which makes it difficult to appoint and keep hold of workers who have qualified in NVQ Level 3.

It was found that a variety of training courses were available for workers should they wish to attend them. Workers without an office-base such as Support Workers currently do not have access to i-Gwynedd and the Policy Centre, but this is expected to change once Learning and Development's Integrated System is in place (Summer 2017), which will allow all workers to have access to Learning and Development systems at any time via personal devices.

Support Workers are expected to have a full driving licence and use of a car. When appointing, Derwen will ask for a copy of the driving licence, MOT and insurance certificates to be kept on file and will note the details on a spreadsheet. However, the spreadsheet was not complete and up-to-date. In addition, there is no continuous arrangement to ensure that workers' licences have not accumulated penalty points that can increase risks for clients.

The Service has relied on the Support Service (Corporate Support) to inform Support Workers when their Disclosure and Barring Service certificates should be renewed. As the job system was verified, it was found that there were delays between expiry and renewal dates. The CSSIW report reinforces this by recommending that Derwen is more proactive and devises a robust system of issuing workers with early warnings.

The travelling costs of a sample of workers were verified, which were traced back to their time-sheets, session reports and client care plans. It appears that travelling costs are appropriate, and that no unreasonable journeys had been claimed, whether it was location or distance. However, an inconsistency was found in relation to claiming costs, such as refreshments.

Support Workers can claim up to specific amounts towards the costs of refreshments depending on time of day, but claims exceeding this threshold were found.

Of the sample of time-sheets verified, the signature of the client/Case Manager was usually not seen on them, despite it being a requirement for them to sign it after every session.

For the sample of Support Workers, travelling costs forms and timetables were verified in order to select a client, which then traced the session report back to the Care Plan to see whether or not they matched. Generally, it was found that session reports were in accordance with the Care Plans, such as going swimming, going for a walk etc. However, an example was seen of a client visiting cafés, although the Care Plan specifically noted that the client was not allowed to eat anything while in the company of Support Workers. From the sample of Support Workers that was verified, it was found that they had not signed their client's Care Plan, therefore, there is no evidence that their contents were known to the Workers.

From what can be found from session reports, it appears that Support Workers meet the requirements and needs of clients. However, consideration must be given to the fact that session reports do not provide the full picture, and that it is not possible for the audit to encompass the soft skills of Support Workers that are key to meet the client's needs.

When verifying Care Plans and risk assessments, it was found that a number of them were now out-of-date. The Social Services and Well-being Act (Wales) 2014 states the need to review plans on a regular basis. Also, one Plan was found referring to a client several times using the wrong name, this can suggest that Plans are not often read or that "cut & paste" is used from another plan. As part of the action plan of CSSIW's audit, Derwen agreed to review and update Care Plans, client profiles and risk assessments.

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

- 2.4.2 Mark Russell Jones, Support Service Manager (Derwen) was welcomed to the meeting to discuss the audit of Children Support Workers (Derwen). The Audit Manager stated that the Support Service Manager was newly appointed to the post, and that he hadn't been appointed when the final audit report was released. However, the Support Service Manager stated that he had attended the audit closure meeting with the former Support Service Manager and the Audit Leader.

- 2.4.3 The Audit Manager provided a summary of the audit findings. It was explained that the main concern was that documentation such as risk assessments and care plans were outdated, and that an obvious error was not detected by the Service in respect of a specific care plan that suggested that no one reads them. The Support Service Manager confirmed that monitoring panels have been established to conduct periodic reviews to update all the documentation with the Social Workers. This was welcomed by members of the Working Group but one member reiterated that continuous monitoring was also required.
- 2.4.4 The Support Service Manager explained that the Service has begun to carry out checks on Support Workers' vehicles and driving licences online rather than relying solely on the officers to submit any changes such as excessive points on their licences. He added that the Service had taken action to be more proactive in checking DBS statements, rather than relying on the Corporate Support Department.
- 2.4.5 The Support Service Manager stated that he had also written to all the support workers to remind them of the regulations for claiming subsistence allowance due to the discrepancy highlighted in the audit report.
- 2.4.6 **The Support Service Manager was thanked for attending the meeting and explaining the operational steps taken to mitigate the risks identified during the audit.**

2.5 Sale of Diesel

- 2.5.1 The main findings of the audit were as follows:

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

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

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

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

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

The Maritime Service had a good system to record the details of diesel sold, the diesel stock purchased as well as details of the diesel stock in hand for every Harbour. However, errors were found in the figures of stock in hand on Porthmadog Harbour's spreadsheet for the months of June 2016 and July 2016; errors have now been rectified.

It was seen that Barmouth Harbour Master had a system of allowing customers to receive credit but instead of raising an invoice for them every month, they were allowed credit for a longer period than a month and they were then allowed to pay the debt when it was convenient. It was found that one customer had been given up to three months' credit before the customer had paid his/her debts. This system is only administrated by the Harbour Master. This system affects the Council's cash flow. It is understood that the Senior Maritime and Country Parks Officer intends to terminate the system of raising invoices on customers when the new system of paying with cards will be established at the three Harbours.

When auditing Barmouth's spreadsheet details of diesel sales and purchases and the receipt and banking books, several errors were found such as incorrect income collected from the customer and receipt numbers had been inserted in the wrong places on spreadsheets.

It is understood that the Maritime Service had considered the possibility of installing card machines at the Harbours, but it had not undertaken any research work on the matter thus far. The Income Service could provide guidance for the Maritime Service once the Maritime Service has identified what type of machines are required at every Harbour.

- 2.5.2 Barry Davies, Principal Maritime and Country Parks Officer and Llyr Beaumont Jones, Senior Manager from the Economy and Community Department were welcomed to the meeting.

- 2.5.3 The Audit Manager outlined the main areas of risk identified during the audit. The Principal Maritime and Country Parks Officer thanked for the opportunity to attend the Working Group to discuss the actions the Service has taken to mitigate the risks identified and he expressed his disappointment regarding the audit findings. The Principal Maritime and Country Parks Officer explained that the agreed action plan has been implemented.
- 2.5.4 The officers explained that one of the major changes that will be in place by the summers is that customers will have the option to pay by card. This will reduce the paperwork associated with the administration of monies, and reduce the risk of financial risk caused by fraud, theft or maladministration. This was welcomed by members of the Working Group whilst noting that the ability to pay by card should already be in place.
- 2.5.6 There was a discussion on the use of red and white diesel with one member stating that the Council should sell only white diesel only to save all the time-consuming paperwork and administration involved in respect of red diesel. The Principal Maritime and Country Parks Officer expressed that this had already been discussed by the Service but decided against it because it could lead to higher costs to customers. The Senior Manager – Economy and Community was of the opinion that the administration of red diesel should be subject of a “Ffordd Gwynedd” review to establish if there is a more effective method of operating.
- 2.5.7 The Principal Maritime and Country Parks Officer and the Senior Manager – Economy and Community were thanked for explaining the arrangements currently in place and those in the pipeline to improve procedures.**

2.6 YGC Overtime

- 2.6.1 The main findings of the audit were:

As part of their efforts to ensure consistency within the department, YGC staff are currently monitoring the situation regarding staff overtime. Furthermore they have been in consultation with the Human Resources Advisory Service as part of the process of documenting some guidelines on the management of additional hours. These guidelines are based on the Council’s collective agreement. It is YGC’s intention to circulate this information among members of the department once the work is completed, and this will involve a consultation period with the staff as part of the adoption process.

A sample of overtime claim forms were examined, and as a result a series of inconsistencies were identified. These have been discussed with the accountable officers as part of the audit. Among the inconsistencies discovered are the following:

Various claim forms of different formats being used within the department, leading to a lack of consistency in the information provided through their means. It is understood that a collaboration is already underway with the Payroll Unit in order to establish one standard form;

A variation in the means of recording the number of hours claimed by different members of staff. Not all methods offer a clear audit trail, and it is considered that the ambiguity in the information provided in some cases could become onerous in terms of the administrative duties of those checking and certifying the claims;

Payments being made at a rate of time-and-a-half, to staff whom are beyond point 28 in terms of their salary. This occurred due to claimants noting the word “planned” claim forms. An explanation was received from the Human Resources Advisory Service during the course of the audit regarding this matter, who confirmed that greater clarity is required in this area. This is being offered by the means of the guidelines for the management of additional hours currently being drafted. These guidelines will be vital in ensuring that no further inconsistencies are developed.

The expectation is that YGC staff present an application for additional hours via ‘SharePoint’, but it was generally seen that they do not comply. Those officers who administer in this area are of the opinion that presenting a retrospective claim in those instances where work needs to be carried out on short notice adds no value; this therefore needs to be made clear to staff through their line managers.

The control over the keeping of TOIL and flexi records was deemed inadequate, and it is the individual officers’ line managers who are considered to be responsible for implementing such arrangements. This issue has been raised in the wake of the following findings:

Inconsistencies were seen in the way different members of staff record their TOIL balances, with mistakes being present in some cases and others holding incomplete records.

There were some cases whereby part time staff were seen to be benefitting from the flexi scheme. That scheme is a benefit given to full time staff only. There was a case in particular where a part time member of staff has been accumulating flexi hours as a result of being on a full week of leave.

Another case was seen where a member of part time staff has claimed overtime payments at a rate of time-and-a-half even though they had not worked the full 37 hour week at the basic rate.

The number of hours noted on some overtime claim forms have been incorrectly calculated, however the issue isn’t considered to be material enough to date and therefore no specific action is required to be taken. Nevertheless, the matter should be drawn to the attention of those officers who certify such claims.

- 2.6.2 Rhys Wynn Williams, Business Manager and Rhys Jones, Technical Unit Manager from YGC were welcomed to the meeting.
- 2.6.3 The Audit Manager explained that the audit was included in the Audit Plan at the request of the Head of YGC as he had concerns regarding inconsistencies relating to overtime with the Departments such as “super-flexi”, TOIL and overtime payments.
- 2.6.4 The Business Unit Manager stated that changes have taken place in the arrangements for overtime within YGC over the last twelve months with many staff now on the “super-flexi” scheme rather than claiming overtime payments. It was explained to the Working Group that the “super-flexi” scheme is wider than the current flexible hours scheme.
- 2.6.5 The YGC managers elaborated the need for a firm and consistent overtime policy across the Council which will enable YGC to proceed fully with their arrangements but that the responsibility for developing and approving policies such as overtime, TOIL, flexible hours etc. is the responsibility of the Corporate Support Department.
- 2.6.6 A member emphasised how essential it is to have robust arrangements in place because time recording is essential to calculate the correct fees to be charged on clients, and that it was difficult to operate without corporate policy guidance.
- 2.6.7 The Audit Manager explained that YGC have prepared an overtime policy but are awaiting a response on its contents from the Human Resources Advisory Services that requires discussions with other departments. The Business Unit Manager stated that administrative staff are aware of the proposed arrangements.
- 2.6.8 The YGC Managers explained to the Working Group electronic arrangements are now in place for recording the overtime of full-time staff but that part-time staff continue to submit their claims on paper with the hope that a complete electronic system will be established by the summer.
- 2.6.9 The Business Unit Manager and the Technical Unit Manager were thanked for attending the meeting and updating the Working Group on the arrangements already implemented and the upcoming proposed arrangements.**

2.7 Plas Gwilym

2.7.1 The main finding of the audit were:

There is a homely and friendly feel to the home. However, we were informed that staff absence levels proved difficult at times. This affects the Home's Manager in the completion of administrative duties, as ensuring the required number of staff for each shift is necessary in order to ensure the best provision in terms of caring for the residents. It is considered that some of the points raised within this report arise as a result of a lack of capacity to complete administrative tasks due to staffing problems.

The home's Statement of Purpose was not entirely up to date; however, we were informed that it was already the subject of a review when the audit was being undertaken.

It was not possible to provide assurance that the staff had received current training in various fields, as the home's records were not up to date and they did not correspond to the staff's files.

The staff do not receive formal supervision every two months, which is an expectation set in the Care Homes (Wales) Regulations and the National Minimum Standards.

Each room in the home has an asset list; however, they are not signed or dated.

The cabinet where the home's keys are kept does not lock.

There is an arrangement in place of keeping a running balance for the residents' pocket money. However, minor recording and calculating errors were found.

The frequency of the drills noted in the fire log book are not in line with the expectation. In addition, the latest version of the Fire Management Plan was not available. Nevertheless, the Plan has been reviewed relatively recently.

It was seen that the service users' risk assessments are not reviewed on a monthly basis, and this is an expectation that has been set by the Home's Manager.

From the sample checked, it was seen that 1 member of staff had worked at the home before the DBS disclosure had been issued; however, the Manager provided assurance that the working practices of that individual were supervised.

Not all members of staff who provided medication had signed to express that they had read and understood the Medication Policy. It was also seen that there was an inconsistency between the information submitted on the record of the medication room and the fridge's temperature and what is noted in the Medication Policy.

- 2.7.2 The Audit Manager stated an officer from the Adults, Health and Wellbeing Department was not available to represent the home in this meeting of the Working Group. It was explained that the Area Manager – North had contacted her to apologize that the Plas Gwilym Manager and herself would not be able to attend the Working Group because they would be conducting interviews and that it was not possible to reschedule.
- 2.7.3 Due to the absence of key officers, the Audit Manager explained that she had agreed for the officers to send a written summary of the steps undertaken to mitigate the risks identified in the audit report together with any supporting evidence.
- 2.7.4 The Audit Manager read the summary of all the agreed actions, sharing the evidence received by the Plas Gwilym Manager with the Working Group members. It was found that positive progress had been made to mitigate the risks identified. The Audit Leader reiterated that Internal Audit would verify this evidence in detail as part of the follow-up audit.
- 2.7.5 The Working Group discussed the high turnover of staff at Plas Gwilym and the problems they encounter during recruitment. The Audit Leader explained that there were staffing problems at the Home during the audit which means that it is inevitable that the Manager provides direct care to residents which results in postponing administrative tasks during lack of staff emergencies.
- 2.7.6 One member suggested that the Audit Committee should respond positively to the obvious efforts of the Home to improve performance during a difficult time of lack of staff resources and accept that the Home had to prioritise care for the residents. Other members of the Working Group agreed with the statement.
- 2.7.7 **Members of the Working Group asked the Audit Manager to thank the Area Manager – North and the Plas Gwilym Manager for providing an update and evidence to support actions implemented.**
- 2.8 **The Chair thanked the Working Group and praised all the Services for their actions.**

Agenda Item 10

COMMITTEE	AUDIT AND GOVERNANCE COMMITTEE
DATE	13 JULY 2017
TITLE	OUTPUT OF THE INTERNAL AUDIT SECTION
PURPOSE OF REPORT	TO OUTLINE THE WORK OF INTERNAL AUDIT FOR THE PERIOD TO 30 JUNE 2017
AUTHOR	LUNED FÔN JONES – AUDIT MANAGER
ACTION	TO RECEIVE THE REPORT, COMMENT ON THE CONTENTS AND SUPPORT THE ACTIONS THAT HAVE ALREADY BEEN AGREED WITH THE RELEVANT SERVICES

1. INTRODUCTION

- 1.1 The following report summarises the work of the Internal Audit Section for the period from 1 April 2017 to 30 June 2017.

2. WORK COMPLETED DURING THE PERIOD

- 2.1 The following work was completed in the period to 30 June 2017:

Description	Number
Reports on Audits from the Operational Plan	2
Report on an Audit from the Audit Plan 2016/17	2
Grant Audits	1

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 2017, indicating the relevant opinion category and a reference to the relevant appendix.

TITLE	DEPARTMENT	SERVICE	OPINION	APPENDIX
Awareness of the Whistleblowing Policy	Corporate	-	B	Appendix 1
Precepts	Finance	Accountancy	A	Appendix 2
Storiel Governance Arrangements	Economy and Community	Record Offices, Museums and the Arts	B	Appendix 3
Hafan	Economy and Community	Maritime and Country Parks	No Category	Appendix 4

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 Audit of the Supporting People Grant (Part 1)

- 2.3.1 Gwynedd Council received over £ 5 million in grant from the Welsh Government during 2016- 17 as part of the Supporting People Plan. The plan commission and finances over 25 providers to offer assistance to vulnerable individuals to maintain their tenancies and avoid homelessness, with the aim of enabling individuals to live independently by providing housing related support services. There are two elements relevant to the grant, the completion of the audit certificate in respect of outcomes for the period April 2016 until December 2016 which was due before 31 May 2017, and the audit certificate on the 2016-17 expenditure which is to be completed before 30 September 2017. The audit on the outcomes was completed in accordance with the terms and conditions of the grant and the certificate was sent within the timescale provided.

3. WORK IN PROGRESS

- 3.1 The following work was in progress as at 1 July 2017.
- Obtaining References (*Corporate*)
 - Proactive Prevention of Fraud and Corruption (*Corporate*)
 - Education Improvement Grant for Schools (*Education*)
 - Awareness of the Whistleblowing Policy – Primary and Secondary (*Education*)
 - Health and Safety – Primary Schools (*Education*)
 - Training New Members (*Corporate Support*)
 - Death Grants (*Finance*)
 - Leisure Centres (*Economy and Community*)
 - Direct Debit Payments – Leisure Membership Schemes (*Economy and Community*)
 - Plas Maesincla (*Adults, Health and Wellbeing*)
 - Plas Hafan (*Adults, Health and Wellbeing*)
 - Plas Ogwen (*Adults, Health and Wellbeing*)
 - Tan y Marian (*Adults, Health and Wellbeing*)
 - Smallholdings (*Regulatory*)
 - Housing Waiting List (*Housing*)

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 2017 to 30 June 2017, comment on the contents in accordance with members' wishes, and support the actions agreed with the relevant service managers.

STAFF AWARENESS OF WHISTLEBLOWING POLICY CORPORATE SUPPORT

1. Background

- 1.1 The Policy was formed with the intention of encouraging workers to come forward and express any serious concerns regarding misconduct in order to maintain the public's confidence and to conserve the Council's reputation. The Policy's purpose is to enable and encourage workers to share major concerns internally rather than attempt to solve issues externally.

2. Purpose and Scope of Audit

- 2.1 The purpose of the audit is to review office-based staff's awareness of the Whistleblowing Policy and to discover their general opinion on the Policy and its procedures. This was carried out by designing and distributing an on-line survey to office based staff in order to find any changes in the awareness levels since a similar exercise in 2014. The results of the survey reflect the Council's culture.

3. Main Findings

- 3.1 508 responses (25%) was received from a total of 2009 workers that received the e-mail. 87% stated that they were aware of the Policy, which is an increase on the 81% in the 2014 Survey.
- 3.2 In 2009, a campaign was launched to raise awareness in which all staff should have received a 'Whistleblowing Card' (the size of a credit card). New staff receive the card as part of their induction packs and all work areas are expected to display the card. Only 22% of staff who noted that they were aware of the policy had received a card.
- 3.3 The survey showed that the majority of staff gained awareness of the Policy through the Policy Centre (199), through their line manager (121) and through a co-worker (90). Only 67 were aware as a result of receiving a Whistleblowing Card and 46 through a poster. 71 of the workers gained awareness as a result of an induction pack/session.
- 3.4 The Policy has not been updated since May 2014 following a review by the Wales Audit Office.
- 3.5 Those that were aware of the Policy were asked if they had confidence in the current system by providing a score between 1 and 5, (1 denoting 'no confidence' and 5 'total confidence'). The average score was 3.4. This is an increase on the average score which was 3.1 in 2014. There was an increase in the Direct Workers score (3.1 to 3.3) and Middle/Line Managers (3.0 to 3.4) but a decrease amongst Corporate Directors, Heads of Department and Senior Managers (3.8 to 3.5) compared to the results of the 2014 survey. There was a noticeable increase in the

score for the Environment Department (3.0 to 3.6), Economy and Community Department (3.1 to 3.6) and YGC (3.0 i 3.7) but slight decrease in the Children and Supporting Families Department (3.4 to 3.3).

3.6 20 of the Workers stated that they had ‘blown the whistle’. 5 of these individuals noted that the matter had been solved while 10 stated that it had been solved to some extent. 7 (of the 20) were satisfied with how the matter was dealt with (4 matters were solved and 3 were solved to an extent, in their opinion).

3.7 For those who stated that they were unaware of the Policy, they were asked if they’d ever had concerns regarding misconduct in the workplace but hadn’t acted as a result of not being aware of the Whistleblowing Policy. The survey found that 3 individuals had not acted as they were unaware of the policy.

3.8 The survey listed 7 scenarios in the workplace where a worker should ‘blow the whistle’, and then asked which scenarios the workers would be likely to ‘blow the whistle’. The scores denote the percentage of workers who would be willing to ‘blow the whistle’ in the scenarios given below. There is an increase in all scores since 2014.

“Something that...

<i>... is unlawful, fraudulent or corrupt</i>	93 %
<i>... constitutes sexual, physical or emotional abuse of clients</i>	91 %
<i>... endangers the health and safety of any individual</i>	88 %
<i>... amounts to improper conduct</i>	82 %
<i>... is an abuse of power or use of the Council’s power and authority for an unauthorised purpose</i>	82 %
<i>... breaches any statutory code of practice;</i>	74 %
<i>... is causing, or is likely to cause damage to the environment.</i>	69 %

3.9 On average, 83% of workers noted that they were willing to ‘blow the whistle’ compared to 80% in 2014. If the respondent declared that they wouldn’t ‘blow the whistle’ they were asked to explain why. A sample of the responses is provided below, which is a reflection of the general response.

“No confidence that anything will be done and it would be harmful for me in the end”

“Fear of persecution from senior managers and line managers if whistleblowing on them”

“I believe that there are other ways to deal with some of the above examples without the use of the Whistleblowing Policy”.

3.10 The number of responses is evidence that the Council’s workers feel that Whistleblowing is important. The comments and recommendations include concerns that whistle blowers are not protected and that the process is not as

confidential as it should be.

A number of respondents commented that an increase in awareness is needed and training and promotion should be utilised.

4. Audit Opinion

(B) The Audit opinion is that partial assurance can be expressed of the propriety of staff awareness of the Whistleblowing Policy, as there are controls in place, but there are aspects where some arrangements can be tightened. The Corporate Support Department has committed to implement the following steps to alleviate the risks highlighted:

- Update the Policy in order to ensure the contents are current and appropriate.
- Corporate Support Department to receive all comments received as part of the review, in order to implement as required.

**PRECEPTS
FINANCE**

1. Background

- 1.1 A Precept is a tax raised on dwellings within a Community Council. Gwynedd Council is responsible for collecting this tax through the Council Tax bill before transferring the money to the relevant Community Council in biannual instalments. Precepts are used to finance a wide range of services that are beyond those provided by the Local Authority. These include the upkeep of cemeteries, repairing bus shelters or cutting grass and the upkeep of footpaths.
- 1.2 The Community Council notifies Gwynedd on an annual basis of the total monetary sum they would like to raise on dwellings with their community. Gwynedd Council would then allocate this sum, the precept, amongst the dwellings with consideration to the number of dwellings within the community and their tax band.

2. Purpose and Scope of the Audit

- 2.1 The purpose of the audit was to ensure that precepts are calculated and paid correctly and timely to Community Councils. In order to achieve this, the audit encompassed reviewing the procedure for calculating precepts for 2017/18, by reviewing the forms received from the Community Councils and the verifying the Council Tax System.

3. Main Findings

- 3.1 A random sample of 20 Community Councils was selected in order to ascertain if they received the sum requested, and that appropriate arrangements was in place for Gwynedd Council to collect the correct tax from the dwellings, with consideration to the community's tax base.
- 3.2 When notifying Gwynedd Council of their 2017/18 precept, it was discovered that some of the Community Councils failed to comply with the set timetable. In order to reduce similar cases in the future, the Head of Finance has asked the Community Councils to ensure their committees approve their precepts in good time, in order to comply with the timetable for 2018/19.
- 3.3 When receiving the notifications from the Community Councils, independent checks are made within the Accounts Unit in order to ensure correctness, in addition to the checks made by the Revenue Service when inputting the data into their system.
- 3.4 The tax base is the number of Band D equivalent dwellings within a Community. The 2017/18 tax base was calculated by recognising the true number of dwellings in the Council Tax system as at 31/10/16, and adjusted to incorporate expected changes over the next 17 months, adjusted again to consider relevant discounts, converting the different bands to Band D equivalents, less consideration for monies that won't be collected. The tax base calculation was discussed with the Council Tax Unit and a sample was traced to the system, and it was seen that they were appropriate.

- 3.5 For the chosen sample, the precept requested was traced back to the system, by dividing the precept with the tax base. A formula was used to ensure the other bands' parameters within the system – which are proportionate to Band D - were correct. Samples of Council Tax bills were audited and they were seen to be correct.
- 3.6 Gwynedd Council collects the tax from the dwellings throughout the year but transfers the precept to the Community Councils biannually. Two examples were discovered in 2016/17 and again in 2017/18, where the same precepts were coded against the incorrect expenditure code. In addition, an example was seen where the incorrect Community was paid in 2015/16 (corrected in 2016/17 following a query by the Community Council that did not receive money). However, following changes to the payment process, this risk has been mitigated.

4. Audit Opinion

- (A) The audit opinion is that assurance of propriety can be stated in the administration of Precepts as it is possible to depend on the internal controls, which have been followed.**

STORIEL – GOVERNANCE AND MANAGEMENT ARRANGEMENTS ECONOMY AND COMMUNITY

1. Background

- 1.1 Gwynedd Museum and Art Gallery has now relocated to the Town Hall (or the Bishop's Palace) in Bangor. It is now recognized as Storiel and has opened since January 2016. *“The aim of Gwynedd Museum and Art Gallery is to contribute towards the understanding of the history and culture of Gwynedd and its people by collecting, caring for and providing access to its collections so that everyone can share its rich heritage.”* (Storiel Facebook Page)

2. Purpose and Scope of Audit

- 2.1 The purpose of the audit was to ensure that the governance and management arrangements for Storiel are appropriate and in accordance with relevant regulations and standards.
- 2.2 During the audit the auditor checked the procedures and controls that are in place to mitigate risks related to a range of Storiel's governance and management arrangements.

3. Main Findings

- 3.1 Good internal controls existed in Storiel. The income that was in the suspense account has now been cleared with the income being allocated to the correct codes.
- 3.2 A marketing plan was created by Courtney Consulting Ltd. in 2010. The business plan states that the majority of the recommendations set out in the marketing plan have now been achieved or are in progress and therefore there is a need to create a new marketing plan. It does not appear that a new marketing plan has been created as stated in the business plan.
- 3.3 Arrangements are in place for completing the income received forms, TR34 and TR34cc by specific officers. When checking a sample of these forms there were many cases where there was no second officer verifying their accuracy.
- 3.4 Storiel does not have a formal stock plan at present. Every item of new stock is entered into the till as they are received on site and all sales go through the till which enables officers to check how much of stock is left. However, at present, not all stock that was in Storiel before the relocation has been entered into the new till. In order to check this stock, officers must use the historical goods received notes and check stock in order to verify how many items are left.
- 3.5 Regular stock checks are not completed at present but the Museums and Volunteer Coordinator expressed that a stock check will be carried out at the end of the financial year 2016/17. A report can be created from the till of all stock, as well as per supplier.
- 3.6 There is no agreement between the Council and suppliers detailing the terms and

conditions regarding commission payments at present.

3.7 A Volunteer Agreement has been created for Storiel's volunteers and is now in use; however, only 3 volunteers had an agreement in place at the time of the audit.

4. Audit Opinion

(B) The Audit's opinion is that partial assurance can be expressed of propriety in the administration of Storiel – Governance and Management Arrangements as controls have been established, but there are aspects where some arrangements can be tightened. The establishment has committed to implement the following steps to mitigate the risks highlighted:

- Establish a marketing plan for Storiel.
- Ensure that a second officer checks the TR34 forms and signs to confirm this.
- Continue to input stock into the till and create a current stock plan in order to check when more stock needs to be ordered etc.
- Ensure that stock checks are completed. It would be good practice after completing the end of year stock check to establish a system of regular stock checks.
- Create a contract for Storiel suppliers detailing the payment arrangements.
- Continue to use the new volunteer agreement - seeking volunteers who have volunteered for Storiel for some time in order to complete the agreement.

HAFAN DIRECT DEBITS ECONOMY AND COMMUNITY

1. Background

- 1.1 Hafan Pwllheli is a marina that offers many services and facilities. These include fully serviced berths, which include electricity and water, a 50 ton hoist and mobile crane, and a water based facility to sell diesel, unleaded petrol and disposal of sewage.
- 1.2 Gwynedd Council has been responsible for managing Hafan since 2008, with Yacht Haven Management being responsible beforehand. The Economy and Community Department has identified the need to conduct a review of Hafan, which would assess different management models for the future, taking into account a range of different management structures and governance.

2. Purpose and Scope of the Audit

- 2.1 The purpose of the audit was to assess whether appropriate arrangements are in place in order to ensure the financial appropriateness when dealing with direct debits.
- 2.2 The audit scope included ensuring that effective and efficient methods are being implemented, which includes a link between the different software used, and the administration of direct debits is done so in a way that protects the Council's income and ensuring compliance with the Data Protection Act.

3. Main Findings

- 3.1 Currently, there are around 70 customers who pay for annual berthing by direct debit. This equates to 23% of customers, which is 70 out of the 300 pontoon berths that are in use, with another 110 pontoons being empty. Customers can only pay for annual mooring by direct debit, and other services are to be paid for by use of a cheque, credit or debit card, or cash. It is possible that the number of customers who choose to pay by direct debit is so small because there is an administration fee of 5% that is added to the cost, despite the fact that this fee is at a lower rate than what it has been in the past (8%).
- 3.2 The administrative burden of managing direct debits is heavy, and Hafan only have one officer who is responsible for this work. It was discovered that it is necessary for this officer, the Deputy Manager (Administration), to be on duty on specific dates each month (i.e. the beginning and the end of the month, and the processing period of 4 days within the month). This issue had been addressed in the previous Hafan audit (December 2014).
- 3.3 The software used by Hafan for managing income is HavenStar, which is administered by Star Marina Solutions Ltd. There is no interface between HavenStar and the Council's systems, therefore reports are prepared and sent to the Accounting Unit to be manually inputted into the financial ledger.

- 3.4 In addition to the Deputy Manager (Administration)'s workload, the Accounting Unit must also spend time processing the various reports generated and then manually input the information into the financial ledger. In conducting the audit, an error was found in the financial ledger for one source of income for one month. The Accounting Unit was informed and the error has now been corrected. The mistake happened because of inaccuracies in the report submitted by Hafan.
- 3.5 Hafan's debt collection procedure is conducted internally, and independent of the Council's Revenue Service. The Deputy Manager is of the view that this arrangement works well, since they are aware of the background of each debt.

4. **Audit Opinion**

The audit opinion is that a review of the management models of Hafan should be undertaken before investing in any new software, or an arrangement of transferring information electronically from HavenStar to the financial ledger should be developed. However, in the meantime it is necessary to ensure that arrangements for the continuation of service should be established, particularly in terms of the absence of the Deputy Manager (Administration). The service has committed to implement the following to mitigate the identified risks:

- Review their business continuity arrangements.

Agenda Item 11

COMMITTEE	AUDIT AND GOVERNANCE COMMITTEE
DATE	13 JULY 2017
TITLE	INTERNAL AUDIT PLAN 2017/18
PURPOSE OF REPORT	TO GIVE THE COMMITTEE AN UPDATE ON PROGRESS AGAINST THE 2017/18 AUDIT PLAN
AUTHOR	LUNED FÔN JONES – AUDIT MANAGER
ACTION	FOR INFORMATION

1. INTRODUCTION

1.1 This report is a progress report on completion of the 2017/18 Internal Audit Plan.

2. SUMMARY OF PROGRESS AGAINST THE PLAN

2.1 The 2017/18 internal audit plan is included in Appendix 1 with the status of the work as at 30 June 2017 noted, together with the time spent on each project. The status of the work in the operational plan at that date was as follows:

Audit Status	Number
Planned	41
Field Work Started	7
Field Work Completed	2
Manager Review	3
Draft Report	2
Final Report Issued	2
Total	60

2.2 The performance target for 2017/18 is to have 95% of the audits in the plan to be either closed or with the final report released by 31 March 2018. 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 2017 was **3.33%** - out of **60** individual audits contained in the 2017/18 plan, **2** had been released in a finalised version.

- 2.4 The quarterly performance was below the performance target due to difficulties in recruiting staff. The staffing level was down throughout the quarter the equivalent of two full-time auditors. In addition, two new members of staff commenced during April and have received training during the period. There are steps in place to rectify the situation with specific audits already allocated to the auditors.
- 2.5 Arrangements are under way to fill the permanent vacancy, whilst the other post is vacant because the holder is undertaking other duties temporarily.

3. RECOMMENDATION

- 3.1 The Committee is asked to note the contents of this report as an update on progress against the 2017/18 audit plan, and offer comments thereon and accept the report.



Internal Audit Plan 2017/18

Audit Code	Audit Name	Original Plan	Adjustment	Revised Plan	Actual Days	Audit Status
CORPORATE						
1-CORFF-01/2018	Disposal of Confidential Waste – The Use of Red Sacks and Shredders	10.00	0.00	10.00		Planned
1-CORFF-09/2018/001	Supporting Ffordd Gwynedd Reviews	20.00	0.00	20.00		Planned
1-CORFF-09/2018/002	Learning and Development Integrated System	10.00	0.00	10.00		Planned
1-CORFF-11/2018	Obtaining References, Proof of Identity and Evidence of Qualifications	15.00	0.00	15.00	4.80	Field Work Started
1-CORFF-12/2018	Awareness of the Whistleblowing Policy	15.00	0.00	15.00	15.12	Final Report Issued
1-CORFF-13/2018	Self-service Travelling Expenses	5.00	0.00	5.00		Planned
1-CORFF-19/2018/001	Safeguarding Arrangements - Field Workers' Awareness of Policy	35.00	0.00	35.00		Planned
1-CORFF-19/2018/002	Safeguarding Arrangements – Establishments	4.00	0.00	4.00		Planned
1-CPGAY-01/2018	Culture and Conduct	15.00	0.00	15.00		Planned
1-CPGAY-02/2018	Proactive Prevention of Fraud and Corruption	20.00	0.00	20.00	0.97	Field Work Started
2-ADN-CGC-DPA/2018cy	Information Management – Establishments	6.00	0.00	6.00		Planned
AO-APL-05/2018	National Fraud Initiative	40.00	0.00	40.00	9.54	Field Work Started
EDUCATION						
Resources						
4-DAT-X-ADD/2018GAD	Pupil Deprivation Grant	10.00	0.00	10.00		Planned
4-DAT-X-ADD/2018GGA	Education Improvement Grant for Schools	15.00	0.00	15.00	4.30	Field Work Started
4-DAT-X-ADD/2018o16	Post-16 provision in Schools Grant	3.00	0.00	3.00		Planned
EADDA03/2018	Awareness of the Whistleblowing Policy – Primary and Secondary	25.00	0.00	25.00	4.28	WP Created
EADDA29/2018	Health and Safety – Primary Schools	25.00	0.00	25.00	1.49	WP Created
GwE						
4-GWE/2018	Business Arrangements	20.00	0.00	20.00		Planned
Schools						
EADDA21/2018	School Meals Income	20.00	0.00	20.00		Planned
EADDA35/2018	Schools - General	10.00	0.00	10.00	0.08	Field Work Started

Audit Code	Audit Name	Original Plan	Adjustment	Revised Plan	Actual Days	Audit Status
NORTH AND MID WALES TRUNK ROAD AGENCY						
3-AMG-ACGC/2018	Health and Safety	25.00	0.00	25.00		Planned
CORPORATE SUPPORT						
Democracy						
BB-YSG-18/2018	Training New Members	10.00	0.00	10.00	4.66	Manager Review
FINANCE						
Across the department						
AW-TG-12/2018tg	IT System Security	30.00	0.00	30.00		Planned
Financial						
AD-DY-01/2018	Debt Recovery Arrangements and Legal Action	15.00	0.00	15.00		Planned
Accountancy						
AN-ACY-10/2018	Precepts	5.00	0.00	5.00	7.42	Final Report Issued
Pensions and Payroll						
AP-PEN-01/2018	Pension Fund	15.00	0.00	15.00		Planned
AP-PEN-15/2018	Death Grants	15.00	0.00	15.00	9.78	Field Work Complete
Revenue						
AB-BD-01/2018kc	Benefits – Review of Key Controls	12.00	0.00	12.00		Planned
AC-TR-01/2018	Council Tax System - Advantage Digital Portal	10.00	0.00	10.00		Planned
ECONOMY AND COMMUNITY						
Community Regeneration						
EADDZ-01/2018	Welsh Church Fund	5.00	0.00	5.00		Planned
Record offices, museums and the arts						
EDIW-MU-03/2018/001	Storiell – Closing the Project	5.00	0.00	5.00		Planned
EDIW-MU-03/2018/002	Storiell – Unannounced Visit	1.00	0.00	1.00		Planned
Leisure						
E-DGO-01/2018/001	Leisure Centres	40.00	0.00	40.00		Planned
E-DGO-01/2018/002	Membership Direct Debit Payments	10.00	0.00	10.00	7.54	Manager Review
Maritime and country parks						
EHAMM-03/2018	Victoria Dock	10.00	0.00	10.00		Planned

Audit Code	Audit Name	Original Plan	Adjustment	Revised Plan	Actual Days	Audit Status
Strategy and development Programmes						
DDAT-AD-02/2018	Caernarfon Waterfront and Town Centre Regeneration Initiative – Governance Arrangements	15.00	0.00	15.00		Planned
ADULTS, HEALTH AND WELLBEING						
Business						
GRH-CD01/2018	Commissioning Arrangements	30.00	0.00	30.00		Planned
Supporting People						
GDAPR-SP01/2018	Adult Placement Scheme (Shared Lives Scheme)	15.00	0.00	15.00	2.61	Field Work Started
Adults						
GGWAS-H07/2018tel	Teleofal	10.00	0.00	10.00		Planned
Residential and Day						
5-GOF-CART1333/2018	Plas Maesincla, Caernarfon	12.00	0.00	12.00	9.85	Manager Review
5-GOF-CART1338/2018	Plas Hafan, Nefyn	12.00	0.00	12.00	11.45	Draft Report Issued
5-GOF-CART1339/2018	Plas Ogwen, Bethesda	12.00	0.00	12.00	11.47	Draft Report Issued
GDAPP-D07/2018	Housing Support	15.00	0.00	15.00		Planned
GDAPP-D08/2018/tm	Tan y Marian	10.00	0.00	10.00	7.58	Field Work Complete
GDAPP-D08/2018/yf	Y Frondeg	10.00	0.00	10.00		Planned
GGWAS-D11/2018	Supporting People Grant	15.00	0.00	15.00		Planned
CHILDREN AND FAMILY SUPPORT						
Children and Families						
5-GOF-X-PL/2018	Grants	24.00	0.00	24.00		Planned
GGWAS-P05/2018	Arrangements for Children Leaving Care	20.00	0.00	20.00		Planned
GGWAS-PLANT8/2018	Care and Support Plans (Children) under Part 4 – Social Services and Wellbeing Act (Wales) 2014	20.00	0.00	20.00		Planned
HIGHWAYS AND MUNICIPAL						
Fleet						
PGW-TR-02/2018	Depots	15.00	0.00	15.00		Planned
Waste Management and Streets						
PBW-10/2018/001	Recycling Targets	10.00	0.00	10.00		Planned
PBW-10/2018/002	Garden Waste Collection	15.00	0.00	15.00		Planned

Audit Code	Audit Name	Original Plan	Adjustment	Revised Plan	Actual Days	Audit Status
REGULATORY						
Public Protection						
2ADN-GGYC-GYC/2018bw	Food Hygiene	8.00	0.00	8.00		Planned
BB-YSG-11/2018	Licensing	8.00	0.00	8.00		Planned
Council Land and Property						
BA-EID-04/2018	Smallholdings	8.00	0.00	8.00	0.68	Field Work Started
BA-EID-05/2018	School Schemes – Ysgol Glancegin	10.00	0.00	10.00		Planned
Transportation and Street Care						
DDAT-CC-01/2018	Concessionary Fares	8.00	0.00	8.00		Planned
HOUSING						
Rent and Housing Management						
T-TAI-T01/2018	Housing Waiting List	12.00	0.00	12.00	2.26	WP Created
GWYNEDD CONSULTANCY						
Buildings and Environmental						
PYMOB/2018	Employment Status	10.00	0.00	10.00		Planned
Across the department						
PYMC-SON/2018	Accreditations	15.00	0.00	15.00		Planned

Agenda Item 12

COMMITTEE	AUDIT AND GOVERNANCE COMMITTEE
DATE	13 JULY 2017
TITLE	INTERNAL AUDIT CHARTER
PURPOSE	TO PRESENT THE INTERNAL AUDIT CHARTER TO THE COMMITTEE
AUTHOR	LUNED FÔN JONES, AUDIT MANAGER
ACTION	TO APPROVE THE CHARTER

1. INTRODUCTION

1.1 The *Public Sector Internal Audit Standards* (“PSIAS”) came into force on 1 April 2013 (amended April 2017). One of the requirements of the Audit Standards is the need to set out an Internal Audit Charter. The Standards, and a supporting Local Government Application Note published by CIFPA, detail the necessary contents of an Internal Audit Charter for a Local Government Body.

1.2 According to the Standards and the Local Government Application Note, the necessary contents of an Internal Audit Charter for a Local Government Body are as follows:

- A formal definition of the purpose, authority and the responsibility of the internal audit activity, that is consistent with the Public Sector Internal Audit Standards (PSIAS).
- A definition of the terms ‘board’ and ‘senior management’, for the purposes of the internal audit activity (Note that it is expected that the audit committee will fulfil the role of the board in the majority of instances).
- Sets out the internal audit activity’s position within the organisation.
- Establish the Chief Audit Executive’s (CAE’s) functional reporting relationship with the board.
- Establish the accountability, reporting line and relationship between the CAE and those to whom the CAE may report administratively.
- Establish the responsibility of the board and also the role of the statutory officers (such as the Chief Finance Officer, the monitoring officer and the head of paid service) with regards to internal audit.
- Establish internal audit’s right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

- A definition of the scope of internal audit activities.
- A recognition that internal audit's remit extends to the entire control environment of the organization.
- Establish the organisational independence of internal audit.
- The arrangements for appropriate resourcing.
- A definition of the role of internal audit in any fraud-related work.
- Set out the existing arrangements within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety.
- The arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.
- A definition of the nature of assurance services provided to the organisation, as well as assurances provided to parties external to the organisation.
- A definition of the nature of consulting services.
- A recognition of the mandatory nature of the PSIAS.

1.3 The Financial Procedure Rules relating to Internal Audit (section 16.12 of the Constitution) quoted within the Charter have been updated to reflect amendments to duties that are already operational within the service following redesignation of responsibilities.

2. RECOMMENDATION

2.1 The Audit and Governance Committee is asked to receive and approve the contents of the Internal Audit Charter, to approve it, and support Internal Audit in its undertakings.



INTERNAL AUDIT CHARTER



INTERNAL AUDIT CHARTER

1. PURPOSE

1.1 The purpose of the Internal Audit Service is:

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

2. THE ROLE OF INTERNAL AUDIT IN LOCAL GOVERNMENT

2.1 There is a statutory requirement for an Internal Audit service in Local Authorities. This is implied in Section 151 of the Local Government Act 1972, which requires that authorities "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs".

2.2 The Account and Audit Regulations (Wales) 2014 state:

- (1) A relevant body must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control.
- (2) Any officer or member of that body must, if the body requires—
 - (a) make available such documents of the body which relate to its accounting and other records as appear to that body to be necessary for the purpose of the audit; and
 - (b) supply the body with such information and explanation as that body considers necessary for that purpose..
- (3) A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.
- (4) The finding of the review referred to in paragraph (3) must be considered as part of the consideration of the system of internal control referred to in regulation 5(3), by the committee or body referred to in that paragraph.

3. THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

3.1 The Public Sector Internal Audit Standards (PSIAS) are relevant to every internal audit service provider for the public sector, whether internal, shared service or external. These are defined as “proper internal audit practices”.

3.2 The Standards define Internal Audit as follows:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

3.3 Whilst Internal Audit is primarily concerned with financial propriety, the remit of Internal Audit’s work extends to the entire control environment of the Council, and is not confined to purely financial risk.

4. RESPONSIBILITIES AND OBJECTIVES

4.1 In Gwynedd Council, the Head of Finance is the officer who has the responsibility for "the proper administration of the Council's financial affairs" in accordance with section 151 of the Local Government Act 1972. Consequently, Internal Audit is located within Finance.

4.2 The Standards contain terminology that need to be defined clearly within the local Charter, namely the “Board”, the “Audit Committee”, the “Chief Audit Executive” and “Senior Management”.

“Board” and “Audit Committee”

The Standards define the Board as ***“the highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. ‘Board’ may refer to an audit committee to which the governing body has delegated certain functions”***. They define “Audit Committee” as ***“The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting”***. In accordance with the Council’s Scheme of Delegation, consideration of and responding to reports by the Internal Audit Service is a function that has been delegated to the Audit and Governance Committee.

For the purpose of this Internal Audit Charter, therefore, the Audit and Governance Committee undertakes the role of both the “Board” and “Audit Committee” within Gwynedd Council in order to fulfil the requirements of the Standards.

“Chief Audit Executive”

The Audit Manager is the “*Chief Audit Executive*” in accordance with the terminology in the Standards.

“Senior Management”

Where the Standards refer to “*Senior Management*”, in the context of communicating the results of internal audit work and discussing the work plan, the Audit Manager is accountable to the Senior Manager – Revenues and Risk who in turn is accountable to the Head of Finance, but has the freedom to report directly to the Chief Executive, the relevant Corporate Director, the Monitoring Officer or the Audit and Governance Committee if he/she is of the opinion that this is necessary, and in practical terms it is the Audit Manager who releases all reports to Internal Audit’s customers.

- 4.3 In order to ensure that the Council provides services of the highest possible quality within the resources available and in accordance with the needs of the people of Gwynedd, the appropriate use of the available resources is essential in order to ensure that the quality of service is of a high standard. The aims of Internal Audit is to provide assurance to the Head of Finance and the Audit and Governance Committee, and consequently to the residents of Gwynedd, that those resources which are available are managed and used appropriately, with transparency.
- 4.4 It shall do this by providing an independent and objective opinion to the Council on the control environment by auditing all financial systems and internal control procedures within the Authority, performing a combination of risk-based, system-based, regularity, computer and contract audits on a wide range of the Council's sections, in accordance with a strategy and audit plan based on an assessment of the Council's audit needs.
- 4.5 The Audit Manager shall ensure that internal audit is provided in accordance with the Public Sector Internal Audit Standards as far as practicable. To this end, the Audit Manager prepares an annual audit plan derived from an objective review of the risks that may affect the provision of the Council's services, and consultation with Heads of Departments and Senior Officers. It is agreed with the Senior Manager – Revenues and Risk and the Head of Finance before it is presented to the Audit and Governance Committee to be adopted.

4.6 In addition to Gwynedd Council, Internal Audit has an external client. Any increase in the commitment for this work will be agreed with the Senior Manager – Revenues and Risk and the Head of Finance beforehand, and the Audit and Governance Committee will be informed.

4.7 The responsibilities of Gwynedd Council’s external auditors, is to give an independent opinion on the Council’s financial statements and a conclusion on its arrangements for securing economy, efficiency and effectiveness in its use of resources. Internal Audit shall co-operate with the external auditors as required.

5. INDEPENDENCE AND RIGHTS OF ACCESS

5.1 The Public Sector Internal Audit Standards emphasise the independence of Internal Audit in terms of reporting processes and freedom.

5.2 Every internal auditor shall be required to sign a Declaration of Auditor Independence annually.

5.3 The Council's Financial Procedure Rules include provision for an Internal Audit service within the authority:

16.12 INTERNAL AUDIT

PURPOSE:

The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972. Accordingly, internal audit is an independent and objective appraisal function established by the authority for reviewing the system of internal control.

16.12.1 A continuous internal audit, under the independent control and direction of the Head of Finance, shall be arranged to carry out an examination of accounting, financial and other operations of the Council in accordance with the Accounts and Audit Regulations.

16.12.2 The Internal Audit function shall be conducted, as far as is practicable, in accordance with the Public Sector Internal Audit Standards. The Audit Manager is the designated “Chief Audit Executive” pursuant to the Standards.

16.12.3 An Internal Audit Charter shall be prepared which will be approved and reviewed by the Audit and Governance Committee.

- 16.12.4 The Audit Manager will usually report directly to the Senior Manager – Revenues and Risk who is accountable to the Head of Finance. However, he/she may also report to or turn to the Chief Executive, the relevant Corporate Director, the Monitoring Officer and the Chairman of the Audit and Governance Committee if, in specific circumstances he/she considers it necessary.
- 16.12.5 The Head of Finance, Senior Manager – Revenues and Risk and the Audit Manager, or their authorised representative shall have authority to :-
- (a) enter at all reasonable times on any Council premises, land or contract sites;
 - (b) have access to all records, documents and correspondence relating to any financial and other transaction of the Council;
 - (c) require and receive such explanations as are in his/her opinion necessary concerning any matter under examination;
 - (d) require any employee of the Council to produce cash, stores or any other Council property under his control.
- 16.12.6 The Head of Finance shall agree the medium-term and annual audit plans prepared by the Audit Manager which takes account of the characteristics and relative risks of the activities involved. The plans shall be approved by the Audit and Governance Committee.
- 16.12.7 All relevant managers shall consider and respond promptly to audit reports findings. Chief Officers shall ensure that any agreed actions to mitigate risks identified during the audit are carried out in a timely and efficient fashion in accordance with the agreed action plan.
- 16.12.8 The Audit Manager shall report regularly to the Audit and Governance Committee:
- (a) On the results of Internal Audit work in the preceding period.
 - (b) On any substantial control weaknesses discovered or audited.
 - (c) On any agreed actions that were not implemented within the agreed timetable, where a failure to act on those action would prolong a substantial control weakness.
 - (d) Progress on completion of the Internal Audit Plan for the current year.

6. RELATIONSHIP WITH THOSE CHARGED WITH GOVERNANCE

- 6.1 The Council has resolved that “those charged with governance” within Gwynedd Council shall be the Audit and Governance Committee.
- 6.2 The Chair of the Audit and Governance Committee is usually the main points of contact between the Audit Manager and elected members. The Audit Manager shall ensure that good working relationships and channels of communication are maintained with the Chair of the Audit and Governance Committee.
- 6.3 The Audit Manager will prepare a report for every meeting of the Audit and Governance Committee outlining the work completed in the period leading up to that meeting.
- 6.4 The Audit Manager shall also provide the Audit and Governance Committee with regular reports on progress against the annual internal audit plan.

7. REPORTING

- 7.1 The Audit Manager will ensure procedures for work supervision and file review by the relevant Team Leaders, and will collect data and prepare reports on the Service’s performance for the Head of Finance pursuant to the Council’s performance management framework.
- 7.2 A formal report will be written for most audit assignments, except for some small audits where significant weaknesses were not discovered and where a full audit report was not deemed necessary. In these cases, memoranda will be sent to the relevant officers.
- 7.3 Where appropriate, each report will be placed in one of 4 category opinions, dependent upon the audit opinion on the adequacy of internal controls, the effectiveness of the operation of the internal controls and the result of any failure to put effective controls in place. These categories are:

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.

The use of opinion categories is likely to be less appropriate for reports that have been prepared following a special investigation, or for work containing “consultancy” aspects.

7.4 Following completion of audit work, a draft report of the findings as well as any areas of risks identified is prepared for the relevant managers so that they have an opportunity to consider the findings and possible solutions to mitigate risks and correct any factual errors. A period of 2-3 weeks is given to managers to respond to the draft, but a longer period will be considered if a request for an extension is received. If a response is not received by the stipulated date, the report is assumed to be acceptable and a final report will be issued. If comments are received, these will be considered (and the draft report may or may not be modified) before the final report is issued. If there is no agreement to mitigate risk(s), that will be addressed in the final report.

7.5 After an appropriate period, Internal Audit will conduct follow-up testing to ensure that what was agreed is operational. The results of follow-up work will be reported to Chief Officers and the Audit and Governance Committee.

8. ANNUAL AUDIT OPINION

8.1 The Audit Manager shall prepare an Annual Report to the first meeting of the Audit and Governance Committee after the end of the financial year, in accordance with the Standards.

9. NON-ASSURANCE WORK

9.1 In addition to the assurance work described, Internal Audit shall also:

- Provide financial advice to Council services, in particular on Financial Procedure Rules, Contract Standing Orders and Procurement, Financial Codes of Practice and the Council's Anti-fraud, Anti-corruption and Anti-bribery Strategy.
- Assist service managers to prevent fraud and to investigate fraud on behalf of the Head of Finance, and offering advice and guidance on control improvements to avoid similar occurrences in future.

10. INTERNAL AUDIT RESOURCE REQUIREMENTS

10.1 Internal Audit comprises of the Audit and two Audit Leaders. If the Audit Manager is of the opinion that he/she does not have sufficient resources to allow him/her to give an opinion on the control environment in accordance with the requirements of the Standards, he/she shall report this to the Head of Finance.

10.2 The Audit Leaders are responsible for supervising and reviewing work and for allocating the audit plan as projects for individual auditors.

10.3 A Management Team (comprising the Audit Manager and the Audit Leaders) will meet regularly to monitor performance and share information. The Audit Manager will meet with the Senior Manager – Revenues and Risk to discuss performance and agree on Internal Audit's strategic direction.

10.4 From time to time, to reflect audit needs, and in the context of the resources available and the Council's Financial Procedure Rules, the Internal Audit service shall acquire external expertise to assist with audit work and in order to maintain the skill levels of permanent staff. This has been particularly true for the area of computer audit work, but other types of audit are not excluded from such arrangements.

11. RELEVANT DOCUMENTATION

11.1 In addition to this report, the following documents are also of importance to the Internal Audit Service:

- The Audit Committee's Terms of Reference
- Financial Procedure Rules
- Financial Codes of Practice
- Contract Procedure Rules
- The Council's Anti-Fraud, Anti-Corruption and Anti-Bribery Strategy
- The Council's Whistleblowing Policy.

Internal Audit shall review and suggest changes to these documents as necessary.

Agenda Item 13

COMMITTEE	AUDIT AND GOVERNANCE COMMITTEE
DATE	13 JULY 2017
TITLE	SELF-ASSESSMENT OF CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) AND THE QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME
PURPOSE OF THE REPORT	TO PRESENT THE INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME
AUTHOR	LUNED FÔN JONES – AUDIT MANAGER
ACTION	TO APPROVE THE QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME AND COMMENT ON THE CONTENTS

1. INTRODUCTION

- 1.1 The Public Sector Internal Audit Standards requires the Audit Manager (the “chief audit executive” in the Standards’ terminology) to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.
- 1.2 A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity’s conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The Audit Manager should encourage the Audit and Governance Committee (“the board” in the Standards’ terminology) oversight in the quality assurance and improvement programme.
- 1.3 The quality assurance and improvement programme must include both internal and external assessments.
- 1.4 A checklist has been developed by the Relevant Internal Audit Standard Setters to satisfy the requirements set out in PSIAS 1311 and 1312 for periodic self-assessments and externally validated self-assessments as part of the Quality Assurance and Improvement Programme. It incorporates the requirements of the PSIAS as well as the Local Government Application Note in order to give comprehensive coverage to both documents.

2. INTERNAL ASSESSMENTS

- 2.1 The Quality Assurance and Improvement Programme was developed following an internal self-assessment.
- 2.2 The Standards states that internal assessments must include periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge on internal audit practices.
- 2.3 Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the Code of Ethics and the Standards.
- 2.4 Following the self-assessment, the results were discussed with the Senior Manager – Revenues and Risk and the actions to be included in the Quality Assurance and Improvement Programme in areas of partial or non-conformance with the Standards were agreed. The Quality and Improvement Programme is in Appendix A.

3. EXTERNAL ASSESSMENTS

- 3.1 In accordance with the Standards, external assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:
 - The form of external assessments
 - The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.
- 3.2 The Welsh Chief Internal Auditor's Group have collaborated to adopt a peer review approach in respect of external assessments, whereby the self-assessment will be validated by an external assessor. This arrangement was approved by the Head of Finance and the Senior Manager – Revenues and Risk.
- 3.3 The external assessment of Gwynedd Council's Internal Audit Service will be carried out by the chief audit executive of Carmarthenshire County Council. The results of the external assessment will be presented to the Committee. The external assessment has been scheduled to be carried out in the autumn of 2017.
- 3.4 Gwynedd Council's Audit Manager will be undertaking the external assessment at Denbighshire County Council in the spring of 2018.

4. RECOMMENDATION

- 4.1 The Audit and Governance Committee is requested to comment on the contents of the report and approve the Internal Audit Quality Assurance and Improvement Programme.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

ACTION NO.	PSIAS STANDARD	CONFORMANCE WITH THE STANDARD	PROPOSED ACTION	RESPONSIBILITY	TIMESCALE
01	1110 – Organisational Independence	Is feedback sought from the chair of the audit committee for the CAE's performance appraisal?	Gwynedd Council is in the process of developing a 360-degree appraisal system for managers – the Chair of the Audit and Governance Committee to be invited to provide feedback at the Audit Manager's next appraisal.	Head of Finance and Senior Manager – Revenues and Risk	31/03/2018
02	1310 – Requirements of the Quality Assurance and Improvement Programme	Does the QAIP include both internal and external assessments?	An external assessment will be carried out by the CAE of Carmarthenshire County Council in accordance with the WCAG peer review arrangements.	Audit Manager	31/12/2017
03	1320 – Reporting on the Quality Assurance and Improvement Programme	Has the CAE reported the results of the external assessments to senior management and the board?	The result of the external assessment to be presented to the Audit and Governance Committee.	Audit Manager	08/02/2018
04	1320 – Reporting on the Quality Assurance and Improvement Programme	Has the results of ongoing monitoring of the quality and assurance programme and progress against the improvement plan been communicated at least annually?	Progress made against the quality assurance improvement programme to be included in the Head of Internal Audit Annual Report.	Audit Manager	10/05/2018

ACTION NO.	PSIAS STANDARD	CONFORMANCE WITH THE STANDARD	PROPOSED ACTION	RESPONSIBILITY	TIMESCALE
05	1320 – Reporting on the Quality Assurance and Improvement Programme	Do the results include the assessor's or assessment's team's evaluation with regards to the degree of the internal audit activity's conformance with the PSIAS?	The external assessments evaluation will be reported in the Head of Internal Audit Annual Report.	Audit Manager	10/05/2018
06	1322 – Disclosure of Non-conformance	Has the CAE reported any instances of non-conformance with the PSIAS to the board?	Any instances of non-conformance to be reported to the Audit and Governance Committee and any significant deviations to be included in the annual governance statement.	Audit Manager & Senior Manager – Revenues and Risk	As required
07	2450 – Overall Opinion	Does the annual report incorporate: a) A statement of conformance with the PSIAS? b) The result of the QAIP? c) Progress against any improvement plans resulting from the QAIP?	The Head of Internal Audit Annual Report to incorporate a statement of conformance with the PSIAS and progress against any improvement plan resulting from the QAIP.	Audit Manager	10/05/2018