



Complete Agenda

Democratic Services
Swyddfa'r Cyngor
CAERNARFON
Gwynedd
LL55 1SH

Meeting

AUDIT AND GOVERNANCE COMMITTEE

Date and Time

10.00 am, THURSDAY, 19TH JULY, 2018

Location

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

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AUDIT AND GOVERNANCE COMMITTEE

MEMBERSHIP (19)

Plaid Cymru (10)

Councillors

Aled Ll. Evans
Huw Gruffydd Wyn Jones
Cemlyn Rees Williams

Aled Wyn Jones
Berwyn Parry Jones
Gethin Glyn Williams

Charles Wyn Jones
Paul John Rowlinson
Vacant Seat x 2

Independent (5)

Councillors

John Brynmor Hughes
Dewi Wyn Roberts
Angela Russell

Richard Medwyn Hughes
John Pughe Roberts

Llais Gwynedd (1)

Councillor Alwyn Gruffydd

Lib / Lab (1)

Vacant Seat

Gwynedd United Independents (1)

Vacant Seat

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

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The Chairman shall propose that the minutes of the meeting of this committee, held on 28 June 2018, be signed as a true record.

5. GWYNEDD PENSION FUND'S 2017/18 STATEMENT OF ACCOUNTS

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To submit, for information, the Pension Fund's statutory financial declarations (subject to audit) for 2017/18.

6. TREASURY MANAGEMENT 2017/18

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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 2018.

7. RISK MANAGEMENT ARRANGEMENTS

63 - 67

To submit the report of the Senior Manager Revenues and Risk.

8. AUDIT ASSURANCE LEVELS AND RISK SCORING ARRANGEMENTS

68 - 71

To submit the report of the Audit Manager.

9. SELF-ASSESSMENT OF THE EFFECTIVENESS OF THE AUDIT AND GOVERNANCE COMMITTEE

72 - 81

To submit the report of the Senior Manager Revenues and Risk.

10. REPORT OF THE CONTROLS IMPROVEMENT WORKING GROUP

82 - 98

To submit the report of the Chair of the Audit and Governance Committee outlining the feedback from the meeting of the Working Group on 19 June 2018.

AUDIT AND GOVERNANCE COMMITTEE 28/6/18

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

Councillors: Aled Ll. Evans, Alwyn Gruffydd, Aled Wyn Jones, Berwyn Parry Jones, Charles Wyn Jones, Huw G. Wyn Jones, Dewi Wyn Roberts, Paul Rowlinson and Angela Russell.

Lay Member: Sharon Warnes

Others invited: Peredur Jenkins (Cabinet Member for Finance) and Edgar Owen (Ex-officio Member).

Also in Attendance: Dafydd Edwards (Head of the Finance Department), Ffion Madog Evans (Senior Finance Manager), Dewi Morgan (Senior Revenue and Risk Manager), Geraint Owen (Head of Corporate Support Department - for Item 5 on the agenda), Dewi Wyn Jones (Council Business Service Support Manager - for Item 6 on the agenda) and Bethan Adams (Member Support Officer).

Apologies: Councillors John Pughe Roberts and Gethin Glyn Williams.

1. DECLARATION OF PERSONAL INTEREST

Councillor Dewi Wyn Roberts declared a personal interest in item 5 on the agenda - 'Local Conditions of Service' as his wife had received the letter and that the changes affected her financially.

The member was of the opinion that it was not a prejudicial interest, and he did not withdraw from the meeting during the discussion on the item.

2. MINUTES

The Chair signed the minutes of the meeting of this committee held on 10 May, 2018, as a true record.

3. LOCAL CONDITIONS OF SERVICE

The Chair noted that the item was before the Committee in response to a request received by two Committee members, Councillors John Brynmor Hughes and Angela Russell, to discuss the letter sent to Council staff informing them of the Council Cabinet's decision on 13 March 2018 to adopt adaptations to Council conditions of employment.

The Head of Corporate Support Department submitted the report, and noted that a letter had been sent to staff on 26 March to inform them of the Cabinet's decision, in his name as the Head of Department with responsibility for implementing the decision. He explained that a follow-up letter had been sent on 3 April apologising to staff for the tone of the letter and the choice of words used. He noted that the apology was sincere and that it needed to be done. He emphasised that an important lesson had been learnt about the need to be respectful.

Councillor Angela Russell thanked the Head of Department for his honesty. She noted that she was concerned about the letter's impact on staff morale. She asked whether an error had been made as a result of the impact of cuts with insufficient staff to undertake the work and the pressures placed on them. In response, the Head of Corporate Support Department noted, as he reported in the Corporate Support Cabinet Member's performance challenge meeting, that he was not going to hide behind a lack of capacity and that he acknowledged, that an error had

been made. He emphasised that it would not happen again and that steps were now in place to ensure this.

Councillor John Brynmor Hughes noted that he was present at the Corporate Support Cabinet Member's performance challenge meeting and that he had accepted the Head's explanation and the fact that lessons had been learnt and the promise that such a situation would never arise again.

In response to a question from a member regarding who had seen the letter prior to it being sent to staff, the Head of Corporate Support Department noted that a solicitor specialising in the field of employment, who represented the Monitoring Officer, had looked at the letter to verify that it was factually correct. He explained that the tone of the letter was a matter for him as the Head of Department.

A member enquired whether or not the Chief Executive had seen the letter. In response, the Head of Corporate Support Department noted that the Chief Executive had not seen the letter as it was an operational matter.

In response to a question from a member regarding how many staff had responded to the letter, the Head of Corporate Support Department noted that 50% had responded to the letter. He explained that the letter of apology sent to staff noted that if staff did not respond to the letter, and that they were present at work when changes to conditions of employment would come into force on 1 July 2018, their presence would confirm that they accepted the changes.

A member noted that he had received a copy of the letter as a school Governors Clerk although he had not held the post for four years. He enquired what impact the letter had had on staff morale. In response, the Head of Corporate Support Department noted that it had become apparent that the Education Department's school records needed to be updated. He explained that some schools did not inform the Education Department of changes. He noted that the Department's records had been updated since the letter was sent. In terms of staff morale, an impact had been unavoidable, with a mixture of response from staff with some unaffected and some who had felt unnecessary anxiety as a result of the original letter.

In response to a question from a member regarding the support available for staff, the Head of Corporate Support Department noted that a helpline was available for staff where they could talk with Human Resources Advisers to receive assurance about the situation and that he had spoken to some individuals himself.

A member enquired whether or not there had been any staff resignations as a result of the letter. In response, the Head of Corporate Support Department noted that no individual had resigned as a result of the letter.

The Chair thanked the Head of Corporate Support Department and that he hoped that lessons had been learnt. In response, the Head of Department noted that he could guarantee that nobody was more disappointed than himself that this had taken place.

RESOLVED to accept the report.

4. RECOMMENDATIONS AND IMPROVEMENT PROPOSALS OF EXTERNAL AUDIT REPORTS

The Council's Business Support Manager set the context, and noted that the role of the Committee was to satisfy itself that arrangements and processes were underway to ensure that improvement proposals of external reports were implemented, and that the Committee should not duplicate an investigation into matters that were within the remit of other scrutiny committees.

He referred to Appendix 1 of the report which included a chronological list of the inspections undertaken by external auditors between 2012/13 and 2017/18 along with their improvement proposals, and the progress made by the Council against these proposals since the Committee discussed the matter at its meeting on 30 November 2017. He explained that it was the relevant Department's observations noted under the 'Progress against improvement proposals' heading, with the independent opinion of officers from the Council's Business Support Unit noted under the 'Conclusion' heading. He noted that it was a matter for the Committee to decide whether or not they agreed with the conclusion that the work of realising the recommendation had been 'completed' or continued to be 'on-going'.

During the discussion, the following main points were noted by members:

- The 'Annual Performance Appraisal of the Care and Social Services Inspectorate for Wales (CSSIW) 2013/14' report had been submitted quite a long time ago. Who completed health assessments for looked-after children and was a shortage of doctors a reason for the reduction in the performance percentage of registering with a GP within 10 days?
- Progress regarding improvement proposals in the report noted above was a matter that needed to be addressed;
- The Care Scrutiny Committee should be asked to consider scrutinising matters highlighted by the 2013/14 and 2014/15 CSSIW reports, the 'Helping People to Live Independently: Do Councils Do Enough?' report, along with the 'National Review of care and assistance to people with learning disabilities (Joint-review carried out by CSSIW and the Health Care Inspectorate)', and work undertaken to respond to the improvement proposals;
- The Communities Scrutiny Committee should be asked to consider scrutinising matters highlighted in the 'Delivering with Less - the impact on environmental health services and citizens' report, and work undertaken to respond to the improvement proposals;
- Confirmation should be received in terms of which committee should consider the 'Asset management [Land and Buildings]' report;
- In terms of the 'Community Safety in Wales' report, if the matter was in this Committee's terms of reference, the Committee should receive a report on the matter;
- An explanation should be received of why three improvement proposals under the 'People Strategy' report had not been completed.

A member enquired whether or not there was a time-scale to complete the work of responding to improvement proposals. The Council's Business Support Manager noted that a time-scale to complete the work of responding to recommendations would be considered when an update would be submitted to the Committee in six months.

The Senior Revenue and Risk Manager took the opportunity to update members on progress against recommendations in relation to the 'Risk Management - An assessment that is based on the risk of the Council's corporate arrangements' report. He confirmed that a report on the Council's risk management arrangements would be before the next meeting of the Committee on 19 July.

The Head of Finance Department referred to improvement proposal six under the 'Local authorities arrangements to charge a fee for services and generate income' report - "Improve the arrangements for anticipating income from payments by planning scenarios and conducting sensitivity analysis", which had been noted as "on-going". He noted that the recommendation was an aspiration and that it was not a core matter, priority was given to focusing on the savings work and work associated with the Council's budget. He suggested that consideration should be given to note that work associated with this specific recommendation was to be done when resources were available and to remove it from the list to be submitted again to the Committee.

As the above recommendation was not a priority, a member noted that it should be noted as 'completed'.

A discussion was held on the forward scrutiny of service changes business cases to respond to the improvement proposal from the 'Good governance when determining significant service changes' report. A member expressed his concern about the role of ordinary members in the democratic process with the onset of the cabinet system in 2012. He added that matters were being raised by members who did not receive a response. He noted that a bridge was needed between general members and cabinet members. He referred to the last meeting of the Controls Improvement Working Group where relevant Cabinet Members had not been present.

The Head of Finance Department noted that the Council's Budget report would be submitted before the Council before the matter went before the Cabinet and the Full Council. Matters such as re-modelling the Youth Service and developments relating to the North Wales Growth Deal had been scrutinised in advance by the Education and Economy Scrutiny Committee. He explained that there was a restriction in terms of the number of matters that could be considered.

A member noted that the Scrutiny Forum should be asked to consider the situation in terms of forward scrutiny with regards to service changes business cases.

RESOLVED:

- (i) to accept the report subject to noting that improvement proposal six under the 'Local authority arrangements to charge a fee for services and generate income' report is "completed";
- (ii) to ask the Care Scrutiny Committee to consider scrutinising matters highlighted by 2013/14 and 2014/15 CSSIW reports, the 'Helping People to Live Independently: Do Councils Do Enough?' report, along with the 'National Review of care and assistance to people with learning disabilities (Joint-review carried out by CSSIW and the Health Care Inspectorate)', and work undertaken to respond to the improvement proposals;
- (iii) to ask the Communities Scrutiny Committee to consider scrutinising matters highlighted in the 'Delivering with Less - the impact on environmental health services and citizens' report, and work undertaken to respond to the improvement proposals;
- (iv) to receive confirmation in terms of which committee should consider the 'Asset management [Land and Buildings]' report;
- (v) that the Committee receives a report in relation to the 'Community Safety in Wales' report, if the matter is in the Committee's terms of reference;
- (vi) to receive an explanation why three improvement proposals under the 'People Strategy' report had not been completed;
- (vii) to ask the Scrutiny Forum to consider the situation in terms of forward scrutiny with regards to service changes business cases.

5. FINAL ACCOUNTS 2017/18 – REVENUE OUTTURN

The report was submitted by the Senior Finance Manager, she set the context and elaborated on the content of the report that had been submitted to Cabinet on 22 May 2018. She noted that the final financial position of the Council's departments for 2017/18 confirmed that there was effective financial management by the relevant Cabinet Members, department heads and budget managers.

She drew attention to the Cabinet's decision:

"1.1 To consider and note the final financial position of the Council's departments for 2017/18.

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	100
Education	0
Economy and Community	(35)
Highways and Municipal	100
Environment (formerly Regulatory)	(100)
Gwynedd Consultancy	(82)
Corporate Management Team and Legal	(66)
Finance	(66)
Corporate Support	(67)

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

- Transfer £457k, equivalent to the supporting delivery of social services grant over the winter period to a specific fund to support the flexibility and facilitate transformation in the field of Adults in future.
- Harvest (£37k) of the underspend, namely the sum above (£100k) for Adults, Health and Well-being, to be used to assist the departments who overspend this year.
- The Children and Families Department to receive one-off financial support of £676k to alleviate the majority of the 2017/18 overspend, allowing them to move forward to face the challenges of 2018/19.
- Transfer £207k to eliminate the Education Department's overspend, whilst transport policies and arrangements are being reviewed.
- Highways and Municipal Department to receive one-off partial financial support of £203k to limit the overspend to be carried forward by the Department to £100k, to assist them with facing the challenge of 2018/19.
- Transfer £378k of the Environment Department's 2017/18 underspend to a specific fund, relating to buses and routes costs, to be used in 2018/19.
- Harvest (£89k) of the Environment Department's underspend, namely the sum above (£100k), to be used to assist the departments that overspend this year.
- Harvest (£894k) of the net underspend on Corporate budgets (on Council Tax Reduction, bids and budgets returned by departments and on other headings), and transfer to assist the overspending departments in 2017/18.
- Transfer £66k from the Financial Strategy Support Fund, namely the balance required, to support the departments that overspend.

1.4 To approve the virements from the specific reserves as outlined in Appendix 3 following a review of the reserves, namely:

- Harvest (£2.915m).
- Assign £2.749m to the Council Plan.
- Assign £166k to waste issues."

The Cabinet Member for Finance noted that the financial position was generally very acceptable. He explained that relevant Cabinet Members had explained reasons for the overspend in the Children and Families Department and the Highways and Municipal Department at the Cabinet meeting on 22 May 2018. He confirmed that assurance had been received at the meeting that overspend was being addressed.

The Head of Finance Department noted that there had been an underspend in the Education Department, Environment Department and the Adults, Health and Well-being Department, as

the Council had received grant funding from Welsh Government at the end of the financial year. He confirmed that grant funding had been assigned to commitments in the 2018/19 financial year.

Whilst he welcomed the receipt of grant funding, the Cabinet Member for Finance noted that it was not ideal for the Council to receive it during the period when it closed its accounts. He explained that he would take the opportunity to discuss the forward programming of grant funding payments with Welsh Government so that the Council could forward plan.

A member noted his gratitude for the work and reiterated the Cabinet Member's observation that Welsh Government needed to be contacted about the need to forward programme grant payments as receiving grant funding at the end of a financial year made officers' work difficult.

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

- An update was provided regularly to the Committee about the overspend situation on taxis to transport pupils to schools. The Education Department had received £207k to eliminate the overspend, whilst transport policies and arrangements were being reviewed. The situation would be reported upon in the next budget review report;
- In terms of the reason for the overspend under the 'Provider Service' heading in the Adults, Health and Well-being Department, school meals income did not cause the overspend. School meals income affected specific secondary schools and the Education Department in the primary sector;
- In terms of the loss of income on parking fees, the target of 2017/18 parking fees income was increased higher to what had been collected in 2017/18, in order to contribute towards the savings of the Environment Department. Having considered the income collected from car parks of £1.795m, an income deficit of £50,000 was a very small percentage;
- With regards to overspend in terms of Council Tax as a result of the District Valuer's Office allowing 282 properties to transfer from the Council Tax to the Non-domestic Rates list, that the Holiday Homes and Taxes Scrutiny Investigation, officers and Cabinet Member had warned that there would be a risk of losses in terms of the tax premium on second homes as legislation was not entirely sound. When potential income had been estimated, it was noted that the Council would not receive £5m as a result of the premium, but that realistically the Council would receive approximately £2m. The situation was not unexpected, and there was no reason at the moment to adjust the estimated income level expected in the 2018/19 financial year. It was seen that the number of transfers to the non-domestic rates list in 2017/18 was over 50% higher than in previous years, with the impact of back-dating some applications to 2010/11. The Cabinet Member for Finance had written to Welsh Government regarding the matter in the last month;
- The situation in terms of the tax premium on second homes was being regularly monitored by the Cabinet Member for Finance, and he was of the opinion that legislation to exact that planning permission be received in order to change a house to a business and this had been noted in the letter sent to Welsh Government. Confirmation was received from the District Valuer that they did not have staffing resources to monitor the system. A report would be submitted to a meeting of the Cabinet in the Autumn on the situation in terms of tax premiums on second homes.

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

6. CAPITAL PROGRAMME 2017/18 – END OF YEAR REVIEW

The report of the Head of Finance Department was submitted, providing details of the end of year review of the capital programme.

The Senior Finance Manager set the context and elaborated on the content of the report that had been submitted to Cabinet on 22 May 2018. It was noted that the Council had succeeded in spending over £23m in 2017/18 on capital programmes, and £11m had been funded through attracting specific grants. It was confirmed that £15.6m of the expense budget would slip from 2017/18, compared to a slippage of £9.9m at the end of 2016/17. No loss of grant funding was caused to the Council where schemes had slipped.

A member enquired whether or not the Council had to immediately spend the grant receipts that had been received in the last quarter of 2017/18 to restore roads and transport. In response, the Head of Finance Department noted that councils were allowed to carry funding forward and that most of the funding would be spent in 2018/19.

In response to a question from a member, the Head of Finance Department noted that there was evidence that more funding was received at the end of the financial year; if Welsh Government had not spent all of the funding earmarked for specific projects, they would transfer the money to local councils.

The Cabinet Member for Finance thanked him for the work and he congratulated Council departments on their success in attracting grants for the benefit of Gwynedd residents.

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

7. 2017/2018 SAVINGS OVERVIEW: PROGRESS REPORT ON REALISING SAVINGS SCHEMES

The report of the Head of Finance Department was submitted which reported on the latest situation on realising the saving schemes.

The Senior Finance Manager set the context and elaborated on the content of the report that had been submitted to Cabinet on 22 May 2018. She noted that 108 of 122 of the 2017/2018 savings schemes had been fully or partly realised. In financial terms, she confirmed that 81% of the savings had been realised.

On 13 February 2018, she noted that the Cabinet had decided to combine several individual schemes from the Adults, Health and Well-being Department to work streams that were realising savings from the same budgets. It was anticipated that this would enable the Department during 2018/19 to make substantial progress towards realising the savings that had slipped.

She reported that the prospects of realising 2018/19 savings schemes were generally promising.

RESOLVED to note the situation and the relevant risks in the context of the savings overview.

8. STATEMENT OF ACCOUNTS 2017/18

The Senior Finance Manager set out the background and context of the report. Attention was drawn to the fact that unaudited draft accounts were being submitted here for information, with the final version to be submitted for the Committee's approval at the meeting on 27 September 2018. She reported that a link to the statement had been sent to all Council members on 20 June and that the statement was subject to an audit from the Deloitte company, the Council's external auditors which had been appointed by the Wales Audit Office since 18 June.

The Senior Finance Manager expanded upon the content of the Statement of Accounts.

The Cabinet Member for Finance referred to the Transformation / Invest to Save Fund and noted that it had been a strategic fund to deliver in accordance with the Council Plan and approximately £5m had already been earmarked. She explained that the purpose of the Financial Strategy Support Fund was to bridge expenditure before some of the savings schemes were delivered.

In response to a question by a member regarding the Transformation / Invest to Save Fund, the Head of Finance Department explained that the funding was for Council priorities which had been noted in the Council Plan. He elaborated that £50,000 had been allocated for the 2018-19 financial year in order to realise the 'Increasing the Benefits of Major Events' scheme. He explained that Council Departments would come before the Cabinet with more detail on ideas to deliver the plan's priorities.

The Head of Finance Department noted that the Senior Finance Manager and the team of accountants had undertaken most of the work on the Statement of Accounts, and that he had verified the Statement. He reported that a Pension Fund's Statement of Accounts for 2017/18 prior to an audit would be submitted to the Committee at its meeting on 19 July 2018.

The Cabinet Member for Finance thanked the Finance Department officers for their accurate and detailed work, and noted that the Wales Audit Office praised the Council's accounts and that he hoped that they would do the same this year. He took the opportunity to thank Council officers for their response to difficult financial requirements.

The Chair reiterated the above observations and expressed his gratitude for the work.

RESOLVED to accept and note the 2017/18 Statement of the Council's Accounts (subject to an audit).

9. GWYNEDD COUNCIL'S ANNUAL GOVERNANCE STATEMENT 2017/18

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

It was noted that the Governance Arrangements Assessment Group had considered the Core Principles and Sub-principles in the CIPFA / SOLACE Framework, *Delivering Good Governance in Local Government 2016*, and had created a Governance Risk Register. Attention was drawn to the fact that the Governance Risk Register identified risks in 22 different governance fields, and noted the controls in order to mitigate the risks. It was noted that action plans for the areas of high or medium priority had been noted in the statement.

A member gave thanks for the work. She referred to the impact assessment under the heading 'Lawfulness'; although she recognised that the document was on a high strategic levels, she noted that she was of the view that the assessment was fairly restrictive and focused on the role of the Monitoring Officer and formal decisions. She noted that a number of matters were being raised at Committee meetings regarding compliance with acts across the Council, for example, in the fields of Health and Safety and Safeguarding Children and Vulnerable Adults.

In response to the above observations, the Senior Revenue and Risk Manager noted that an attempt was made to avoid duplicating information under various headings. He explained that matters in the fields of Health and Safety and Safeguarding Children and Vulnerable Adults were being addressed under the 'Risk Management' heading. He emphasised that a Governance Statement was before the Committee and that performance matters were being included in the Council's Annual Performance Report.

The Senior Revenue and Risk Manager referred to the 'Internal Control' heading, and noted that the boundary regarding the role of members in terms of scrutiny and audit was unclear and that the development of a training programme was needed so that members could receive guidance. He noted that a report on the matter would be submitted to the Committee on 19 July.

RESOLVED:

- (i) to approve the Annual Governance Statement for 2017/18;**
- (ii) to recommend that the Council Leader and the Chief Executive sign the statement.**

10. GWYNEDD HARBOURS' FINAL ACCOUNTS 2017/18

The Senior Finance Manager submitted the report regarding the final accounts of Gwynedd Harbours for the year 2017/18 in line with the statutory requirements under the Harbours Act 1964. It was noted that the accounts included Aberdyfi, Barmouth, Porthmadog and Pwllheli harbours.

It was noted that Gwynedd Harbours, due to its turnover not exceeding £2.5m, was considered to be a small local government body as defined in the Accounts and Audit (Wales) (Amendment) Regulations 2018. It was explained that completion of a statements of accounts form provided by the Wales Audit Office satisfied the statutory requirements and that production of full statutory financial statements were not required.

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 27 September 2018 should there be any changes.

RESOLVED:

- (i) accept and approve the information in the appendices, namely -**
 - Income and Revenue Expenditure Account 2017/18 - Appendix A; and**
 - Statements of Accounts form for 2017/18, for audit - Appendix B.**
- (ii) authorise the Chair to sign the statements of accounts form 2017/18.**

The meeting commenced at 10.00am and concluded at 12.20pm

CHAIR

MEETING	AUDIT AND GOVERNANCE COMMITTEE
DATE	19 July 2018
TITLE	GWYNEDD PENSION FUND'S 2017/18 STATEMENT OF ACCOUNTS (for the year ended 31 March 2018)
PURPOSE / RECOMMENDATION	Receive the Pension Fund's Statutory Statement of Accounts (pre-audit draft) for information
AUTHORS	Dafydd L Edwards, Head of Finance, and Caroline L Roberts, Investments Manager

1. INTRODUCTION

- 1.1 This report introduces the Pension Fund's statutory Statement of Accounts for the 2017/18 financial year, which provides details of the Fund's financial activities during the year which ended on 31 March 2018.
- 1.2 The following document is the draft Statement of Accounts in its statutory format, 33 pages long in each language. The Statement was presented to members of the Council's Pensions Committee and members of the local Pension Board on 16 July.
- 1.3 The draft accounts presented here have yet to be audited, so some changes will be necessary before a final version is submitted for approval at the 27 September 2018 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) (Amendment) Regulations 2018, as well as other national regulations and standards. Several requirements of the IFRS (International Financial Reporting Standards) are based on the Code of Practice on Local Authority Accounting and apply to the Fund's Statement of Accounts for 2017/18.
- 1.5 This year, for the first time, in accordance with the latest Code of Practice, the Pension Fund's Statement of Accounts is presented to the Audit and Governance Committee separately from the Statement of Accounts of the Council.

2. ACTION REQUIRED

- 2.1 The Audit and Governance Committee are "those charged with governance" on behalf of the Pension Fund, but revisions in 2010 to the Accounts and Audit Regulations gave responsibility for approving and certifying the draft accounts before 30 June to the Statutory Finance Officer (for Gwynedd Pension Fund, the Head of Finance).
- 2.2 There is no longer any requirement for elected members to approve the draft version of the Pension Fund's Statement of Accounts, but this is presented to the Audit and Governance Committee FOR INFORMATION as "good practice".

- 2.3 Doubtless, the Audit and Governance 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 in their context.

3 SUBSEQUENT STEPS

- 3.3 Further to certification by the Head of Finance and consideration by the Committees, the 2017/18 Statement of Accounts will be subject to the annual audit process by Deloitte, Gwynedd Council's external auditors, who were appointed by the Auditor General for Wales. This year, for the first time, Deloitte are employing specialist pension fund auditors for this purpose.
- 3.4 In accordance with the Accounts and Audit (Wales) (Amendment) Regulations 2018, 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, local government electors also have the opportunity to question the external auditor about the Pension Fund's accounts.
- 3.5 As noted in paragraph 1.3 (above), the final (audited) version of the Pension Fund's 2017/18 Statement of Accounts will be submitted to the 27 September 2018 meeting of the Audit and Governance Committee FOR APPROVAL, along with an 'ISA260' report by Deloitte's external auditors on behalf of the Auditor General for Wales.
- 3.6 Subsequently, it is the Finance Department's intention to provide a link to the final Statement to all elected members of the Council, the fund's employers, and other interested parties.
- 3.7 The final version of the Pension Fund's Statement of Accounts will also be presented to the Annual General Meeting of the Pension Fund on 10 October 2018.

4 RECOMMENDATION

- 4.1 The Audit and Governance Committee is asked to receive and note the Pension Fund's Statement of Accounts (subject to audit) for 2017/18.
- 4.2 Finance officers will be present at the Audit and Governance Committee meeting on 19 July to answer any questions the Committee members may have regarding these accounts.

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NARRATIVE REPORT

Introduction

Gwynedd Pension Fund's accounts for the year 2017/18 are presented here on pages 4 to 33.

The Accounts consist of the Gwynedd Pension Fund Account and Balance Sheet.

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

The Pension Fund accounts, and accompanying notes, summarise the financial transactions and net assets related to the provision of pensions and other benefits payable to former employees of all the Fund's employers, including Anglesey, Conwy and Gwynedd Councils, Snowdonia National Park, North Wales Police, Cartrefi Conwy, Cartrefi Cymunedol Gwynedd, various town and community councils, and other scheduled and admitted bodies.

During the year the Fund increased in value by £73.3 million.

The Fund has two important statements which set out the strategies for ensuring pensions are funded now and in the future as follows:

- Funding Strategy Statement – the statement sets out the fund-specific strategy which will identify how employers pensions liabilities are best met going forward. It is reviewed every three years after the triennial actuarial valuation and includes individual employer rates for the following period.
- Investment Strategy Statement - the statement sets out the types of investments and broad limits on each type of investment

Both these statements are available on the fund's website under the investments section.

An Actuarial Valuation is required every three years to establish the level of assets available to pay pensions now and in the future. The next valuation will be as at 31 March 2019 and any changes to employers contributions will be made from 1 April 2020.

The Statement of Accounts is available on Gwynedd Pension Fund's website www.gwyneddpensionfund.org

Further information relating to the accounts is available from:

Caroline Roberts
Investment Manager
01286 679128

Finance Department
Gwynedd Council
Council Offices
Caernarfon
Gwynedd
LL55 1SH

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

GWYNEDD PENSION FUND

STATEMENT OF ACCOUNTS

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

THE PENSION FUND'S RESPONSIBILITIES

Gwynedd Council as administrating authority (effectively the trustee) for Gwynedd Pension Fund is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Gwynedd Council, that "Section 151 Officer" is the Head of Finance. It is also the administrating authority's responsibility to manage its affairs to secure economic, efficient and effective use of its resources, to safeguard its assets, and to approve the Statement of Accounts.

THE HEAD OF FINANCE'S RESPONSIBILITIES

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

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

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

RESPONSIBLE FINANCIAL OFFICER'S CERTIFICATE

I certify that the Statement of Accounts has been prepared in accordance with the arrangements set out above, and presents a true and fair view of the financial position of Gwynedd Pension Fund at 31 March 2018 and the Pension Fund's income and expenditure for the year then ended.

28 June 2018

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

**GWYNEDD PENSION FUND ACCOUNTS
2017/18**

**THE FUND ACCOUNT FOR THE YEAR ENDING
ON 31 MARCH 2018**

31 March 2017 £'000		Notes	31 March 2018 £'000
	Dealings with members, employers and others directly involved in the Fund		
67,695	Contributions receivable	7	82,302
7	Interest on deferred contributions		
2	Income from divorce calculations		
0	Income from transfer value calculations		
5,893	Transfers in from other pension schemes	8	4,360
73,597	Total contributions received		86,665
(53,982)	Benefits payable	9	(53,911)
(3,970)	Payments to and on account of leavers	10	(2,306)
(57,952)	Total benefits paid		(56,217)
15,645			
(11,641)	Management Expenses	11	(13,367)
	Returns on Investments		
12,886	Investment income	14	15,155
(378)	Taxes on income	15	(252)
322,316	Profit and (loss) on disposal of investments and changes in the market value of investments	16	41,758
334,824	Returns on investments net of tax		56,661
338,828	Increase in the net assets available for benefits during the year		73,742
	Net assets of the Fund		
1,525,405	At 1 April		1,864,233
338,828	Increase in net assets		73,742
1,864,233			1,937,975

THE FUND ACCOUNT AT THE YEAR ENDING 31 MARCH 2018
--

31 March 2017 £'000		Notes	31 March 2018 £'000
1,798,325	Investment assets	16	1,859,635
49,248	Cash deposits	16	44,352
1,847,573			1,903,987
(235)	Investment liabilities	16	(4,690)
20,984	Current assets	21	42,626
(4,089)	Current liabilities	22	(3,948)
1,864,233			1,937,975

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 2017/18 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 Kinnel Bay Town Council
Holyhead Town Council	Tywyn Town Council
Caernarfon Town Council	Conwy Town Council
Trefriw Community Council (joined 1 June 2017)	
Admission Bodies	
Adult Learning Wales (previously Coleg Harlech WEA)	North Wales Society for the Blind
CAIS	Conwy Voluntary Services
Conwy Citizens Advice	Careers Wales North West
Ynys Môn Citizens Advice	Mantell Gwynedd
Cwmni Cynnal	Medrwn Môn
Cwmni'r Fran Wen	Menter Môn
Holyhead Joint Burial Committee	
Community Admission Bodies	
Cartrefi Conwy	Cartrefi Cymunedol Gwynedd
Transfree Admission Bodies	
ABM Catering	Caterlink
Superclean I	Dawnus (joined 1 April 2017)

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 2018. 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 2017 to 31 March 2020 following the actuarial valuation carried out as at 31 March 2016.

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 x career average revalued earnings (CARE)
Lump Sum	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

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

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

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 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 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 of the Fund 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 into the Fund 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 had negotiated with Fidelity International that an element of their fee would be performance-related. This arrangement was terminated on the 30 September 2016, and since then the fee has been based on the market value of the investments under their management.

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 therefore 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 2018 was £104 million (£110 million at 31 March 2017).

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 2018 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 2018, 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 £104 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 sheet date to report.

NOTE 7 – CONTRIBUTIONS RECEIVABLE

By category

2016/17		2017/18
£'000		£'000
52,439	Employers	66,372
15,256	Employees/Members	15,930
67,695		82,302

By authority

2016/17		2017/18
£'000		£'000
23,210	Gwynedd Council	29,868
40,231	Other scheduled bodies	48,301
1,514	Admission bodies	1,674
2,215	Community admission bodies	1,957
252	Transferee admission bodies	206
219	Resolution bodies	242
54	Closed fund*	54
67,695		82,302

* 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

2016/17		2017/18
£'000		£'000
15,256	Employees' normal contributions	15,930
46,570	Employers' normal contributions	47,186
5,869	Employers' deficit recovery contributions	19,186
67,695		82,302

NOTE 8 – TRANSFERS IN FROM OTHER PENSION FUNDS

2016/17		2017/18
£'000		£'000
1,315	Group transfers	0
4,578	Individual transfers	4,360
5,893		4,360

NOTE 9 - BENEFITS PAID

By category

2016/17		2017/18
£'000		£'000
41,081	Pensions	42,708
11,093	Commutation and lump sum retirement benefits	9,670
1,808	Lump sum death benefits	1,533
53,982		53,911

By authority

2016/17		2017/18
£'000		£'000
15,233	Gwynedd Council	15,454
25,701	Other scheduled bodies	26,173
1,561	Admission bodies	1,615
1,095	Community admission body	812
173	Transferee admission body	42
58	Resolution body	70
10,161	Closed fund	9,745
53,982		53,911

NOTE 10 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2016/17		2017/18
£'000		£'000
103	Refunds to members leaving service net of tax repayments	143
11	Payments for members joining state scheme	5
3,856	Individual transfers	2,158
3,970		2,306

NOTE 11 – MANAGEMENT EXPENSES

2016/17		2017/18
£'000		£'000
1,242	Administrative costs	1,261
10,343	Investment management expenses (Note 13)	12,046
56	Oversight and governance costs	60
11,641		13,367

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

2016/17 £'000		2017/18 £'000
	Administrative costs	
486	Direct employee costs	514
293	Other direct costs	264
303	Support services, including IT	357
33	External audit fees	34
128	Actuarial fees	92
1,243		1,261
	Oversight and governance costs	
55	Pensions Committee and Local Pension Board	60
1,298		1,321

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

2016/17 £'000		2017/18 £'000
10,258	Management fees	11,933
45	Custody fees	50
3	Performance monitoring service	8
37	Investment consultancy fees	55
10,343		12,046

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 £22,562 (2016/17 £322,972) 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

2016/17		2017/18
£'000		£'000
427	UK equities	914
6,405	Overseas equities	6,748
1,239	Private equity	544
207	Infrastructure	1,201
4,475	Pooled property investments	5,256
133	Interest on cash deposits	492
12,886		15,155

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

NOTE 15 – TAXES ON INCOME

2016/17		2017/18
£'000		£'000
378	Withholding tax – equities	252
378		252

NOTE 16 – INVESTMENTS

2016/17		2017/18
£'000		£'000
	Investment assets	
236,625	Fixed interest absolute return	292,050
345,284	Equities	337,188
963,262	Pooled equity investments	961,610
142,448	Pooled property investments	159,044
82,023	Private equity	76,137
28,053	Infrastructure	28,174
1,797,695		1,854,203
49,248	Cash deposits	44,352
630	Amount receivable from sales of investments	5,431
1,847,573	Total investment assets	1,903,986
	Investment liabilities	
(235)	Amounts payable for purchases	(4,690)
(235)	Total investment liabilities	(4,690)
1,847,338	Net investment assets	1,899,296

Note 16a – Reconciliation of movements in investments and derivatives

2017/18	Market value at 1 April 2017	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2018
	£'000	£'000	£'000	£'000	£'000
Fixed interest absolute return securities	236,625	55,000	0	425	292,050
Equities	345,284	79,717	(89,656)	2,072	337,418
Pooled investments	963,262	4,770	(22,567)	16,146	961,610
Pooled property investments	142,448	13,489	(6,409)	9,517	159,045
Private equity / infrastructure	110,076	13,778	(18,761)	(783)	104,310
	1,797,695	166,754	(137,393)	27,377	1,854,433
Cash deposits	49,248			326	44,603
Amount receivable from sales of investments	630				5,431
Amounts payable for purchases of investments	(235)			7,822	(4,690)
Fees within pooled vehicles					
Net investment assets	1,847,338	166,754	(137,393)	35,525	1,899,297

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

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 £103,937 (2016/17 £171,393). 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 2017 £'000		31 March 2018 £'000
	Equities	
	UK	
37,453	Quoted	35,413
	Overseas	
307,832	Quoted	301,775
	Pooled funds	
	UK	
301,034	Unit trusts	305,110
	Global (including UK)	
236,625	Fixed income	292,050
355,661	Unit trusts	337,295
	Overseas	
306,567	Unit trusts	319,205
142,447	Property unit trusts	159,044
82,023	Private equity	76,137
28,053	Infrastructure	28,174
1,797,695		1,854,203

Investments analysed by fund manager

Market Value at 31 March 2017			Market Value at 31 March 2018		
£'000	%		£'000	%	
601,837	32.6	BlackRock	618,768	32.6	
399,686	21.6	Fidelity	384,762	20.3	
236,632	12.8	Insight	292,052	15.4	
39,599	2.1	Lothbury	50,372	2.6	
110,076	6.0	Partners Group	104,310	5.5	
16,476	0.9	Threadneedle	18,149	1.0	
48,112	2.6	UBS	48,604	2.5	
394,920	21.4	Veritas	382,279	20.1	
1,847,338	100.0		1,899,296	100.0	

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

Market value 31 March 2017 £'000	% of total Fund	Security	Market value 31 March 2018 £'000	% of total Fund
355,661	19.08	Fidelity Institutional Select Global Equity	337,295	17.40
301,033	16.15	Aquila Life UK Equity Index Fund	305,110	15.74
236,625	12.69	Insight Umbrella Holdings	0	0
0	0	Insight LDI Solutions Plus Bonds	292,050	15.07
129,078	6.92	Aquila Life Global Dev Fundamental Fund	129,689	6.69

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 2017			As at 31 March 2018		
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					
236,625			292,050		
345,284			337,188		
963,262			961,610		
142,448			159,044		
82,023			76,137		
28,053			28,174		
	64,623			79,722	
	0			1,468	
	6,239			11,019	
1,797,695	70,862	0	1,854,203	92,409	0
Financial liabilities					
		(4,324)			(8,637)
		(4,324)			(8,637)
1,797,695	70,862	(4,324)	1,854,203	92,409	(8,637)

Note 17b – Net gains and losses on financial instruments

31 March 2017		31 March 2018	
Fair value		Fair value	
£'000		£'000	
Financial assets			
315,598	Fair value through profit and loss	27,377	
(392)	Loans and receivables	326	
315,206	Total financial assets	27,703	
Financial liabilities			
0	Fair value through profit and loss	0	
0	Financial liabilities at cost	0	
0	Total financial liabilities	0	
315,206	Net financial assets	27,703	

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 2017			31 March 2018	
Carrying value	Fair value		Carrying value	Fair value
£'000	£'000		£'000	£'000
		Financial assets	1,210,252	1,854,203
1,120,845	1,797,695	Fair value through profit and loss	92,372	92,409
70,815	70,811	Loans and receivables	1,302,624	1,946,612
1,191,660	1,868,506	Total financial assets		
		Financial liabilities	(4,675)	(4,689)
(235)	(235)	Fair value through profit and loss	(3,948)	(3,948)
(4,038)	(4,038)	Financial liabilities at cost	(8,623)	(8,637)
(4,273)	(4,273)	Total financial liabilities	1,294,001	1,937,975
1,187,387	1,864,233	Net financial assets		

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 2018	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	809,552	940,340	104,311	1,854,204
Loans and receivables	92,409	0	0	92,409
Total financial assets	901,961	940,340	104,311	1,946,613
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(4,689)	0	(4,689)
Financial liabilities at cost	(3,948)	0	0	(3,948)
Total financial liabilities	(3,948)	(4,689)	0	(8,637)
Net financial assets	898,013	935,651	104,311	1,937,975

	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

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 2017/18 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 2017	31 March 2018
	%	%
UK Equities	15.8	16.8
Global Equities	18.4	17.9
Private Equity	28.5	28.3
Absolute Return Bonds	2.9	2.8
Alternatives (Infrastructure)	11.3	20.1
Property	14.2	14.3
Cash	0.0	0.0
Whole Fund	12.8	12.6

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 2018	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
UK Equities	340,523	16.8	397,732	283,316
Global Equities	958,275	17.9	1,129,806	786,744
Private Equity	76,137	28.3	97,683	54,590
Absolute Return Bonds	292,050	2.8	300,227	283,873
Alternatives (Infrastructure)	28,174	20.1	33,836	22,511
Property	159,044	14.3	181,787	136,300
Cash	44,352	0.0	44,352	44,352
Total assets available to pay benefits	1,898,555	12.6	2,137,773	1,659,337

* The whole fund values in the table above are based on 12.6% rather than the total of the individual asset types.

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.

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 2018 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 2017	As at 31 March 2018
	£'000	£'000
Cash and cash equivalents	15,375	37,038
Cash balances	49,248	42,884
Fixed interest securities	236,625	292,050
Total	301,248	371,972

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 2018 £'000	Change in year in the net assets available to pay benefits	
		+1%	-1%
		£'000	£'000
Cash and cash equivalents	37,038	370	(370)
Cash balances	44,352	444	(444)
Fixed interest securities*	292,050	2,658	(2,658)
Total change in assets available	373,440	3,472	(3,472)

* 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 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

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 0.43%, amounting to interest of £127,666 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 2018 and as at the previous year end:

Currency exposure - asset type	As at	As at
	31 March 2017	31 March 2018
	£'000	£'000
Overseas and Global Equities	970,060	958,275
Global Fixed Income	236,625	292,050
Overseas Alternatives (Private Equity and infrastructure)	110,076	104,310
Overseas Property	3,636	3,636
Overseas Currency	0	1,468
Total overseas assets	1,320,397	1,359,739

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 2018. The equivalent rate for the year ended 31 March 2017 was 10%. 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 2018	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	958,275	1,054,103	862,448
Global Fixed Income	292,050	321,255	262,845
Overseas Alternatives (Private Equity and infrastructure)	104,310	114,741	94,059
Overseas Property	3,636	4,000	3,272
Overseas Currency	1,468	0	0
Total change in assets available	1,359,739	1,494,099	1,222,624

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

Currency exposure - by asset type	Carrying amount as at 31 March 2017 £'000	Change in year in the net assets available to pay benefits	
		Value on increase £'000	Value on decrease £'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

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 2018 was £37.1m (£15.7m at 31 March 2017).

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 two employers have provided bonds. Any future liabilities falling on the Fund as a result of cessation are borne by the whole Fund and spread across all employers. This is done to ensure that actuarial recovery periods and amounts are kept at a manageable level for smaller employers.

This risk has increased by a legal judgement, which potentially indicates that employers with no contributing members cannot be charged contributions under the LGPS Administration Regulations. This ruling, however, does not affect the ability to collect contributions following a cessation valuation under Regulation 38(2). The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions under Regulation 38 of the LGPS (Administration) Regulations 2008 between triennial valuations.

c) Liquidity risk

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

The 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 2018 the value of illiquid assets was £152m, which represented 7.9% of the total Fund assets (31 March 2017: £158m, which represented 8.5% 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 2018 are due within one year as was the case at 31 March 2017.

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

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

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 Funding Strategy Statement, 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 Funding Strategy Statement. 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 Funding Strategy Statement.

Principal Actuarial Assumptions and Method used to Value the Liabilities

Full details of the methods and assumptions used are described in the 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 2018.

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 2018 and 2017 are shown below:

	31 March 2017 £'m	31 March 2018 £'m
Active members	1,214	1,378
Salary increase rate	246	385
Discount rate	514	718
Total	1,974	2,481

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 2017	31 March 2018
	%	%
Inflation/pension increase rate	2.4	2.4
Salary increase rate	2.4	2.4
Discount rate	2.6	2.7

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 2018	Approximate % increase to liabilities	Approximate monetary amount
	%	£m
0.5% p.a. increase in the pension increase rate	8	208
0.5% p.a. increase in the salary increase rate	2	52
0.5% p.a. decrease in the discount rate	11	278

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

NOTE 21 – CURRENT ASSETS

2016/17		2017/18	
£'000		£'000	
820	Contributions due - employees	842	
2,845	Contributions due – employers	2,508	
1,944	Sundry debtors	2,238	
5,609	Total debtors	5,588	
15,375	Cash	37,038	
20,984	Total	42,626	

Analysis of debtors

2016/17		2017/18	
£'000		£'000	
2,352	Gwynedd Council	2,111	
560	Central government bodies	713	
1,209	Other local authorities	1,074	
3	NHS bodies	7	
1,485	Other entities and individuals	1,683	
5,609	Total	5,588	

NOTE 22 – CURRENT LIABILITIES

2016/17		2017/18
£'000		£'000
2,591	Sundry creditors	2,370
282	Transfer value payable (leavers)	0
1,216	Benefits payable	1,578
4,089	Total	3,948

Analysis of creditors

2016/17		2017/18
£'000		£'000
1,051	Gwynedd Council	1,317
37	Central government bodies	70
138	Other Local Authorities	69
58	NHS bodies	0
2,805	Other entities and individuals	2,492
4,089	Total	3,948

NOTE 23 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

The market value of the funds is stated below:

	Market value at 31 March 2017	Market value at 31 March 2018
	£'000	£'000
Clerical Medical	3,349	3,506
Equitable Life	229	226
Standard Life	53	70
Total	3,631	3,802

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

	2015/2017	2016/2018
	£'000	£'000
Clerical Medical	561	591
Equitable Life	0	0
Standard Life	0	13
Total	561	604

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 £1,056,813 (£1,008,589 in 2016/17) 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 £23.79m to the Fund in 2017/18 (£17.63m in 2016/17). At the end of the year the Council owed £2.11m to the Fund (see Note 21) which was primarily in respect of contributions for March 2018 and the Fund owed £1.32m 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 2017/18, the Fund received interest of £127,666 (£132,567 in 2016/17) from Gwynedd Council.

Governance

There were three members of the Pensions Committee who were in receipt of pension benefits from the Gwynedd Pension Fund during 2017/18 (committee members J.B. Hughes, P. Jenkins and the late T.O. Edwards). In addition, committee members S.W. Churchman, D. Cowans, S. Glyn, J.B. Hughes, A.W. Jones, H.E. Jones, W.T. Owen, and P. Read were active members of the Pension Fund.

Two members of the Pension Board were in receipt of pension benefits from the Gwynedd Pension Fund during 2017/18 (Board member H.E. Jones and S. Warnes). In addition, Board members A.W. Deakin, 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 2017 €'000	Commitment at 31 March 2018 €'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	3,372	2,712
P.G. Global Infrastructure 2012	40,000	15,894	12,133
P.G. Direct 2012	12,000	1,181	1,181
P.G. Global Value 2014	12,000	4,638	4,109
P.G Direct 2016	50,000	34,373	29,374
Total Euros	214,000	65,671	55,722
	\$'000	\$'000	\$'000
P.G. Emerging Markets 2011	7,000	1,623	1,225
P.G Secondary 2015	38,000	32,723	29,150
P.G Direct Infrastructure 2015	43,600	35,219	30,896
Total Dollars	88,600	69,565	61,271

'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

Two admitted body employers in the Gwynedd Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the 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 2018.

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.

Agenda Item 6

MEETING:	AUDIT COMMITTEE
DATE:	19 JULY 2018
TITLE:	TREASURY MANAGEMENT 2017/18
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 the 2017/18 financial year the Council's borrowing remained within the limits originally set and total interest received on deposits was £211,000 which was above the budgeted level of £172,750. There were no defaults by banks in which the Council had deposited money with.

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 results 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 the actual performance for the Financial year 2017/18 against the strategy which was established in February 2018 and was approved by the full Council on 8 March 2018 and can be accessed at

<https://democracy.cyngor.gwynedd.gov.uk/documents/s16299/Appendix%20A%20-%20Treasury%20Management.pdf>

The report includes:

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

The 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

2017-18 was characterised by the push-pull from expectations of tapering of Quantitative Easing (QE) and the potential for increased policy rates in the US and Europe and from geopolitical tensions, which also had an impact.

The UK economy showed signs of slowing with latest estimates showing GDP, helped by an improving global economy, grew by 1.8% in calendar 2017, the same level as in 2016. This was a far better outcome than the majority of forecasts following the EU Referendum in June 2016, but it also reflected the international growth momentum generated by the increasingly buoyant US economy and the re-emergence of the Eurozone economies.

The inflationary impact of rising import prices, a consequence of the fall in sterling associated with the EU referendum result, resulted in year-on-year CPI rising to 3.1% in November before falling back to 2.7% in February 2018. Consumers felt the squeeze as real average earnings growth, i.e. after inflation, turned negative before slowly recovering. The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018. The inherent weakness in UK business investment was not helped by political uncertainty following the surprise General Election in June and by the lack of clarity on Brexit, the UK and the EU only reaching an agreement in March 2018 on a transition which will now be span Q2 2019 to Q4 2020. The Withdrawal Treaty is yet to be ratified by the UK parliament and those of the other 27 EU member states and new international trading arrangements are yet to be negotiated and agreed.

The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 0.25% in November 2017. It was significant in that it was the first rate hike in ten years, although in essence the MPC reversed its August 2016 cut following the referendum result. The February *Inflation Report* indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. Although in March two MPC members voted to increase policy rates immediately and the MPC itself stopped short of committing itself to the timing of the next increase in rates, the minutes of the meeting suggested that an increase in May 2018 was highly likely.

In contrast, economic activity in the Eurozone gained momentum and although the European Central Bank removed reference to an 'easing bias' in its market communications and had yet to confirm its QE intention when asset purchases end in September 2018, the central bank appeared some way off normalising interest rates. The US economy grew steadily and, with its policy objectives of price stability and maximising employment remaining on track, the Federal Reserve Open Market Committee (FOMC) increased interest rates in December 2017 by 0.25% and again in March, raising the policy rate target range to 1.50% - 1.75%. The Fed is expected to deliver two more increases in 2018 and a further two in 2019. However, the imposition of tariffs on a broadening range of goods initiated by the US, which has led to retaliation by China, could escalate into a deep-rooted trade war having broader economic consequences including inflation rising rapidly, warranting more interest rate hikes.

Financial markets

The increase in Bank Rate resulted in higher money markets rates: 1-month, 3-month and 12-month LIBID rates averaged 0.32%, 0.39% and 0.69% and at 31st March 2018 were 0.43%, 0.72% and 1.12% respectively.

Gilt yields displayed significant volatility over the twelve-month period with the change in sentiment in the Bank of England's outlook for interest rates. The yield on the 5-year gilts which had fallen to 0.35% in mid-June rose to 1.65% by the end of March. 10-year gilt yields also rose from their lows of 0.93% in June to 1.65% by mid-February before falling back to 1.35% at year-end. 20-year gilt yields followed an even more erratic path with lows of 1.62% in June, and highs of 2.03% in February, only to plummet back down to 1.70% by the end of the financial year.

The FTSE 100 had a strong finish to calendar 2017, reaching yet another record high of 7688, before plummeting below 7000 at the beginning of 2018 in the global equity correction and sell-off.

Credit background

Credit Metrics

In the first quarter of the financial year, UK bank credit default swaps reached three-year lows on the announcement that the Funding for Lending Scheme, which gave banks access to cheaper funding, was being extended to 2018. For the rest of the year, CDS prices remained broadly flat.

The rules for UK banks' ring-fencing were finalised by the Prudential Regulation Authority and banks began the complex implementation process ahead of the statutory deadline of 1st January 2019. As there was some uncertainty surrounding which banking entities the Authority would be dealing with once ring-fencing was implemented and what the balance sheets of the ring-fenced and non ring-fenced entities would look like, in May 2017 Arlingclose advised adjusting downwards the maturity limit for unsecured investments to a maximum of 6 months. The rating agencies had slightly varying views on the creditworthiness of the restructured entities.

Barclays was the first to complete its ring-fence restructure over the 2018 Easter weekend; wholesale deposits including local authority deposits will henceforth be accepted by Barclays Bank plc (branded Barclays International), which is the non ring-fenced bank.

Credit Rating developments

The most significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities.

Changes to credit ratings included Moody's downgrade of Standard Chartered Bank's long-term rating to A1 from Aa3 and the placing of UK banks' long-term ratings on review to reflect the impending ring-fencing of retail activity from investment banking (Barclays, HSBC and RBS were on review for downgrade; Lloyds Bank, Bank of Scotland and National Westminster Bank were placed on review for upgrade).

Standard & Poor's (S&P) revised upwards the outlook of various UK banks and building societies to positive or stable and simultaneously affirmed their long and short-term ratings, reflecting the institutions' resilience, progress in meeting regulatory capital requirements and being better positioned to deal with uncertainties and potential turbulence in the run-up to the UK's exit from the EU in March 2019. The agency upgraded Barclays Bank's long-term rating to A from A- after the bank announced its plans for its entities post ring-fencing.

Fitch revised the outlook on Nationwide Building Society to negative and later downgraded the institution's long-term ratings due to its reducing buffer of junior debt. S&P revised the society's outlook from positive to stable.

S&P downgraded Transport for London to AA- from AA following a deterioration in its financial position.

Moody's downgraded Rabobank's long-term rating due to its view on the bank's profitability and the ratings of the large Australian banks on its view of the rising risks from their exposure to the Australian housing market and the elevated proportion of lending to residential property investors.

Other developments

In February, Arlingclose advised against lending to Northamptonshire County Council (NCC). NCC issued a section 114 notice in the light of severe financial challenge and the risk that it would not be in a position to deliver a balanced budget.

In March, following Arlingclose's advice, the Authority removed RBS plc and National Westminster Bank from its counterparty list. This did not reflect any change to the creditworthiness of either bank, but a tightening in Arlingclose's recommended minimum credit rating criteria to A- from BBB+ for 2018-19. The current long-term ratings of RBS and NatWest do not meet this minimum criterion, although if following ring-fencing NatWest is upgraded, the bank would be reinstated on the Authority's lending list.

Local Authority Regulatory Changes

Revised CIPFA Codes

CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes from the 2011 Code have been incorporated into Treasury Management Strategies and monitoring reports.

The 2017 Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Where this strategy is produced and approved by full Council, the determination of the Treasury Management Strategy can be delegated to a committee. The Code also expands on the process and governance issues of capital expenditure and investment decisions.

In the 2017 Treasury Management Code the definition of 'investments' has been widened to include financial assets as well as non-financial assets held primarily for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability is to be identified and reported.

There have been no moves yet by Welsh Government on proposed changes to the Guidance on Local Authority Investments. The Authority is however aware of the MHCLG's changes to the Investment Guidance for English authorities.

Amendments to Capital Finance Legislation

The Welsh Government published the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2018 in March 2018. It amends and clarifies erstwhile regulations so that investments in corporate bonds and shares in FCA (Financial Conduct Authority) approved UCITS (Undertakings for the Collective Investment of Transferable Securities) funds, Real Estate Investment Trusts (REITs) and investment schemes approved by HM Treasury are no longer treated as capital expenditure. This legislation came into effect in the 2017/18 financial year. It enables the Authority to invest in these instruments, if appropriate for the Authority's circumstance and objectives, without the potential revenue cost of MRP (Minimum Revenue Provision) and without the proceeds from sale being considered a capital receipt.

MiFID II

As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities were automatically treated as retail clients but could "opt up" to professional client status, providing certain criteria was met which includes having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority have at least a year's relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess that that person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The Authority has met the conditions to opt up to professional status and has done so in order to maintain its erstwhile MiFID II status prior to January 2018. The Authority will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

Local Context

At 31 March 2018 the Council had net borrowing of £74m arising from its revenue and capital activities, a decrease against £82m in 2017. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The movements are summarised in the table below.

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.

Balance Sheet Summary

	31.3.17 Actual £m	2017/18 Movement £m	31.3.18 Actual £m
CFR	177	0	177
Less: Other debt liabilities	(2)	0	(2)
Borrowing CFR	175	0	175
Less: Usable reserves	(57)	1	(56)
Less: Working capital	(36)	(12)	(48)
Net borrowing	82	(11)	71

The Authority's strategy was to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31st March 2018 and the year-on-year change in show in the table below.

Treasury management summary

	31.3.17 Balance £m	31.3.17 Rate %	31.3.18 Balance £m	31.3.18 Rate %
Long-term borrowing	(108,143)	5.71	(107,810)	5.6
Short-term borrowing	(2,645)	10.63	(10,865)	0.5
Total borrowing	(110,788)	5.98	(118,675)	5.2
Long-term investments	2,171	1.59	17	4.0
Short-term investments	25,810	0.51	35,028	0.4
Cash and cash equivalents	1,384	0.15	12,403	0.4
Total investments	29,365	0.53	47,448	0.4
Net borrowing	81,423	5.95	71,227	5.2

Note: the figures in the table are from the balance sheet in the Authority's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments

3. Borrowing Activity in 2017/18

At 31st March 2018, the Council held £117.8m of loans, an increase of £9.1m on the previous year.

The year-end borrowing position and the year-on-year change are summarised in the table below.

Borrowing Position

	31.3.17 Balance £m	2017/18 Movement £m	31.3.18 Balance £m	31.3.18 Rate %	31.3.18 WAM* years
Public Works Loan Board	92.5	(0.9)	91.6	5.86	21
Banks (fixed-term)	16.2	10.0	26.2	4.23	60
Total borrowing	108.7	9.1	117.8	5.62	27

*Weighted average maturity

The Council's main 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 a secondary objective of flexibility to renegotiate loans should the Council's long-term plans change.

Further to these objectives, no new long-term borrowing was undertaken in 2017/18, with existing loans maturing without replacement. This strategy enabled the Council to reduce net borrowing costs (despite foregoing investment income) and reduce overall treasury risk.

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

The Council took out a short-term loan to ensure sufficient cash was available during the period from January to March 2018 rather than taking on long-term borrowing, which would increase the interest payable for many years in the future.

4. Investment Activity

The Council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2017/18 the Council's investment balances have ranged between £28.5million and £68.5 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

	31.3.17 Balance £m	2017/18 Movement £m	31.3.18 Balance £m	31.3.18 Rate %	31.3.18 WAM* days
Banks & building societies (unsecured)	21.3	(10.0)	11.3	0.55	204
Covered bonds (secured)	2.1	(0.1)	2.0	0.7	148
Government (incl. local authorities)	6.0	19.0	25.0	0.50	161
Money Market Funds	0.0	9.2	9.2	0.30	3
Total investments	29.4	18.1	47.5	0.44	137

*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.

Investment Benchmarking

	Credit Score	Credit Rating	Bail-in Exposure	WAM* (days)	Rate of Return
31.03.2017	3.27	AA-	64%	70	0.47%
30.06.2017	3.30	AA-	54%	72	0.48%
30.09.2017	3.97	AA-	57%	86	0.44%
31.12.2017	3.76	AA-	54%	77	0.47%
31.03.2018	3.96	AA-	43%	48	0.55%
Similar LAs	4.17	AA-	48%	115	0.47%
All LAs	4.03	AA-	55%	35	1.08%

*Weighted average maturity

During the year the exposure to 'bail-in' has reduced whilst the credit score has remained between 3 and 4.

Financial Implications

The outturn for debt interest paid in 2017/18 was £6.0 million on an average debt portfolio of £106.8 million at an average interest rate of 5.6%.

The average cash balances were £58.7m during the year. The UK Bank Rate has been between 0.25% and 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 0.55%. Investments in Money Market Funds generated an average rate of 0.45%.

The Council's budgeted investment income for the year was £0.17m. The Council's investment income outturn for the year was £0.21m.

Compliance Report

The Head of Finance is pleased to report that all treasury management activities undertaken during 2017/18 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

	2017/18 Maximum	31.3.18 Actual	2018/19 Limit	Complied
Any single organisation, except UK Government	£8m each	£6m and below	£6m each	✓
Any group of funds under the same ownership	£8m per group	£4m and below	£6m per group	✓
Foreign countries	£8m per country	£3m and below	£6m per country	✓
Unsecured investments with Building Societies	£8m in total	£6m in total	£6m in total	✓
Money Market Funds	£40m in total	£12m in total	£30m in total	✓

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

Debt Limits

	2017/18 Maximum	31.3.18 Actual	2017/18 Operational Boundary	2017/18 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.

	31.3.18 Actual	2017/18 Target	Complied
Portfolio average credit score	3.96	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.

	31.3.18 Actual	2017/18 Target	Complied
Total cash available within 3 months	£47.4m	£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:

	31.3.18 Actual	2017/18 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:

	31.3.18 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	8.8%	25%	0%	✓
12 months and within 24 months	1.9%	25%	0%	✓
24 months and within 5 years	3.9%	50%	0%	✓
5 years and within 10 years	14.5%	75%	0%	✓
10 years and within 20 years	27.7%	100%	0%	✓
20 years and within 30 years	6.4%	100%	0%	✓
30 years and within 40 years	15.2%	100%	0%	✓
40 years and within 50 years	7.9%	100%	0%	✓
50 years and above	13.7%	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:

	2017/18	2018/19	2019/20
Actual principal invested beyond year end	£2.1m	£0	£0
Limit on principal invested beyond year end	£40m	£20m	£10m
Complied	✓	✓	✓

Prudential Indicators 2017/18

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 2017/18. 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	2017/18 Estimate £m	2017/18 Actual £m	Difference £m
General Fund Expenditure	27.7	23.4	1.6
Capital receipts	0.7	1.4	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	23.4	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	31/03/18 Estimate £m	31/03/18 Actual £m	Difference £m
General Fund	182.1	177.0	5.1

There was no change in the CFR as capital expenditure financed by debt was the same as the resources put aside for debt repayment.

Actual Debt: The Council's actual debt at 31 March 2018 was as follows:

Debt	31/03/18 Estimate £m	31/03/18 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	31/03/18 Estimate £m	31/03/18 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	31/03/18 Boundary £m	31/03/18 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	31/03/18 Boundary £m	31/03/18 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	31/03/18 Estimate %	31/03/18 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.

COMMITTEE	AUDIT AND GOVERNANCE COMMITTEE
DATE	19 JULY 2018
TITLE	RISK MANAGEMENT ARRANGEMENTS
PURPOSE OF REPORT	TO UPDATE THE AUDIT AND GOVERNANCE COMMITTEE ON THE COUNCIL'S RISK MANAGEMENT ARRANGEMENTS
AUTHOR	DEWI MORGAN, SENIOR MANAGER REVENUES AND RISK
ACTION	RECEIVE AN UPDATE ON FURTHER DEVELOPMENTS TO THE RISK MANAGEMENT ARRANGEMENTS, THE NEXT IMPLEMENTATION STEPS, AND CONSIDER IF THE RESPONSE ADDRESSES THE MATERS RAISED IN THE AUDITOR'S LETTER

1. INTRODUCTION

- 1.1 One of the statutory responsibilities of the Audit Committee is to review and assess the Authority's arrangements for risk management, internal control and corporate governance, in accordance with part 81(1)(c) the Local Government (Wales) Measure 2011.
- 1.2 As part of wider work to review the governance of the Council, the Wales Audit Office reviewed the Council's risk management arrangements, and their opinion was expressed in a letter to the Chief Executive by the Performance Audit Manager (WAO).
- 1.3 This letter, and the Council's response to it, was presented to the meeting of the Audit Committee on 9 February 2017.

Letter:

<https://democracy.cyngor.gwynedd.gov.uk/documents/s10387/10i%20Wales%20Audit%20Offices%20Letter.pdf>

Response:

<https://democracy.cyngor.gwynedd.gov.uk/documents/s10388/10ii%20Senior%20Manager%20Revenue%20and%20Risk.pdf>

- 1.4 **The main outcome of the audit was that the Council is making good progress in strengthening its risk management arrangements enabling them to better support robust and effective decision-making.**

2. AUDITOR'S SUGGESTIONS

- 2.1 Although the auditor did not see the need to release a formal report on the results of the work, nor to present formal recommendations, the letter noted 5 improvement opportunities, namely:
 - developing a risk summary or risk tracking document as part of its Corporate Risk Register;
 - introducing greater consistency about the identification and management of risk in papers and reports presented to Members;
 - having more explicit regard to the concept of 'risk appetite' in its approach to risk management;
 - introducing a Risk Strategy and Operations Manual to accompany the Council's refreshed arrangements; and
 - training officers and Members on risk management as part of a wider awareness raising initiative.

2.2 The remainder of this part of the report outlines the progress made in responding to these improvement opportunities.

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

2.3.1. At its meeting on 22 June 2017, the Audit and Governance Committee approved a new scheme for scoring risks.

2.3.2. As is usual in risk management arrangements, consideration is given to two factors when scoring the size of these risks:

- The **Impact** of the event if the risk were realised
- The **Likelihood** of the risk being realised.

2.3.3. The Impact and Likelihood are given a score of 1 to 5, using the following scoring guidelines.

Impact

Score	Impact	Definition
5	Catastrophic	A catastrophic effect on any resident (e.g. loss of life) or a destructive effect on the life or well-being of many residents
4	Destructive	A destructive effect on the life or well-being of several residents (e.g. where the quality of life or the well-being of someone has been effected to the degree that they have an intense need for assistance to allow them to live their lives) or a very substantial effect on many residents
3	Very Substantial	A very substantial effect on the life or well-being of several residents (e.g. the effect means that their quality of life or well-being is substantially lower than would otherwise be expected for a Gwynedd resident) or a significant effect on a many residents
2	Significant	A significant effect on the life or well-being of several residents (e.g. an effect on life or well-being, but falling within the expected range of day-to-day life) or a visible effect on many residents
1	Visible	A visible effect on the life or well-being of some residents (e.g. the effect is visible but not significant to their well-being) or a marginal effect on many residents

- Several = 10s to 100s of residents
- Many = 1,000s to 10,000s of residents

Likelihood

Score	Likelihood	Definition
5	Happening now	The effect is to be seen now (i.e. it is happening)
4	Very likely	Very likely that it will be seen in the foreseeable future
3	Likely	A chance it may happen, but may not
2	Unlikely	The likelihood of it happening is low – but is still there
1	Very Unlikely	Very unlikely to happen

2.3.4. The Impact Score and Likelihood Scores are multiplied together to give a Current Risk Score, which are the risk scores based on the controls that are currently in place. The Risk Score is defined from very high to low as follows:

Score 20-25	Very High Risk
Score 12-16	High Risk
Score 6-10	Moderate Risk
Score 1-5	Low Risk

2.3.5. This is the scheme that has been used to measure every risk that appears on the Corporate Risk Register. As reported to the Committee on 28 June 2018, the Council has identified 22 governance risks, which have already been scored using this procedure. Similarly, some of the Council’s departments have already adopted this method, and use it regularly to assess their risks.

2.3.6. However, the arrangements are currently inconsistent across the Council. The comments on risk management in the Annual Governance Statement (approved by the Committee on 28 June) reflect the situation:

“There has been recent work to develop one Corporate Risk Register for the whole authority, and in order to undertake this in parallel with a system where business units record barriers and go about trying to resolve those immediately, has started to show success.

Our risk management arrangements are an integral part of the Authority’s management arrangements. Robust, correct and balanced risk management arrangements support innovation and do not inhibit it. A key part of the work completed during 2017/18 was that the Governance Group and the Insurance and Risk Unit ensured each risk in the Corporate Risk Register had been considered from the perspective of the risk to the People of Gwynedd, not from the Council's inward looking viewpoint.

Nevertheless, the danger continues that a procedure is being followed, and the permeation of risk management amongst individual business units continues to be a little inconsistent. Therefore, there is work that still needs to be done to ensure that all Council departments maintain the system of recording their main risks and review them regularly.

There are robust arrangements to monitor our compliance with some specific types of operational risks, such as Health and Safety, Safeguarding Children and Adults and Emergency Planning and Service Continuity. There is quantitative evidence that performance in these areas is improving – although there are examples of places to improve further.

System tests indicate that not all the workforce is aware of the risks that could prevent delivery for the People of Gwynedd and take ownership of them – risk management tends to be seen as a matter for Managers. Substantial work has already been done in this area, to prepare the authority better for unforeseeable events.

Council risk management arrangements continue to develop and they will evolve further as Ffordd Gwynedd and the culture permeate throughout the Council”.

2.3.7. In order to push the arrangement forward further, with the aim that all Council departments use the system in a consistent manner, the following tasks have been identified, which are to be completed during 2018/19:

- 2.3.8. Rather than using an *Excel* spreadsheet to keep the Corporate Risk Register, the register will be transferred to the *Sharepoint lists* facility within iGwynedd. It is fair to say that this technology is new to Council officers, but we are confident that its development for maintaining and updating the register will be far more convenient, and it will be possible to use the system to send reminders etc. The Insurance and Risk Unit and the Information Technology Service are currently working to develop the system, and is aimed to be live to all Council officers by September 2018.
- 2.3.9. Once the system is live, the Senior Manager Revenue and Risk will provide an introduction to the Heads of Department and Senior Managers, and it will be expected that departments – with the support of Insurance and Risk as required – to have departmental registers in place in the new format by the end of December 2018.
- 2.3.10. The auditor's suggestion is that the Audit and Governance Committee, after seeing the risks initially, then receives a report that summarises the changes to the register over time. This is what happened with the governance risks in June 2018, which appears to have worked effectively, and we will look to expand the arrangements when departmental risks have been included.

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

- 2.4.1. Full use of the Corporate Risk Register – by following the procedures described in part 2.3 above – will mean that departments will be required to consider what risks any reports submitted actually mitigate, and what new risks will be presented as a result of the decision.
- 2.4.2. That is, continued use of the risk registers will be a method to identify the things that truly need to be prioritised. If this is done correctly, any report which will be submitted for a decision will explain explicitly what risks this activity will address, and this improvement opportunity will be implemented naturally.
- 2.4.3. However, as with any change in culture, this could take some time to happen naturally across the Council.

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

- 2.5.1. "Risk appetite" is the amount of risk that the Council is ready to take as it goes about achieving its objectives. Setting risk appetite ensures that the resources given to understanding and managing the risks are proportionate.
- 2.5.2. As noted previously, there cannot be a general appetite for the Council as a whole, as there is so much variety in services across the authority. However, under the regime that has been adopted, risks will be considered and scored individually, and officers will be able to consider if the current situation is acceptable or not. Where it is decided that a risk has already been mitigated to an acceptable level, it can be "archived", and reviewed less often.
- 2.5.3. The Insurance and Risk Unit will have a role for ensuring that any archiving is done appropriately as part of quality assurance arrangements; this will be part of the process for reporting to the Audit and Governance Committee.

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

- 2.6.1. We believe setting a clear expectation to departments to use the Corporate Risk Register as part of their prioritisation work will be the appropriate "Strategy" to be adopted and used.

2.6.2. From the standpoint of an Operations Manual, there is a danger that this could encourage "box ticking" rather than a change in mind-set. A manual needs to be simple and to the point. In that regard, guidance has been developed based on that which has been set out in part 2.3 above, and explained to the Committee in June 2017 and subsequently when submitting the Annual Governance Statement.

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

2.7.1. It is noted above that the Senior Manager Revenues and Risk will give a presentation on the new arrangements to officers. This will be expanded by considering if it would be appropriate to develop a further course for officers which also encompasses Ffordd Gwynedd principles.

3. RECOMMENDATION

3.1 The Committee is requested to receive this report as an update on the progress made by the Council in order to take advantage of the opportunities for improvement outlined in the letter from the Wales Audit Office.

Agenda Item 8

COMMITTEE	AUDIT AND GOVERNANCE COMMITTEE
DATE	19 JULY 2018
TITLE	AUDIT ASSURANCE LEVELS AND RISK SCORING ARRANGEMENTS
PURPOSE OF REPORT	MODIFYING THE FORMAT OF AUDIT REPORTS
AUTHOR	LUNED FÔN JONES – AUDIT MANAGER
ACTON	FOR INFORMATION

1. INTRODUCTION

- 1.1 On 22 June 2017, the Senior Manager Revenue & Risk presented a report on a new framework for scoring the Council's risks to the Audit and Governance Committee. This regime was the product of the work of a Subgroup of the Governance Arrangements Assessment Group.
- 1.2 The report states *"In accordance with Ffordd Gwynedd principles, there is a need for the scoring system to look at the Council's risks from the perspective of the people of Gwynedd. There is also a need for the system to be flexible enough that it can be used across the Council – and for governance risks – whilst remaining meaningful."*

2. INTERNAL AUDIT REPORTS

2.1 The latest version of the Public Sector Internal Audit Standards (PSIAS) defines Internal Audit's mission as being *"To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight."* To that end, in order to be at their most effective, the methods applied by Internal Audit need to reflect the corporate approach adopted by the Authority to assess and measure its risks.

2.2 Consideration is given to two factors when scoring the size of these risks:

- The **Impact** of the event if the risk were realised
- The **Likelihood** of the risk being realised.

2.3 "Impact" is given a score of 1 to 5 using the definitions in the table below:

Score	Impact	Definition
5	Catastrophic	A catastrophic effect on any resident (e.g. loss of life) or a destructive effect on the life or well-being of many residents.
4	Destructive	A destructive effect on the life or well-being of several residents (e.g. where the quality of life or the well-being of someone has been effected to the degree that they have an intense need for assistance to allow them to live their lives) or a very substantial effect on many residents.
3	Very Substantial	A very substantial effect on the life or well-being of several residents (e.g. the effect means that their quality of life or well-being is substantially lower than would otherwise be expected for a Gwynedd resident) or a significant effect on a many residents.
2	Significant	A significant effect on the life or well-being of several residents (e.g. an effect on life or well-being, but falling within the expected range of day-to-day life) or a visible effect on many residents.
1	Visible	A visible effect on the life or well-being of some residents (e.g. the effect is visible but not significant to their well-being) or a marginal effect on many residents.

2.4 "Likelihood" is given a score of 1 to 5 using the definitions in the table below:

Score	Likelihood	Definition
5	Happening now	The effect is to be seen now (i.e. it is happening)
4	Very likely	Very likely that it will be seen in the foreseeable future
3	Likely	A chance it may happen, but may not
2	Unlikely	The likelihood of it happening is low – but is still there
1	Very Unlikely	Very unlikely to happen

2.5 Then, Internal Audit will multiply the "Impact" score and "Likelihood" score to give a current risk score for the risks identified for mitigating, and the number of risks will be noted in the corresponding box as shown in the below table:

		Effect				
		Catastrophic 5	Destructive 4	Very substantial 3	Significant 2	Visible 1
Likelihood	Happening now 5	25	20	15	10	5
	Very likely 4	20	16	12	8	4
	Likely 3	15	12	9	6	3
	Unlikely 2	10	8	6	4	2
	Very unlikely 1	5	4	3	2	1

2.6 The current risk score will be categorised in one of four risk categories:

RISK LEVEL	SCORE
VERY HIGH	20 - 25
HIGH	12 - 16
MODERATE	6 - 10
LOW	1 - 5

The risk rating provided will be based on the opinion of the Auditor in consultation with the relevant Audit Leader and the Audit Manager. The number of risks in each category will be reported to the Audit and Governance Committee while the current risk matrix will be provided to the attention of the relevant officers.

2.7 In 2017/18, new arrangements for follow-up audits were established, where each agreed action made in 2016/17 was revisited by asking the unit / service / organisation to send evidence to prove their implementation. Using the above matrix would mean that progress could be reported further in 2019/20 by reporting actions according to the risk score.

2.8 Historically, an audit opinion category was given on audits ranging from "A" to "Ch".

2.9 By now, it would be more appropriate to provide an assurance level for each audit. The level of assurance provided will be based on an evaluation of the internal control environment and the number of risks identified together with their risk score.

2.10 The general assurance levels of audits will fall into one of four categories as shown in the table below

HIGH	Certainty of propriety can be stated as internal controls can be relied upon to achieve objectives.
SATISFACTORY	Controls are in place to achieve their objectives but there are aspects of the arrangements that need tightening to further mitigate the risks.
LIMITED	Although controls are in place, compliance with the controls needs to be improved and / or introduces new controls to reduce the risks to which the service is exposed.
NO ASSURANCE	Controls in place are considered to be inadequate, with objectives failing to be achieved.

3. RECOMMENDATION

3.1 The Audit and Governance Committee is requested to receive this report and comment on the proposed new methodology for providing audit assurance.

Agenda Item 9

COMMITTEE	AUDIT AND GOVERNANCE COMMITTEE
DATE	19 JULY 2018
TITLE	SELF-ASSESSMENT OF THE EFFECTIVENESS OF THE AUDIT AND GOVERNANCE COMMITTEE
PURPOSE OF REPORT	TO PRESENT A SUGGESTED APPROACH FOR ASSESSING THE EFFECTIVENESS OF THE COMMITTEE, AND CONSIDER THE APPROPRIATE IMPLEMENTATION
AUTHOR	DEWI MORGAN, SENIOR MANAGER REVENUE AND RISK
ACTION	TO CONSIDER THE CONTENTS, OFFER COMMENT THEREON, AND RESOLVE WHETHER TO UNDERTAKE A SELF-ASSESSMENT

1. INTRODUCTION

- 1.1 The Audit and Governance Committee has a key role within the authority's governance arrangements – this is the Committee that has been designated as "those responsible for governance". This means that it has the task of ensuring that the Council's governance arrangements are robust.
- 1.2 As a result of this responsibility, it is expected that the Committee undertakes a periodic self-assessment of its effectiveness.
- 1.3 The last such self-assessment was conducted in May 2016. Since the current Council has now been in place for a year, and CIPFA has published new guidance for audit committees in May 2018, it is recommended that the Committee considers whether a new self-assessment exercise is now timely.

2. CIPFA GUIDANCE

- 2.1 In the Welsh Government's Statutory Guidance from the Local Government Measure 2011 (June 2012), it is noted that the Government has previously endorsed CIPFA's publication "*Audit Committees: Practical Guidance for Local Authorities*" and continues to do so, and local authorities are advised to view this document as being complimentary to the statutory guidance.
- 2.2 CIPFA'S publication was originally published in 2005, and the statutory guidance themselves note that it had become somewhat dated by 2012. A new version of "*Audit Committees: Practical Guidance for Local Authorities*" was published in 2013, and a further version has been published in 2018.
- 2.3 Training for members of the Audit and Governance Committee, "*Responsibilities of the Audit Committee*", was held on 14 June 2017. In that event, a copy CIPFA's *Position Statement: Audit Committees in Local Authorities and Police* was shared with members. The new guidance contains a new Position Statement; a copy is found in Appendix 1.

3. UNDERTAKING A SELF-ASSESSMENT

- 3.1 CIPFA's guidance includes tools to assist members of audit committees to undertake a self-assessment. Firstly, a **Self-assessment of Good Practice** provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement and in the guidance. Secondly, there is a table for **Evaluating the Effectiveness of the Audit Committee**, to assess where the Committee is operating in the most effective manner, and where there is scope to do more. These have been included in Appendices 2 and 3.
- 3.2 As can be seen, these documents are neither lengthy nor complex, but if they are to be utilised, time will need to be dedicated to undertake the work – a formal committee meeting is not a suitable forum.

- 3.3 The Audit and Governance Committee is therefore asked to consider holding a workshop of its members, with facilitators, during September or October 2018, in order to conduct its own assessment of its effectiveness.
- 3.4 The outcome of the assessment will be evidence for the Council's risk register (risk **L18**, *Unsuitable internal control arrangements, which means either that we are not guarding against risks, or wasting resources on over-control*), and consequently for the Annual Governance Statement.

4. RECOMMENDATION

- 4.1 The Committee is requested to consider whether to organise a workshop during September or October 2018 in order to conduct a self-assessment of its effectiveness and, if agreed, to decide on a location.**

CIPFA's Position Statement: Audit Committees in Local Authorities and Police

The scope of this Position Statement includes all principal local authorities in the UK, the audit committees for PCCs and chief constables in England and Wales, and the audit committees of fire and rescue authorities.

- 1 Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- 2 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 3 Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
 - act as the principal non-executive, advisory function supporting those charged with governance
 - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
 - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
 - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
 - be directly accountable to the authority's governing body or the PCC and chief constable.
- 4 The core functions of an audit committee are to:
 - Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority's objectives.
 - In relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process
 - promote the effective use of internal audit within the assurance framework.
 - Consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations.
 - Monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption.
 - Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.

- Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
- Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

5 An audit committee can also support its authority by undertaking a wider role in other areas including:

- Considering governance, risk or control matters at the request of other committees or statutory officers.
- Working with local standards and ethics committees to support ethical values
- Reviewing and monitoring treasury management arrangements in accordance with [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017)
- Providing oversight of other public reports, such as the annual report.

6 Good audit committees are characterised by:

- A membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
- A membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives.
- A strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:
 - promoting apolitical open discussion
 - managing meetings to cover all business and encouraging a candid approach from all participants
 - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.

7 To discharge its responsibilities effectively the committee should:

- Meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public.
- Be able to meet privately and separately with the external auditor and with the head of internal audit.
- Include, as regular attendees, the chief financial officer(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required.
- have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
- report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

Self-assessment of Good Practice

This appendix provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement: Audit Committees in Local Authorities and Police and this publication. Where an audit committee has a high degree of performance against the good practice principles then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

	Good practice questions	Yes	Partly	No
Audit committee purpose and governance				
1	Does the authority have a dedicated audit committee?			
2	Does the audit committee report directly to full council? (Applicable to local government only.)			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?			
4	Is the role and purpose of the audit committee understood and accepted across the authority?			
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?			
Functions of the committee				
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?			
	<ul style="list-style-type: none"> • good governance 			
	<ul style="list-style-type: none"> • assurance framework, including partnerships and collaboration arrangements 			
	<ul style="list-style-type: none"> • internal audit 			
	<ul style="list-style-type: none"> • external audit 			
	<ul style="list-style-type: none"> • financial reporting 			
	<ul style="list-style-type: none"> • risk management 			
	<ul style="list-style-type: none"> • value for money or best value 			
	<ul style="list-style-type: none"> • counter-fraud and corruption 			
	<ul style="list-style-type: none"> • supporting the ethical framework 			
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?			
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?			
10	Where coverage of core areas has been found to be limited, are plans in place to address this?			
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?			

Membership and support				
12	Has an effective audit committee structure and composition of the committee been selected? This should include: <ul style="list-style-type: none"> • separation from the executive • an appropriate mix of knowledge and skills among the membership • a size of committee that is not unwieldy • consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement). 			
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or the PCC and chief constable as appropriate for the organisation?			
14	Does the chair of the committee have appropriate knowledge and skills?			
15	Are arrangements in place to support the committee with briefings and training?			
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?			
18	Is adequate secretariat and administrative support to the committee provided?			
Effectiveness of the committee				
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			
20	Are meetings effective with a good level of discussion and engagement from all the members?			
21	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?			
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?			
23	Has the committee evaluated whether and how it is adding value to the organisation?			
24	Does the committee have an action plan to improve any areas of weakness?			
25	Does the committee publish an annual report to account for its performance and explain its work?			

Evaluating the Effectiveness of the Audit Committee

Assessment key

- 5 Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable
- 4 Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
- 3 The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
- 2 There is some evidence that the committee has supported improvements, but the impact of this support is limited.
- 1 No evidence can be found that the audit committee has supported improvements in this area.

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Promoting the principles of good governance and their application to decision making.	<ul style="list-style-type: none"> • Supporting the development of a local code of governance • Providing robust review of the AGS and the assurances underpinning it. • Working with key members to improve their understanding of the AGS and their contribution to it. • Supporting reviews/audits of governance arrangements. • Participating in self-assessments of governance arrangements. • Working with partner audit committees to review governance arrangements in partnerships. 		
Contributing to the development of an effective control environment.	<ul style="list-style-type: none"> • Actively monitoring the implementation of recommendations from auditors. • Encouraging ownership of the internal control framework by appropriate managers. • Raising significant concerns over controls with appropriate senior managers. 		
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	<ul style="list-style-type: none"> • Reviewing risk management arrangements and their effectiveness, eg risk management benchmarking. • Monitoring improvements. • Holding risk owners to account for major/strategic risks 		
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	<ul style="list-style-type: none"> • Specifying its assurance needs, identifying gaps or overlaps in assurance. • Seeking to streamline assurance gathering and reporting. • Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit. 		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence	<ul style="list-style-type: none"> • Reviewing the audit charter and functional reporting arrangements. • Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements • Actively supporting the quality assurance and improvement programme of internal audit 		
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.	<ul style="list-style-type: none"> • Reviewing how the governance arrangements support the achievement of sustainable outcomes • Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place. • Reviewing the effectiveness of performance management arrangements. 		
Supporting the development of robust arrangements for ensuring value for money.	<ul style="list-style-type: none"> • Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee. • Considering how performance in value for money is evaluated as part of the AGS. 		
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	<ul style="list-style-type: none"> • Reviewing arrangements against the standards set out in the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) • Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks. • Assessing the effectiveness of ethical governance arrangements for both staff and governors. 		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Promoting effective public reporting to the authority’s stakeholders and local community and measures to improve transparency and accountability.	<ul style="list-style-type: none"> • Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain language. • Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency. • Publishing an annual report from the committee 		

Agenda Item 10

COMMITTEE	AUDIT AND GOVERNANCE COMMITTEE
DATE	19 JULY 2018
TITLE	REPORT OF THE CONTROLS IMPROVEMENT WORKING GROUP
PURPOSE OF THE REPORT	TO REPORT ON THE MEETING HELD ON 19 JUNE 2018
AUTHOR	COUNCILLOR RICHARD MEDWYN HUGHES
ACTION	TO ACCEPT THE REPORT

1. INTRODUCTION

1.1 A meeting of the Working Group was held on 19 June 2018 with the Chair of the Audit and Governance Committee, Councillor Richard Medwyn Hughes and Councillors Angela Russell, Alwyn Gruffydd, Cemlyn Williams, Dewi Roberts, Berwyn Parry Jones, Paul Rowlinson, Sion Jones, Charles Wyn Jones, John Pughe Roberts, Aled Evans, Sharon Warnes (Lay Member), Luned Fôn Jones (Audit Manager) and Eva Chan Williams (Audit Leader) present.

1.2 The reports that the Working Group addressed were:

TITLE	DEPARTMENT	AUDIT OPINION
Supported Housing	Adults, Health and Wellbeing	C
Y Frondeg	Adults, Health and Wellbeing	No Category
Staff Development Module	Corporate	C
Obtaining References, Proof of Identity and Evidence of Qualification	Corporate	C
Safeguarding Arrangements for Children and Adults – Field Workers’ Awareness of Policy	Corporate	C
School Schemes – Ysgol Glancegin	Environment	B
Smallholdings	Environment	Ch

1.3 Officers attended to discuss the individual reports.

2.1 Supported Housing

2.1.1 The main findings of the audit were as follows:

Three houses were visited during the audit, Bryn Afon, Dyffryn Ardudwy and 106 Lôn Abererch, Pwllheli, both managed by the Housing Support Manager, and 4 Bryn Rhos, Caernarfon, under the management of the Registered Care Manager. Generally, it appears that appropriate arrangements are in place, but there is need to tighten controls on the following aspects in order to reduce the risks identified.

Fire tests are not performed on time at 4 Bryn Rhos, whilst there is no record kept of Snowdonia Fire Service's visits and tests at 106 Lôn Abererch, even though confirmation was received by the Housing Support Manager that they visit regularly. In addition, the Fire Management Plan present at all three houses was dated 2008. The latest versions, dated 2017 was sent to the Managers following the visits.

Risk assessments are not dated or signed following reviews, giving the impression that no review was conducted since the date the assessment was originally produced. Confirmation was received that this would be done from now onwards.

When reporting accidents, no copy of the HS11 forms are kept. The Housing Support Manager confirmed that the original is sent to the Health and Safety Unit, leaving the houses with no record. It was suggested that a copy should be kept from now onwards.

No medication stock checks are conducted at Bryn Afon nor 106 Lôn Abererch, even though they should be done weekly. In the same instance, 4 Bryn Rhos do not monitor the temperature of the room where medication is kept. The Registered Care Manager confirmed that this would be done from now onwards.

Generally, it was seen that the Support Workers training was not current, with some workers 'qualifications' expired, and others not trained in certain areas. The records of 15 Support Worker were checked, 5 from each house. Only 5 had current training with regards to medication and fire. The Housing Support Manager confirmed that it was difficult booking fire training, with spaces being taken up at a rapid speed.

Imprest applications are not presented regularly. The Housing Support Manager was already aware of this, and confirmed that she was attempting to present them more often. At the beginning of March 2018 the accounts of 106 Lôn Abererch and Bryn Afon were in debt of £640 and £5,000 respectively.

It was seen that the clients of Bryn Afon's contribution towards food are paid out of the imprest account, before then being refunded to the account from the individual client's bank accounts. The Client Assets Management Officer confirmed that this arrangement was put in place because the location of the house makes it impractical for the Support Workers to visit the Council Offices in order to collect cash, which is the norm for many supported houses. He added that discussions have taken place in the past regarding the idea of opening an individual bank account for each house, with contributions to food being paid straight into it. The Support Worker could then visit any cash machine in order to debit funds. This would not only simplify the process for the Support Workers, freeing more of their time to support the clients, but would also allow every house to be constant in their arrangements. The idea was supported by the manager of the houses, however, even though discussions and meeting were held with the bank, no further action was taken.

The Client Assets Management Officer expressed his desire to reconsider the notion. The Registered Care Manager agreed to discuss the matter with the Learning Disabilities Development and Provider Manager.

A significant overspend was seen against this years traveling costs budget for Lôn Abererch, where the other houses seem to under spend. It was discovered that the Housing Support Managers travelling claims, presented through the self-service facility, are all recorded against Lôn Abererch's even though visits are made to other houses. Support Services confirmed that the self-service facility does not at present facilitate splitting claim to different cost centres. The Accounts Assistant confirmed that they were happy for the Manager to continue producing claims through self-service, and they would make adjustment in the ledger.

- 2.1.2 Aled Davies, Head of Adults, Health and Well-being Department, Victoria Williams, Housing Support Manager, and Dylan Owen, Registered Care Manager (Housing Support) were welcomed to the meeting to discuss the audit.
- 2.1.3 The Head of Department stated that the service had endeavoured to respond to the issues that arose as a result of a "C" opinion audit report and had already taken steps to address the weaknesses and strengthen arrangements. He added that the opinion is a reflection of the extra work the service needs to do, rather than the service itself being poor.
- 2.1.4 A Member inquired on the importance of training and whether there was time for it. The Registered Care Manager reported that training was very important and that staff are encouraged to complete e-learning training. The Head of Department explained that the service was in the process of devising a new training programme and explained that it was not possible to arrange for everyone to be trained on a timely basis as staff are not easily released due to a lack of resources and there are often no places available on the courses, or due to the fact that training is not carried out regularly enough.
- 2.1.5 The Registered Care Manager was asked what had prevented fire tests from being carried out. The Registered Care Manager explained that the tests had not been carried out due to the responsible officer being on holiday for a fortnight and that the task had not been delegated in his absence. He explained that delegation arrangements have now been established and arrangements for weekly checks are already in place. He said staff had been reminded of the arrangements and that fire training was given every two years. He also pointed out that a "PowerPoint" presentation that is relevant to a specific house had been presented to the homes as an awareness raising session.

- 2.1.6 A Member expressed that the issues highlighted in the report were significant and therefore the service needed to verify their systems. The Audit Manager emphasized that risk assessments had been completed but had not been dated and that accidents had been identified and reported to the Health and Safety Service but there was no record to support that in the houses.
- 2.1.7 A Member suggested that because of the small number of staff that worked in the houses, that the Manager should have a simple approach for training. The Head of Department agreed that there was a need to have a process and that a corporate training programme is currently being developed which will enable them to identify those who need training and who has attended.
- 2.1.8 A Member requested clarification for the overspend on travel costs. The Audit Manager confirmed that it was not a real overspend but it seems to be an overspend due to the inability of the self-service travel costs system to allocate the travel costs appropriately.
- 2.1.9 In conclusion, the progress on the agreed action plan was queried. The Registered Care Manager explained that all the actions had been implemented and in relation to training, that approximately 80% of staff had received training, with the rest planned to do so in order to comply with the implementation schedule by 1st December, 2018.

2.2 Y Frondeg

2.2.1 The main findings of the audit were as follows:

A draft copy of the statement of purpose was received by the manager. It met the requirements from CSSIW's report (January 2018) and most of the requirements for a statement of purpose. Information was not included on the home's 'behaviour management' policy. There was also no information about the arrangements made to release a registered person's commitment under regulation 12(4)(b) of the Care Homes (Wales) Regulations (2002).

A sample of 3 residents' care plans were checked, one had been updated but the two other plans were not current. The plans were comprehensive but needed updating. The Manager stated that they were in the process of updating each care plan. There was no contract between the residents and the Council for the sample of 3 residents.

Certificates of training were seen within the individual files for members of staff. Most staff had received relevant training but some certificates had expired. The Manager agreed that a spreadsheet to monitor staff training dates would be useful.

The Manager confirmed that they were working towards a level 5 QCF qualification. This level of qualification is required for a registered manager so having 'no registered manager' does not comply with CSSIW requirements.

CSSIW were concerned with the lack of supervision, which has been a problem in the home for a few months. The Manager had successfully conducted supervision sessions with 13 staff at the time of the visit and supervision sessions were planned for the rest of the staff.

No 'Personal Items' forms were seen for the residents. The Manager had arranged to meet with Tan Y Marian's Manager to view examples of the required documents.

There is a keypad on the doors to the Manager's office and the medication room. However, the codes for the room's keypads were written down and placed on the doorframe so that anyone could gain access. The Manager stated that they did not want their office locked so that staff could freely Access care plans, policies etc.

The home's fire documentation, including the Fire Log Book were all kept in the blue box and were checked. There were no clear records that tests were carried out as required. Some records were not complete, containing a signature but no date etc.

Risk assessments for the kitchen were completed and had been reviewed in January 2018 by the Cook. No risk assessments for the home in general were seen. 2 of the 3 residents from the sample's risk assessments were not up to date. The Manager stated that plans were underway to update these and that a visit by a Health and Safety Officer was organised to ensure standards.

One member of staff had no qualification at all and 5 had training that was over 3 years old and therefore needed renewing. All staff from the selected sample had attended safeguarding training but some were due to be renewed. DBS checks were up to date for all staff except one. The Manager was aware of the DBS case and agreed to take action.

A form containing both signatures and shorthand signatures of staff who are authorised to sign medication documents was situated in the medication room. The In-Charge Officer was asked about competency tests and stated that they were sometimes carried out but there was no arrangements in place for annual testing. Competency test records were seen in 2 members of staff's files. A copy of the Medication Policy was available to staff in the medication room but only 4 of those who administered medication had signed to confirm that they had read and understood the policy. A keypad was on the door to the medication room but the code was clearly visible on the doorframe meaning anyone could gain access to the room. The medication refrigerator's temperature records were checked and were correct and in order. However, the refrigerator's thermometer displayed 8.6°C during the visit, which is above the maximum of 8°C indicated in the Council's Medication Policy.

- 2.2.2 Delyth Hughes, Wellbeing & Accommodation Transformation Manager joined the Head of Adults, Health and Well-being Department to discuss the Frondeg report.

- 2.2.3 The Audit Manager explained that there was no opinion category on the report because the work had been undertaken to assist the Wellbeing & Accommodation Transformation Manager to create a work plan due to the highlighted concerns. The audit was designed following discussions with officials from the Department and that there was an understanding of what the audit objectives were.
- 2.2.4 The Head of Adults, Health and Wellbeing stated that he welcomed the report and explained that there were historical arrangements in Frondeg but there is now an opportunity to put in place new arrangements, but cannot be done immediately.
- 2.2.5 The Head of Department reported that the issues highlighted in the audit report had also been addressed in a report by Care Inspectorate Wales. He explained that changes had taken place, and there was an improvement, with more work to be done however that they were on the right track.
- 2.2.6 The training arrangements for the Manager were queried. The Audit Manager referred to the audit report, stating that the manager was “*working towards a level 5 QCF qualification.*” The Head of Department added that the Manager will be mentored as well.
- 2.2.7 The Wellbeing & Accommodation Transformation Manager stated that she welcomed the report and that the agreed action plan has been used as a work programme and that the audit had been of assistance to her.
- 2.2.8 The Audit Manager explained that there will be a full audit in Frondeg during 2018/19 and an opinion category will be given at that time, as well as ensuring that the recommendations of the Care Inspectorate for Wales have been addressed.
- 2.2.9 The Head of Department and the Wellbeing & Accommodation Transformation Manager were thanked for attending the meeting.

2.3 Staff Development Module

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

A copy of the project brief was received as well as other documentation regarding project management, such as a project application and a ‘backlog’ list. The information about the project’s initial objectives and what technical tasks needed to be completed and when was complete. There was a lack of evidence of long-term planning for the project. It was not part of an official plan but it was expressed in a presentation to the project’s stakeholders that the full ‘SIDD (Integrated Learning and Development System) would be live by summer 2017’. Schedules/plans were seen for periods of three (September – November 2017) and five months (October 2017 – February 2018) but there was little evidence that the project adhered to the timescales or recorded reasoning for its failure to do so. In the September – November Schedule, the system was scheduled to be live between the 6th and 17th of November.

Weekly meetings are now held between the IT officers and the Learning and Development Service Officers. At the time of conducting the audit, core elements of project management were not in place, such as a risk and significant matter register – although there was an issue log kept by the IT Service, the risks of the project as a whole were unknown; lessons learnt log and any Financial monitoring documentation.

The Learning and Development Officer and the Training Co-ordinator and Business Development Officer emphasized that MoDS is a system for everyone not just the Learning and Development Service. It is therefore important for the system to meet the needs of each Council department. Overall, MoDS meets a large part of each department's needs with some departments such as YGC and Highways and Municipal eager for the launch of the module. Additional features and improvements were added following consultation with departments, particularly in relation to CPD. Despite the fact that the module will meet the needs of the majority, officials of the Workforce Development Unit within the Adults, Health and Wellbeing Department explained that many individuals who are not employed by the Council receive training from the Council and cannot be registered for staff self-service. Arrangements are now in place to enable the recording of training of workers from external agencies, however this will be done by the Workforce Development Unit from the Adults, Health and Wellbeing Department. No request for this function was received at the beginning of the "life" of the project as there was no communication with the Adults, Health and Wellbeing Department regarding the project at the time. The Support Service have arrangements in place to register the Council's field workers on the staff self-service system that will enable access to the MoDS.

An external IT consultant was employed through an agency to undertake the project. The consultant ceased working with the Council on 17 November 2017. Details were extracted from the financial ledger and it was seen that a total of approximately £90k excluding VAT had been paid to the agency for the 12 month period. A 6 month contract was originally established with two further 3 month extensions. The project is funded by the Corporate Support Department. Responsibility for the operational development of the project has been transferred back to the Council's IT Service following the termination of the external IT Consultant service. It was explained that because of the lack of a clear and definitive brief of the needs and direction of the project, much of the consultant's time was spent collecting information and details rather than focusing on the technical elements.

The Internal Audit Service will conduct an audit on the use of the MoDS across the Council during the 2019/20 financial year.

- 2.3.2 Ian Jones, Corporate Support Senior Manager and Alun Williams, Senior Learning and Development Officer were welcomed to the meeting.
- 2.3.3 The Audit Manager gave an outline of the audit, and explained that training matters are often highlighted in audits and that this corporate solution should help meet learning and development needs.

- 2.3.4 The Corporate Support Senior Manager stated that changes had occurred since the publication of the report. He explained that, historically, projects were being implemented separately but in the last 6 months a board was set up to have an overview of the needs. He explained that the projects that are being addressed by the Human Resources Systems Board include the Staff Development Module, travel costs, accident reporting, illness, equality, timetables and staff payments. It was explained that a member of the Information Technology Service also sat on the Board and that the Information Technology Service prioritised the work.
- 2.3.5 The Chair requested clarification about the lack of clear briefing for the development. The Senior Learning and Development Officer stated that the brief given was not sufficiently detailed enough for the IT element but was sufficient at the time to prepare a clear business case with estimates of savings over time.
- 2.3.6 It was asked from where the £90K used to employ an external consultant for the project came from. The Senior Manager explained that the money had been provided by the Corporate Support Department. A Member inquired if this expenditure was a cost without benefits. The Senior Manager responded that it is currently too early to assess but there should be benefits in the long term. He explained that when the project was planned in 2014, it included a one-off expenditure of £134K and a permanent £33K to employ a developer, and that the £90K had been spent to employ an external consultant in order to complete the system quicker because of a lack of capacity within the Information Technology Service.
- 2.3.7 The Senior Manager explained that the Wales Audit Office was conducting an audit of the project. A Member asked what was the rationale for developing an internal system rather than an "off the shelf" product. The Senior Manager stated that the decision had been made to develop a system internally due to linguistic needs.
- 2.3.8 A Member inquired if the time taken to be cost neutral had been taken into account in the savings. The Senior Manager responded that it had not been considered within the savings.
- 2.3.9 To close, the Senior Learning and Development Officer confirmed that a clear timetable for implementing the agreed action plan had now been established and the MoDS would be made available to users by October 2018. The Audit Manager stated that a follow up audit of the Staff Development Module would be undertaken in 2018/19.
- 2.3.10 The Corporate Support Senior Manager and Senior Learning and Development Officer were thanked for attending the meeting.

2.4 Obtaining References, Proof of Identity and Evidence of Qualifications

2.4.1 The main findings of the audit were as follows:

It was found that arrangements were in place but they did not receive the necessary attention. Officers have been appointed to administer the arrangements but it is essential that all Council officers co-operate with them.

The correspondence confirming the date and time of the interview notes that it is essential that the candidate brings any certificates or evidence of qualifications requested in the 'Person Specification' as well as proof of their identity with them to the interview. It is the responsibility of the relevant Service Managers to ensure that the evidence is appropriate, however, this does not happen in most cases.

Human Resource Assistants are responsible for requesting references from the Referees, they also receive them before presenting them to the relevant Managers. In some cases they do not receive references and these need to be followed up which may be troublesome. If a period passes without receiving a reference then they ask the Manager to speak with the applicant and may ask them for another Referee. If it is an external candidate, the Manager will need to complete a risk assessment for them until a reference is received. The same procedure is administered for internal officers, but only one reference is required by the current Manager. In addition, if the officer receives promotion there is no need for a reference as they will have the same Manager.

A sample of 20 individuals who had received a new job during the last year was selected. Their personnel files were checked for evidence of their qualifications, references and proof of identity and the following was found:

a) evidence of qualifications for 10 in the sample but there was no record in the files of the remainder that may mean that officers are in a job but lack the required qualifications;

b) references were received for 10 in the sample but there was no need for references for 7 other individuals in the sample as it appeared they had been promoted or seconded. No references were found for the other 3 in the sample. It was also noted that one of the certified references was not appropriate and was completed by the individual's Accountant.

c) proof of identity for 13 individuals in the sample.

New arrangements have come into force since 2018. Following appointment, the individual will receive a request from the Human Resources Assistants to visit Siop Gwynedd with evidence of their identity and qualifications if applicable. In addition, officers will receive the DBS forms of individuals (if applicable) at the same time, so that the process can be moved forward faster. It was inevitable to bring these arrangements into force due to failure on behalf of managers to receive evidence

A sample of Managers across Council Departments were asked regarding their arrangements for receiving references and if they follow any specific guidance. It was expressed that they did not have a formal guide to follow but it was clear that they were aware of the need to receive references.

It was discovered when checking the Council's intranet, in particular the References (FAQ) site - it is stated that if references are not received within a period of one month to the appointment, the Council will have the right to withdraw the post.

However, the '1.6 Disclosure of Offences and Criminal Records Check' policy, expresses in part 1.11 "The Council will allow an individual to commence in the post in a situation where the references have not been received but the period for receipt of those will be limited to two months following commencement in the post.". The Human Resources Advisory Services Manager confirmed that the information was inconsistent and needed to be adapted so that it is consistent with the Crime Disclosure Policy. The FAQ's also states that it is the responsibility of the individual to ensure that the Council receives references within a period of one month of their appointment which is also incorrect. However, it should be noted that this page is in the process of being developed.

The audit opinion does not reflect the work of the Council's Support Service but rather the lack of proper implementation of the Council Managers.

- 2.4.2 Mari Powell Jones, Support Services Manager joined Ian Jones, Corporate Support Senior Manager to discuss the report.
- 2.4.3 The Audit Manager gave an outline of the audit explaining that it is the responsibility of managers to ensure that evidence of applicants' qualifications is received and verified, and that the Support Service is responsible for receiving references.
- 2.4.4 The Support Service Manager explained that new arrangements were now in place and that the Support Service, under the old arrangements, did not receive evidence of qualifications because the appointing managers are responsible for checking the documents when conducting interviews. Managers now receive an email every 3/6 months to remind them of their responsibilities in relation to recruitment and appointments.
- 2.4.5 Under the new arrangements, the Support Service Manager explained that following any appointment, a letter would be sent to the applicant asking them to present the relevant documents to one of the 'Siopau Gwynedd' before their start date is provided. The Manager stated that these arrangements appear to be working.
- 2.4.6 The Audit Manager confirmed that this is a corporate procedure only, the same arrangements are not implemented for Education, Municipal Work and Community Care.
- 2.4.7 The Support Service Manager stated that these arrangements are not being followed for urgent appointments, e.g. school cleaners. The Support Service Manager explained that staff are under supervision until they received their "DBS" disclosure.
- 2.4.8 A Member expressed concern that formal processes were not being followed and that it could lead to appointments being made before any evidence and references were verified. He stated that there should be a process to ensure that the Council as an employer is protected, together with the applicant.

- 2.4.9 A discussion was held on short notice emergency appointments, the number of and who sits on interview panels, what training has been given, and the paperwork that needs to be completed during and following interviews.
- 2.4.10 The Audit Manager explained that the principles of Ffordd Gwynedd needs to be adhered to and that Managers had been empowered to carry out their duties and that Members only have a role in chief officer appointments.
- 2.4.11 The Support Services Manager and Corporate Support Senior Manager were thanked for attending the meeting.

2.5 Safeguarding Arrangements for Children and Adults – Field Workers’ Awareness of Policy

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

Several establishments were visited in order to discuss face to face with field workers, and question them about their awareness of the Council's policy and its contents. In addition, we asked about the types of abuse they would report and to whom they would report it. The auditors succeeded in collecting 63 responses from employees who do not have a Gwynedd Council email address by visiting Community Carers meetings, as well as Residential Homes, Leisure Centres and Depots.

The results of the discussions show that 76% of staff, out of the sample of 63, are aware that the Council has a Policy and Guidelines for Safeguarding Children and Adults. This result was expected as field workers do not receive as much contact compared to employees with Gwynedd Council email addresses.

It was explained to the employees that the 'Policy and Guidelines for Safeguarding Children and Adults' is Gwynedd Council's policy and that it differs from external policies such as POVA (Protection of Vulnerable Adults). Although several employees expressed that they are aware of the policy, the discussions that took place suggested that this was not true in all cases. In addition, when discussing aspects of the Policy, such as that it related to out-of-work life, the role of Departmental Designated Managers etc. it was found that those who had expressed themselves as being aware of the content may not be so familiar after all.

Many expressed that they had completed the e-learning safeguarding module and others noted that they needed to complete the module before the end of the year but that they were having difficulty accessing the system.

The different forms of abuse and their signs were discussed as set out in the Policy and the vast majority of employees were aware of them. However, it does not mean that they are aware of the policy and its contents. It was discussed if the workers were concerned about individuals being abused, whether in the workplace or not, would they refer their concerns and to whom.

The responses varied, but most of the employees noted that they would first express their concerns and to get advice from their Line Manager, although the Auditors reinforced that the policy encompasses life and concerns outside work as well. Other responses received included, contacting CSSIW, following POVA guidelines, Childline or contacting Social Services directly. One worker stated that he would have a word with the family if he had concerns about financial abuse. In addition, if he had concerns about an individual being emotionally abused, he would talk to the person causing the concern.

Following emphasizing that the policy also covers life outside work, many expressed that they would either contact Social Services or the Police. But when inquiring further about abuse such as organizational, financial and emotional, some individuals were unsure of what they meant.

It was explained that, although it was reasonable to discuss concerns with their Line Managers, this is not a 'referral' in the true sense, and not practical if the concern was about something outside of work. The role of the Departmental Designated Safeguarding Manager was discussed and that it was possible to speak to the Children's Services Duty Team, Adult Service Advisory and Assessment Team, or the Social Services Out of Hours Team on 01766 772577 or the Public Protection Unit - Police (number telephone - 101), and it was explained that if they thought that the child or adult was at risk immediately, then the Police should be called. Several employees expressed that they were unaware of the telephone number for referrals.

During the discussions with the employees, the Council's safeguarding pamphlets were distributed as well as the information cards. It was explained that the pamphlets contained information about types of abuse, the referral telephone number and what the next steps would be. Some of the sample stated that they were not aware of the safeguarding picture of a hand while others said they had already received a pamphlet and information card. These were distributed to the workers and to Line Managers / Supervisors during our meetings.

- 2.5.2 Janet Roberts, Corporate Support Senior Manager was welcomed to the meeting in her capacity as a member of the Safeguarding Strategic Panel.
- 2.5.3 The Audit Manager explained that the Safeguarding Strategic Panel had commissioned Internal Audit to assess awareness among staff of the policy. In the past, similar audits had concentrated on office based staff i.e. those with an e-mail address, but the audit carried out in 2017/18 was aimed specifically at field workers.
- 2.5.4 The Corporate Support Senior Manager gave the Working Group a background of the Safeguarding Executive Panel and expressed her appreciation for Internal Audit's work and the different approach taken to assess field workers' awareness.

- 2.5.5 A Member inquired for further details on the percentages in the report and if they were as expected. The Senior Manager responded by explaining that awareness was high within the Highways and Municipal Department and that the Department has provided stickers for their vehicles and because they were visible to the public, were very important.
- 2.5.6 A Member inquired as to what assurances could be given that employees understand their role and how to respond. The Senior Manager responded that information is given to the employees and that discussions on training completion statistics were being held at the Safeguarding Strategic Panel. The Senior Manager explained the intention to implement a system that identifies and remind employees who need training.
- 2.5.7 To close, the Audit Manager explained that the Internal Audit Service will carry out another Safeguarding audit in 2018/19 on the subject of Domestic Violence.
- 2.5.8 The Senior Manager was thanked for attending the Working Group.

2.6 School Schemes – Ysgol Glancegin

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

The original contract was valued at £4,439,000. Project Management Controls and arrangements were in place but there were some aspects, which could be improved for future projects.

6 companies who were part of the North Wales Contractors Framework (NWCF) were invited to tender but only two presented a tender. The Framework has not had the desired effect in Gwynedd and is being reviewed at present. Gwynedd were not satisfied with the original terms for the second version of the framework but following discussions and negotiations have decided to remain part of the framework. The aim is to share expertise within the sector and develop community benefits within Gwynedd while also including smaller companies/contractors.

Only the Property Development Manager had signed the final scoring sheet, all individuals who are part of the scoring process are expected to sign this document. However, the scoring process took place in December 2015 and the Project Manager has since agreed to this step in a separate audit, which was completed in July 2016. During a follow up audit this year, a scoring sheet dated February 2017 was seen which confirmed this step had been implemented.

Some of the payments for the 'interim valuations' were late compared to the due date and date of the valuations. However, it was seen that Gwynedd had not received the 'valuations' for several days after the issue date. It was found that the contract had been modified to reflect these terms regarding the payment date which indicated that the payments should be made within 14 days of receipt of the 'valuations' rather than by the due date.

The plans had to be adapted and additional work was carried out as some elements of the original designs and architect designs did not meet Health and Safety requirements. As a result, some elements of the construction have had to be re-done with Gwynedd responsible for the additional costs. Consultation earlier in the process and receiving consistent input from Health and Safety would avoid similar situations in the future. It was highlighted that other current projects have already started this consultation and collaboration process. The intention is to either avoid problems or discover them earlier during the construction to reduce the implications on the budget and the project's time/progress.

- 2.6.2 Dafydd Gibbard, Corporate Property Senior Manager, was welcomed to the meeting.
- 2.6.3 The Chair referred to the audit report, in particular the scoring document and the expectation that the document be signed by an individual. The Corporate Property Senior Manager explained on this occasion, it was a mistake that the scores were not signed, but there was evidence to show that three people had scored the tenders with no signatures to confirm this, however it had not impaired the tender's fairness. A member inquired to how will the Department ensure that the same situation will not occur again. The Senior Manager explained that the service receives feedback from each manager at the end of each plan as lessons learned before moving onto the next plan.
- 2.6.4 A Member referred to the health and safety element in the report and sought clarification for the failure to meet health and safety requirements. The Senior Manager explained that different layers of health and safety were passed as the plan progressed and that there were many regulations in the field.
- 2.6.5 The Corporate Property Senior Manager explained that new requirements had arisen with the Ysgol Glancegin scheme as a result of not consulting the Health and Safety Service and stressed that this was one of the lessons learned and confirmed that it would not happen again.
- 2.6.6 The Corporate Property Senior Manager stated that the design of each school was unique and that this was also the case at Ysgol Glancegin.
- 2.6.7 The Corporate Property Senior Manager was thanked for attending the meeting and it was agreed that the issues had been answered.

2.7 Smallholdings

2.7.1 The main findings of the audit were as follows:

Plans are in place to change the way smallholdings are managed, with a ring-fenced budget from the 2018/19 financial year, and so to that end it was agreed that Internal Audit resources would be more effective by re-visiting the new procedures in due course. Accordingly, this audit was limited to the income process. Income transactions over several years were extracted from the financial ledger, ensuring that invoices were created on a regular basis and arrangements are in place for monitoring and receipt of the income.

The Financial ledger shows that the Council uses recurring billing, which means that invoices are automatically generated on a specific time of the year, for a certain number of years in line with the current lease, but controls within the financial system limited the years that this could be done. Although recurring billing is generally a good control to ensure that invoices are raised, there may have been too much reliance on the procedure to look after itself, and failures were not found. An invoice for £7,500 was created on the 25/06/13, which is a cumulative payment for a three year rent for Unit 5255 (job number), as the recurring billing between 11/01/10 and 12/01/14 had not occurred. There was also an invoice for £20,700 on 30/10/17 for Unit 5309 due to a failure to raise invoices for £6,900 on 28/05/15 and 28/05/16. The customer had been paying £575 per month, but now pays £625, which means that at this rate it will take 23 years to pay the arrears of £13,800.

The recurring billing process seems to have failed because the period during which the invoices are periodically created, which were limited within the financial system, had expired, and the monitoring arrangements of the Property Service and the Finance Department did not discover it. As a result, the Income Unit began creating periodic reports to identify when the recurring billing of smallholdings (as well as others) end and renew them in accordance with the terms of the current lease. However, following discussions as part of this audit, it was discovered that it was possible to extend the recurring billing periods in the system well into the future and therefore arrangements are in place to increase the billing periods of smallholdings accordingly. This will alleviate the risk of failing to raise a bill on a tenant.

A credit note for £4,800 was raised on 30/03/11 as the tenant had left Unit 5332 since March 2009, and credit notes totalling £19,500 was raised on 27/05/15 as the tenant had left Unit 5260 since 27/05/13. The failure to cancel the recurring bills and the need to raise credit notes suggests there are weaknesses in the tenancy monitoring process. However, the Income Unit explained that some recurring billing arrangements had been programmed for longer periods than the lease, in order to ensure that invoices were raised, as it was easier to raise a credit note as necessary instead of risking a failure to raise an invoice. Because recurring bills can now be extended well into the future, it is intended that the billing period for each lease would be extended within the financial system.

Should an invoice remain outstanding, then the Council's normal recovery arrangements will be followed to recover the debt. However, the ledger and the Income Unit records show that long delays can occur between raising an invoice and receiving payment, with the promptness of payments varying from one tenant to another.

Some invoices have to be written off, including a number of back-dated rent invoices between 25/03/09 and 25/03/11 and one case where a cumulative debt of £38k over a number of years will be written off, due to a failure to re-posses Unit 5329 as there was no lease in place, despite efforts from the Legal Service to recover the debt. However, this arrangement was set under a historical process and the same failures are not expected to re-occur in the future.

Therefore, it seems the newer procedures require a strengthening of the current income monitoring arrangements, by ensuring that invoices are raised in accordance with the agreement and incorporating the status of invoices with regards to outstanding sums and the punctuality of paying invoices into the monitoring system, in order to address bad-debtors before the debt accumulates excessively. Naturally, some tenants are better payers than others, but it seems that the system of paying in instalments does not lead to such problems.

- 2.7.2 Dewi Morgan, Senior Manager - Revenue & Risk and Stephen Williams, Income Manager joined Dafydd Gibbard, Corporate Property Senior Manager to discuss the Smallholdings report. The officers were welcomed to the meeting.
- 2.7.3 A Member inquired what the customer's responsibilities were, and who had negotiated with the customer to agree on part payments that would take 23 years to pay off the debt. The Income Manager responded that it was the responsibility of the Income Service to arrange payments but in this case, it was the customer who had offered to pay the sums. The Income Manager explained that the debt had not gone through court proceedings because the failure to raise the debt was the Council's mistake. He added that there was no formal payment agreement established and that they would contact the customer with the hope that the customer will be in a position to make greater payments in the future.
- 2.7.4 A Member inquired about the reason for not raising an invoice. The Income Manager explained that the system failed to raise an invoice because the date for recurring bills was not extended accordingly in the system's parameters and added that this issue had now been resolved and confirmed that the same thing would not happen in the future.
- 2.7.5 The Corporate Property Senior Manager expressed the fact that in spite of the report receiving an "Ch" opinion, he welcomed the report as improvements had already been made and that collaboration had taken place to solve the problem easily.
- 2.7.6 A Member inquired why a cumulative debt of £38K had not been recovered. The Corporate Property Senior Manager explained that the case had gone to court and it appeared that the complete information was not presented to the Auditor during the course of the audit. The Senior Manager - Revenue & Risk emphasized the importance for managers to check the wording of draft reports before they were finalised.

- 2.7.7 A Member inquired what improvement arrangements had been put in place since the release of the report. The Corporate Property Senior Manager explained that the Estates Unit manages the smallholdings and it has already been referred to the Scrutiny Committee. The service will look at the resource and the work in more detail with the Scrutiny Committee.
- 2.7.8 The Chair inquired about the progress with the Agreed Action Plan. The Income Manager explained that the three agreed actions had already been implemented.
- 2.7.9 A Member requested an update of the situation within 6 months but the Audit Manager stated that a follow up audit would be carried out to monitor progress in line with the usual process, and the results of the audits will be reported to the Audit and Governance Committee.