



Complete Agenda

Democratic Services
Swyddfa'r Cyngor
CAERNARFON
Gwynedd
LL55 1SH

Meeting

AUDIT AND GOVERNANCE COMMITTEE

Date and Time

10.00 am, MONDAY, 29TH JULY, 2019

Location

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

Contact Point

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(DISTRIBUTED 19/07/19)

AUDIT AND GOVERNANCE COMMITTEE

MEMBERSHIP (19)

Plaid Cymru (10)

Councillors

Aled Ll. Evans
Huw Gruffydd Wyn Jones
Paul John Rowlinson

Aled Wyn Jones
Berwyn Parry Jones
Gethin Glyn Williams

Charles Wyn Jones
Peredur Jenkins
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

Gwynedd United Independents (1)

Vacant Seat

Individual Member (1)

Councillor Sion W. Jones

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

4 - 14

The Chairman shall propose that the minutes of the meeting of this committee, held on 13 June 2019, be signed as a true record.

5. GWYNEDD COUNCIL'S STATEMENT OF ACCOUNTS 2018/19

15 - 100

To submit, for information, the statutory financial declarations (subject to audit) for 2018/19.

6. GWYNEDD PENSION FUND FINAL ACCOUNTS 2018/19 AND AUDIT REPORT

101 - 162

To submit:

- (i) the report of the Head of Finance
- (ii) ISA 260 report of the External Auditors

7. TREASURY MANAGEMENT 2018/19

163 - 176

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 2019.

8. REPORT OF THE CONTROLS IMPROVEMENT WORKING GROUP

177 - 188

To submit the report of the Chair of the Audit and Governance Committee outlining the feedback from the meeting of the Working Group on 12 July 2019.

AUDIT AND GOVERNANCE COMMITTEE 13/6/19

Present: Councillor John Brynmor Hughes (Chair)
Councillor Angela Russell (Vice-chair)

Councillors: Alwyn Gruffydd, R. Medwyn Hughes, Peredur Jenkins, Aled Wyn Jones, Berwyn Parry Jones, Dewi Wyn Roberts, John Pughe Roberts, Paul Rowlinson and Gethin Glyn Williams.

Lay Member: Sharon Warnes

Others invited: Councillor Ioan Thomas (Cabinet Member for Finance - for items 7-13 on the agenda).

Also in Attendance: Dafydd Edwards (Head of Finance Department), Dewi Morgan (Assistant Head - Revenue and Risk), Ffion Madog Evans (Senior Finance Manager - for items 7-14 on the agenda), Caren Rees Jones (Group Accountant - for items 11-14 on the agenda), Luned Fôn Jones (Audit Manager), Bethan Adams (Member Support Officer) and Alan Hughes (Performance Audit Leader, Wales Audit Office).

Apologies: Councillors Aled Ll. Evans and Charles Wyn Jones.

1. CHAIR

RESOLVED to elect Councillor John Brynmor Hughes as Chair of the Committee for 2019/20.

2. VICE-CHAIR

RESOLVED to elect Councillor Angela Russell as Vice-chair of the Committee for 2019/20.

3. DECLARATION OF PERSONAL INTEREST

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

4. MINUTES

The Chair signed the minutes of the previous meeting of this committee, held on 14 February 2019, a true record.

5. 2019 EXTERNAL AUDIT PLAN

(a) GWYNEDD COUNCIL

The report was presented by the Performance Audit Leader (Wales Audit Office).

Members were guided through the report, which detailed the Wales Audit Office (WAO) and Deloitte's audit arrangements for 2019. It was noted that Deloitte would carry out the financial audit on behalf of the Auditor General for Wales. Attention was drawn to the main financial audit risks and attention was drawn to the performance audits to be carried out on a national level, and those that were specific to Gwynedd. It was noted that the events of the Wales Audit Office's Good Practice Exchange was an opportunity to share information

and share good practice on a specific subject and that the Council's members and officers were welcome to attend.

It was noted that a Trainee Accountant employed by the Wales Audit Office would be seconded to Gwynedd Council for the period between January 2020 and May 2020, which would give the officer valuable experience of accountancy work. In response, the Head of Finance Department noted that he appreciated the collaboration and that discussions would be held in terms of having a similar opportunity for the Council's Finance Trainee to be seconded to the Wales Audit Office for a period of time.

Members were given an opportunity to ask questions and make observations. A response was given to the questions and observations as follows:-

- That the fee for the audit of GwE accounts covered the work in its entirety. Gwynedd Council was the host authority, with a procedure in place to receive contributions from the councils for all the Joint Committee's costs.
- That the timetable for the Leisure Services performance audit project, that was included in the 2018 plan, had slipped. Interviews would be held and a report would be given on the work to Byw'n Iach, the company now responsible for the Council's leisure centres.
- That the wording of the paragraphs in relation to the UK's departure from the European Union, on page 19 of the plan, would be looked at.

(b) GWYNEDD PENSION FUND

The report was presented by the Performance Audit Leader (Wales Audit Office). He provided details on the content of the report which noted the external auditor's audit plan with regards to the Gwynedd Pension Fund, and he highlighted the main financial audit risks. It was noted that Deloitte would carry out the audit on behalf of the Auditor General for Wales. He confirmed that the wording of the paragraphs in relation to the UK's departure from the European Union would be looked at.

The Head of the Finance Department welcomed the plan. Gratitude was expressed for the reports.

RESOLVED to accept the reports.

6. INTERNAL AUDIT OUTPUT 4/2/19 - 31/3/19

Submitted - the report of the Audit Manager outlining the Internal Audit section's work for the period. It was noted that 19 reports on audits from the action plan had been completed. Attention was drawn in terms of follow-on audits, that acceptable action had been taken on 94.48% of the agreed steps, namely 154 out of 163. It was highlighted that no response had been received to requests to receive information and evidence from the relevant Units/Services on the progress of actions for the following audits:

- Small holdings (3 actions)
- Arrangements for Children who are Leaving Care (1 action)
- Recycling Targets (5 actions)

It was noted that after receiving information, the reports of the audits below had been released in final form:

- Care and Support (Children) Plans under Part 4 SSA (Wales) 2014 (Children and Families)
- Flood Management (Gwynedd Consultancy)

A member referred to the lack of response from Units/Services to requests for information and evidence. The member noted that the attention of the relevant Cabinet Members should be drawn to this or that the relevant officers should be summoned to the Committee. In

response, the Audit Manager stated that if the Committee wished, the relevant officers could be summoned before the Controls Improvement Working Group. It was proposed to call the relevant officers to the audits before the Controls Improvement Working Group. A member noted that the relevant Cabinet Members should be called before the Working Group as well. The Audit Manager confirmed that a date had been determined for a meeting of the Controls Improvement Working Group where a discussion would be held on audits referred to the Working Group at the Committee's previous meeting. The proposal was seconded, a vote was taken on the proposal and it was carried.

Consideration was given to the reports individually and during the discussion, reference was made to the following main matters -

Whistleblowing Policy - Gwynedd Schools

A number of members noted their disappointment that 34% of the schools had not replied to confirm that the schools had a current policy in place and that it had been adopted formally by the Governing Body, and that every member of staff had easy access to the policy, considering the importance of the policy.

In response, the Audit Manager noted that the percentage of the schools that had responded was quite good. She noted that the fact that some schools had not replied did not mean that the policy had not been adopted. She explained that the Education Department had committed to re-send the Whistleblowing Policy template to the schools that did not use the current version and to those that had not responded. She noted that since the audit had been completed, that confirmation had been received from additional schools noting that the Governing Body had adopted the policy.

A member noted that the policy was very important in the context of schools and although schools had adopted the policy, staff's understanding of the policy was another matter. In response, the Audit Manager explained that the purpose of the investigation was to ensure that the current policy had been adopted by school Governing Bodies, staff awareness of the policy was not included within the scope of the audit, although it was a matter to consider in the context of risk.

A member emphasised that it was important to receive confirmation from all schools that the current policy was adopted when follow-up work was done by the Internal Audit Service.

Employment Status - GwE

A member drew attention to the fact that GwE, following the audit, had identified eight individuals from a sample of 12 where the status of their employment needed to be changed. The member added that there appeared to be a problem, considering the size of the sample. The member enquired whether the Controls Improvement Working Group should consider the audit.

In response, the Head of Finance Department explained that there was a questionnaire on HMRC's website to help employers to identify the employment status of individuals as employed or self-employed, in accordance with the 'IR35: Countering avoidance in the Provision of Personal Services' taxation rules. He elaborated that the questions could be interpreted to give different answers and that discussions had been held with GwE. He explained that the matter had been addressed by the GwE Joint-Committee with GwE officers acting with support from Council officers. He noted that the matter had been considered at the appropriate forum.

A member noted that he was happy that the matter had been addressed at the appropriate forum but the Committee needed to receive information after the follow-up work of the

Internal Audit Service. In response, the Audit Manager noted that if there would be a lack of action, a report would be submitted to the Committee and the matter would be referred to the GwE Joint-Committee.

A member highlighted that an individual's employment status depended on the work done and that the rules could be arbitrary and difficult to interpret. A member added that if an individual worked for an organisation on a permanent basis, they should be on the payroll.

Purchasing Equipment Through the School

A member referred to a case where a school had purchased three iPhones on behalf of staff members by means of a loan arrangement, noting that it was a case of taking advantage of the VAT savings scheme. In response, the Audit Manager explained that the audit was a responsive audit following a referral from the Education Department's Finance Unit in relation to a case in one school and that the audit attempted to establish how widespread the practice was, in discussions with a Value Added Tax expert. She elaborated that there were clear guidelines and that it was appropriate for the school to sell goods on to pupils so that they could save on the VAT element, provided that the goods were to be used regularly in the classroom and that these goods included portable musical instruments and devices such as iPads. She noted that sales to teachers and other staff did not comply with HMRC rules. She confirmed that this had only been identified in this specific case, and that it was not a common practice across Gwynedd schools.

Licensing Arrangements

The Audit Manager confirmed that the Gambling Policy Statement had been adopted by the Full Council at its meeting on 7 March 2019.

Maintenance – Property

A member noted that the Property Maintenance Unit had gone through the *Vanguard* process and that it was disappointing that duplicate payments had been processed. The member asked whether the payments were substantial.

In response, the Audit Manager noted that she was unable to confirm the exact amounts. She explained that a concern had been raised during the audit in terms of a lack of distribution of duties within processes and an explanation had been given, noting that as a result of Ffordd Gwynedd, they would not implement distribution of duties within their processes. She elaborated that the Unit was striving to restrict the procedure in terms of processing and paying invoices by only using the *Techforge* interface in the future, in order to avoid the risk of duplicate payments. She noted that some distribution of duties was now taking place, and individuals who only had administrator rights had permission to establish new contractors on the system for payment.

In response to an enquiry by a member about choosing a sample, the Audit Manager noted that the way in which a sample was chosen varied for audits. She elaborated that in relation to the audit in question noting that transactions and invoices were considered, information was extracted from the financial ledger and attention was given to trends and substantial payments.

Cyber Security

A member asked whether the training on Cyber Security was also relevant to members. In response, the Audit Manager noted that the Information Technology Service had published videos that highlighted the cyber risks to staff on the Council's intranet. The Head of Finance Department noted that he was of the opinion that the training on cyber security was relevant for members, and that he would look into the matter with a view to offering access to the videos.

Children - Out-of-County Placements

In response to a member's observation, the Audit Manager noted that Social Services visited children who were placed out-of-county with care plans, risk assessments and support in place.

She highlighted that the costs of children's placements remained high. The member asked about any action being taken to reduce the costs. In response, the Audit Manager noted that expenditure on out-of-county placements contributed to the overspend in the Children and Supporting Families Department. She elaborated that overspending in this field was not unique to Gwynedd. She explained that it had been highlighted, as part of the audit, that the field was eligible to be on the Department's risk register, and the Council's corporate risk register. She noted that confirmation had been received that the field was now included on the risk register.

Street Enforcement

A member noted that the Communities Scrutiny Committee had addressed the waste enforcement field and that consideration should be given to referring the audit to the attention of the Scrutiny Committee. In response, the Head of Finance Department noted that the audit could be referred to the Communities Scrutiny Committee; however, the work programme and matters to consider was a matter for the Scrutiny Committee.

RESOLVED:

- (i) to accept the report on the work of the Internal Audit for the period of 4 February 2019 to 31 March 2019 and to support the agreed actions that have already been submitted to the managers of the relevant services;**
- (ii) to call the officers and relevant Cabinet Members involved with the follow-up audit, listed below, before the Controls Improvement Working Group:**
 - **Smallholdings**
 - **Arrangements for Children who are Leaving Care**
 - **Recycling Targets**
- (iii) that the members appointed to serve on the Controls Improvement Working Group at the meeting of the Committee on 14 February, along with Councillor Berwyn Parry Jones and Sharon Warnes (substitute), serve on the Working Group;**
- (iv) to refer the Street Enforcement audit to the Communities Scrutiny Committee for consideration.**

7. HEAD OF INTERNAL AUDIT ANNUAL REPORT 2018/19

Submitted - the report of the Audit Manager. On the basis of the work of Internal Audit that was completed in 2018/19, the officer was satisfied that Gwynedd Council had a sound framework of internal control.

It was reported that 60 pieces of work had been included in the final amended audit plan for 2018/19. It was noted that 58 of the assignments had been completed by 31 March 2019, which represented 96.67% of the plan.

It was noted that there was an increase in the number of productive days available for Gwynedd Council audits, from 707 days between 1 April 2017 and 31 March 2018, to 913 days for the same period in 2018/19; an increase of 206 days. It was elaborated that this was as a result of appointing an Audit Leader and appointing temporary Auditors.

Attention was drawn to a new performance measure for 2018/19, namely '% of internal audits with an assurance level of "Satisfactory" or better (corporate indicator)'. It was noted that the performance for 2018/19 was 88.46%.

Reference was made to a new measure for 2019/20, namely, 'Proportion of agreed actions at high or very high level of risk that have been implemented in accordance with the timetable (corporate indicator)'. It was noted that the performance ambition was 100%, and should Units/Services fail to respond in a timely manner to requests for information or evidence, the matter would be brought before the Committee.

A member referred to the performance measure, '% of internal audits with an assurance level of "Satisfactory" or better', and asked whether the performance ambition of 65% for 2019/20 was sufficient considering the performance of 88.46% in 2018/19. The member added that the performance was dependent on the Council's Departments and that it did not measure the performance of the Internal Audit Service. In response, the Audit Manager noted that the measure was a corporate measure and that performance could vary year on year; therefore, there was no reason to increase the performance ambition considering that the level of audit assurance was generally high. The Head of Finance Department elaborated that it was an attainment measure for the Council, the wording of the measure could be considered; however, the measure showed the impact of the Internal Audit Service on the Council.

In response to a question by a member regarding the work of auditing Town and Community Councils, the Audit Manager noted that the Service had carried out audit work for approximately 75 Town and Community Councils in Gwynedd and Anglesey. She elaborated that substantial profits did not derive from the work and that lessons had been learnt when establishing arrangements in 2018/19 that would allow for the work to be completed earlier in 2019/20.

Appreciation of the Audit Manager's work was expressed.

RESOLVED to accept the report as the formal annual report of the Head of Internal Audit in accordance with the requirements of the Public Sector Internal Audit Standards for the 2018/19 financial year.

8. INTERNAL AUDIT CHARTER

The Head of Internal Audit presented the Internal Audit Charter to the Committee, noting that a few changes had been made to the content of the Charter to coincide with the requirements of the Local Government Application Note (2019) published by CIPFA.

Members were guided through the Charter, attention was drawn to the fact that changes had been made to job titles and that the Charter reflected the Internal Audit Service's operation method of providing an assurance level on audits.

A member asked whether it would be an idea to explain the role of the Internal Audit Service in terms of completing audit work when the Council was a host authority for a Joint Committee in partnership work. In response, the Head of Finance Department noted that he was not of the opinion that a reference to the role of the Service needed to be included as the role was not different in this context. He elaborated that the role of the Internal Audit Service was different in the context of the Town and Community Council audit work.

RESOLVED to approve the Internal Audit Charter.

9. FINAL ACCOUNTS 2018/19 – REVENUE OUTTURN

The Cabinet Member noted that the report had been submitted to the Cabinet on 21 May 2019. He thanked Councillor Peredur Jenkins, the former Cabinet Member, for his work and commitment to secure the Council's financial situation at a difficult time. He emphasised that the Cabinet Members were aware of their responsibilities to keep to the budget. He noted that the overspending on Children's Services and in the school transport field could not continue.

The report was submitted by the Senior Finance Manager, she set the context and elaborated on the content of the report. She noted that there had been effective financial control in general, in light of the requirements to realise savings.

Attention was drawn to the Cabinet's decision:

1.1 To note the final financial position of the Council's departments for 2018/19.

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	15
Children and Families	100
Education	100
Economy and Community	28
Highways and Municipal	100
Environment	(100)
Gwynedd Consultancy	(59)
Corporate Management Team and Legal	(76)
Finance	(59)
Corporate Support	(61)

1.3 To approve the following recommendations and financial transfers (as outlined in Appendix 2) -

- The Children and Families Department to receive a one-off partial financial assistance of £1,544k to restrict the level of overspend that will be carried over by the department, to support them to move on to face the challenges of 2019/20.
- The Education Department to receive one-off partial financial assistance of £16k to limit the overspend that will be carried forward by the department to £100k.
- Compensate the Economy and Community Department £157k, the sum of the overspend due to the slippage of establishing 'Cwmni Byw'n Iach' to run the leisure centres, which limits the overspend that will be carried forward by the department to £28k.
- The Highways and Municipal Department to receive a one-off partial financial assistance of £518k, which limits the overspend that will be carried forward by the Department to £100k, to support them to face the challenges of 2019/20.
- In accordance with the financial regulations it is recommended that the usual practice is adhered to in order to allow the Environment Department to keep (£100k) of their underspend, and to move (£392k) which is the sum above (£100k), to be used to support the departments that have overspent in 2018/19.
- On Corporate budgets, transfer:
 - (£19k) related to the Council Tax Premium to a specific reserve to be considered for the Housing Strategy.
 - (£551k) relating to capital costs to a capital programme fund.
 - (£738k) on maintenance to a maintenance reserve.
- Use (£1,843k) of the net underspend on Corporate budgets to assist the departments that have overspent in 2018/19.
- The remainder of the Corporate underspend (£173k) to the Council's general balances.

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

- Harvest (£3.931m) from reserves and (£69k) from provisions.

- Assign £3m to the transformation fund for the Council Plan.
- Transfer £1m to the Council's General Balances.
- Assign for a one-year period, £262k from the Supporting the Financial Strategy Reserve to bridge the funding source relating to liabilities of the Pension Fund."

She noted that the Finance Department had produced the 2018/19 statutory financial statements before 31 May and that the accounts were being audited by the External Auditors. She confirmed that the accounts would be submitted to the Committee on 29 July, following the audit. She elaborated that the whole process of closing the accounts, producing the statement and the external audit would be completed by the end of July, rather than at the end of September as in previous years.

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

- That the overspend of the Children and Supporting Families Department was equivalent to approximately 15% of the Department's budget. The Department was being praised for its work and other departments could also do praiseworthy work if they also overspent. A similar spending situation was anticipated for the Council in 2019/20, although the overspend was being addressed. In relation to Storiell's financial situation, had the situation worsened since the Council had taken control of the café after the private provider ceased management?
- Was the budget realistic, considering that some fields overspent annually?
- That there was a need to be firm with the services that were overspending, although the overspending derived from sensitive matters, the situation was unfair on those who provided within budget. Overspending needed to be stopped, if possible.
- That circumstances outside the Council's control affected the financial performance of Departments with the situation being a reflection on the community. That it was a difficult situation that would get worse as Welsh Government and the UK Government did not give Local Government more money.
- That it was important to consider whether the budget was suitable, and assess the Council's position in comparison with other councils in relation to the overspend.
- That there was a need to look at the reasons for the overspend and consider whether the overspend was necessary and responded to statutory requirements.
- In the context of out-of-county placements, was the Children and Supporting Families Department considering providing a facility in Gwynedd?

A response was given to the questions and observations as follows:-

- That the shortcoming in the financial situation of Storiell derived after the private provider ceased management of the Café and the Council internalising its management. The shortcoming was as a result of additional staffing costs.
- That the financial situation of the Children and Supporting Families Department was not unique to Gwynedd and that the situation was being addressed and the WLGA were placing pressure on the UK Government to fund social care appropriately. The UK Government had not commenced its comprehensive spending review due to the focus on Brexit, and as a result it is expected to be challenging to fund services by 2020/21. The Department's budget had been set for 2019/20 by considering trends, with a substantial increase in child placements, and an increase in severe needs. Attention was given to the financial situation of the Children and Supporting Families Department at the Cabinet meeting on 21 May. It was anticipated that the Department would overspend in 2019/20, and a reserve budget had been provided within the Council's budget for any situations that could arise.
- It was anticipated that the departments that underspent would continue to underspend in 2019/20 with other departments overspending in response to emergencies. It was difficult to have a balanced budget due to the spending requirements.

- That the North Wales Councils' Directors of Social Services had a project in the pipeline in terms of placements; however, not much progress had been made.
- That the budget reflected the demand for services at a point in time, with the reserve budget being available to use during the 2019/20 financial year.

RESOLVED to accept the report and note the situation and relevant risks in the context of the budgets of the Council and its departments.

10. CAPITAL PROGRAMME 2018/19 - END OF YEAR REVIEW (31 MARCH 2019 POSITION)

The report of the Senior Finance Manager was submitted, she set-out the context and elaborated on the content of the report submitted to the Cabinet on 21 May 2019 which provided details on the capital programme's end of year review. It was noted that the Council had succeeded in spending over £22.8m in 2018/19 on capital programmes, with £12.5m of this, namely 55%, funded by attracting specific grants. It was confirmed that a total of £12.7m would slip from 2018/19, compared to a slippage of £15.6m at the end of 2017/18. No loss of grant funding was caused to the Council where schemes had slipped. Attention was drawn to the Cabinet's decision.

The Cabinet Member for Finance noted that attracting grants was an important element of funding and he expressed concern that Departments were losing capacity in relation to preparing grant applications within a small window of time, considering that grants had funded 55% of the capital programme for 2018/19.

A member noted that preparing a grant application was a skill and that it was important that staffing resources were in place to prepare and submit grant applications. A member reiterated the comment, noting that the Council was at risk of not attracting as many grants. In response to the observations, the Head of Finance Department noted that collaboration took place across departments to attract grants and despite the reduction in staffing resources making it more difficult, the Council had not reached the point where it missed out on attracting grants.

A member highlighted that the Council was successful in attracting grants. The member added that Welsh Government offered grants for specific headings but this was not an acceptable funding method and consideration should be given to how Local Government was funded. A member reiterated the comment, congratulating the officers who had submitted successful applications.

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

11. SAVINGS OVERVIEW: PROGRESS REPORT ON REALISING SAVINGS SCHEMES

The report of the Senior Finance Manager was submitted, she set-out the context and elaborated on the content of the report submitted to the Cabinet on 21 May 2019 which reported on the latest situation of realising savings schemes. She noted that over 96% of the 2015/16 - 2017/18 savings had been realised by March 2019.

Attention was drawn to the fact that £2.5m of savings had been planned in the 2018/19 Financial Strategy. She highlighted that 73% of the 30 schemes had been realised on time; however, slippage had been seen in realising seven schemes. She noted that in general, the progress made to realise the 2018/19 savings schemes was acceptable, but that there were signs that some delivery difficulties were being highlighted.

She noted that savings schemes to the value of £6.4 million were in place for 2019/20 onwards. She elaborated that the individual schemes would be monitored during the year,

but that it was premature to report. She drew attention to the Cabinet's decision notice which noted encouraging praise towards realising the savings schemes during the year.

The Cabinet Member for Finance noted that acceptable progress had been made to realise the savings schemes but he noted his concern that unless all savings schemes were realised, cuts would have to be made.

A member referred to the lack of overview of needs across public services with bodies operating in silos.

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

12. GWYNEDD HARBOURS' FINAL ACCOUNTS 2018/19

The Senior Finance Manager submitted the report in the context of the final accounts of Gwynedd Harbours for the year 2018/19 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. It was explained that completion of a statements of accounts form provided by the Wales Audit Office satisfied the statutory requirements.

Attention was drawn to the £2,875 underspend at the end of the year, the income heading was £38k short, however, jobs had been kept vacant in an attempt to close the income gap. It was elaborated that substantial expenditure had been incurred on 'Signage and Notices' following a fatal incident on Barmouth Beach.

It was reported that the accounts would be the subject of an audit by Deloitte, and should changes be made post-audit, the amended version would be submitted to the Committee meeting on 29 July 2019.

In response to an observation by a member, the Senior Finance Manager noted that the overspend under the heading 'Safety Equipment' derived from essential expenditure following the incident on Barmouth beach. The Head of Finance Department added that the statement of accounts had been submitted to the Committee, in its governance role, for approval.

RESOLVED:

- (i) to accept and approve the information in the appendices, namely -**
 - **Income and Revenue Expenditure Account 2018/19 - Appendix A; and**
 - **Statements of Accounts form for 2018/19, for audit - Appendix B.**
- (ii) to authorise the Chair to sign the statements of accounts form 2018/19.**

13. GWYNEDD COUNCIL'S ANNUAL GOVERNANCE STATEMENT 2018/19

The Assistant Head - Revenue and Risk set-out the background and context to 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 place in order to mitigate the risks.

Attention was drawn to the fact that one governance field had been designated as high risk, namely *Culture*. It was elaborated that an improvement had been seen in this field, but that

there was further work to do. It was highlighted that the score of four of the risks had changed during the 2018/19 year, with the risk scores reduced in all cases.

A member referred to the *Leadership* governance field, enquiring whether it was premature to reduce the risk score considering that the managerial review had been approved recently and that time was needed to see the impact of new job descriptions for managers and heads.

In response, the Assistant Head - Revenue and Risk noted that the report submitted to the Cabinet on 7 May 2019 in terms of the managerial review was the end product of much work; for example, new job descriptions were provided, clarifying the role for managers and heads. He also elaborated that this was associated with the work of changing culture in accordance with Ffordd Gwynedd to be "leading" (rather than "managing"), and ensuring that members and officers understood their role.

In response to an enquiry made by the Lay Member, the Assistant Head - Revenue and Risk noted that he would send Ffordd Gwynedd training material to the member.

RESOLVED:

- (i) to approve the **Annual Governance Statement for 2018/19;**
- (ii) to recommend that the **Council Leader and the Chief Executive sign the statement.**

14. PERFORMANCE MONITORING

Members were invited to express an interest in attending the Corporate Support Department's performance monitoring meetings.

RESOLVED to nominate Councillor Dewi Wyn Roberts to attend the Corporate Support Department's performance monitoring meetings.

15. AUDIT AND GOVERNANCE COMMITTEE'S FORWARD PLAN 2019-2020

Submitted - the report of the Assistant Head - Revenue and Risk, outlining the work programme for the Committee for the period up to June 2020.

RESOLVED to note the information.

The meeting commenced at 10:00am and concluded at 1:05pm.

CHAIR

Agenda Item 5

MEETING: **AUDIT AND GOVERNANCE COMMITTEE**

DATE: **29 JULY 2019**

TITLE: **STATEMENT OF ACCOUNTS 2018/19**

PURPOSE /
RECOMMENDATION: **TO RECEIVE THE STATUTORY STATEMENT OF
ACCOUNTS (PRE-AUDIT DRAFT) FOR INFORMATION**

AUTHOR: **DAFYDD L EDWARDS, HEAD OF FINANCE**

CABINET MEMBER: **COUNCILLOR IOAN THOMAS**

1. INTRODUCTION

- 1.1 This report introduces the statutory Statement of Accounts for the 2018/19 financial year, which provides details of the Council's financial activities during the year which ended on 31 March 2019.
- 1.2 The following document is the draft Statement of Accounts in its statutory format, 83 pages long in each language. A link to the Statement was sent to all elected members and chief officers of the Council on 31 May 2019.
- 1.3 This year the final accounts following audit were due to be submitted to the Audit and Governance Committee on 29 July 2019. Unfortunately, Deloitte, Gwynedd Council's external auditors, were unable to release their report by this date, and therefore an extraordinary meeting of the Audit and Governance Committee will now be held on 13 September 2019.
- 1.4 The draft accounts presented here are currently subject to audit, so it is possible that some changes will be necessary before a final version is submitted for approval at the 13 September 2019 meeting of the Audit and Governance Committee.
- 1.5 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 Code of Practice on Local Authority Accounting and apply to the Council's Statement of Accounts for 2018/19. As the regulations require statements in a standard format, comparisons with other bodies' accounts is facilitated, but the statements have now become technically complex and difficult to understand.
- 1.6 Simple summary "outturn" reports relating to the 2018/19 accounts were presented to the Cabinet meeting on 21 May 2019 and to the meeting of the Audit and Governance Committee on 13 June 2019. That report was more useful for internal / management purposes, while the Statement of Accounts is more suited for external / governance purposes.

2. ACTION REQUIRED

- 2.1 The Audit and Governance Committee are “those charged with governance” on behalf of the Council, and approved the draft (subject to audit) statement of accounts prior to 2009/10. However, revisions in 2010 to the Accounts and Audit Regulations gave the Statutory Finance Officer (the Head of Finance in Gwynedd Council) responsibility for approving and certifying the draft accounts before the statutory deadline (15 June for the 2018/19 accounts).
- 2.2 There is no longer any requirement for elected members to approve the draft version of the Council’s Statement of Accounts, but this is presented to the Audit and Governance Committee FOR INFORMATION as good practice.
- 2.3 Doubtless, the committee’s members will wish to consider and understand the content now, in preparation for approving the final version in September, and to equip themselves with information to consider relevant risks and other matters being audited in their context.

3. SUBSEQUENT STEPS

- 3.1 Further to certification by the Head of Finance and consideration by the Audit and Governance Committee, the 2018/19 Statement of Accounts, with all other relevant statements are the subject of the annual audit process by Deloitte, Gwynedd Council’s external auditors, who were appointed by the Auditor General for Wales.
- 3.2 In accordance with the Accounts and Audit (Wales) (Amendment) Regulations 2018, the Council has notified the public, on the Council’s website, that the accounts were 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 Council’s accounts.
- 3.3 As noted in paragraph 1.4 (above), the final (audited) version of the Council’s 2018/19 Statement of Accounts will be submitted to the extraordinary meeting of the Audit and Governance Committee on 13 September 2019 FOR APPROVAL, along with a report on behalf of the Auditor General for Wales.
- 3.4 Subsequently, it is the Finance Department’s intention to provide a link to the final Statement to all elected members and all chief officers of the Council, as well as other interested parties.

4. RECOMMENDATION

- 4.1 The Audit and Governance Committee is asked to receive and note the Council’s Statement of Accounts (subject to audit) for 2018/19.

Gwynedd Council

STATEMENT OF ACCOUNTS 2018/19

Subject to Audit

Finance Department
www.gwynedd.llyw.cymru



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NARRATIVE REPORT

Introduction

Gwynedd Council's accounts for the year 2018/19 are presented here on pages 8 to 83.

The Statement of Accounts consist of:-

- **Expenditure and Funding Analysis** – Whilst this is not a statutory statement, it shows how annual expenditure is used and funded from resources (government grants, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices.
- **Comprehensive Income and Expenditure Statement** - This is the Council's main revenue account. This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
- **Movement in Reserves Statement** - This statement shows the movement in year on the different reserves held by the Authority, analysed into 'usable reserves' and 'unusable reserves'. The taxation position is reflected in the Movement in Reserves Statement.
- **The Balance Sheet** - Sets out the financial position of the Council on 31 March 2019.
- **The Cash Flow Statement** - This statement summarises the flow of cash to and from the Council during 2018/19 for revenue and capital purposes.
- **The Welsh Church Fund and FMG Morgan Trust Fund Accounts.**

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

Gwynedd Council's Vision and Priorities

Gwynedd Council's vision and priorities are included in the Gwynedd Council Plan, that is, 'Our vision as a Council is to support all the people of Gwynedd to thrive and live full lives in their community, in a county which is one of the best counties to live in.'

There are several elements to the Council Plan, including the Improvement Plan which outlines our improvement priorities, our seven well-being aims and departmental plans which describes all the Council's day-to-day work. The plan is available at: <https://www.gwynedd.llyw.cymru/en/Council/Strategies-and-policies/Corporate-plans-and-strategies/Gwynedd-Council-Plan-2018-23.aspx>

Financial Strategy

The Council's Financial Strategy and 2018/19 Budget adopted by the Council at its meeting on 8 March 2018 sets out the foundation for us to achieve the improvement priorities, whilst also trying to meet the continuous increase in demand for our services. The Financial Strategy is unavoidably dependent upon these priorities. The strategy is available at: <https://www.gwynedd.llyw.cymru/en/Council/Strategies-and-policies/Finance/Financial-strategy.aspx>

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

The cuts in funding that the Council receives from the Government means that we must cope with receiving less money to maintain our services. Despite this, we have been fairly successful in keeping the effects on the residents of

Gwynedd to a minimum, but the cuts have started to take effect by now. There are no signs that the continued cuts in funding from Welsh Government to pay for key services that we provide will come to an end in the near future; we will, therefore, continue with the work of ensuring that we realise those savings which have already been approved and ensuring that we plan to find savings in the future.

Performance Measuring

The Council's Performance Management Framework is a cycle which supports the planning, management and reporting on the performance of our services to ensure the best for the people of Gwynedd today and tomorrow. The Gwynedd Performance Report provides information on our Council's services performance against our priorities while focusing on improving the outcomes in the lives of the people of Gwynedd. The report is available at: <https://www.gwynedd.llyw.cymru/en/Council/Performance-and-spending/Council-performance/Performance-Measuring.aspx>

Financial Performance 2018/19

- Despite the sustained need to achieve challenging savings, the final financial position of the Council's departments for 2018/19 confirms that there was effective financial management. The financial out-turn position for 2018/19 was reported to the Cabinet at its meeting on 21 May 2019. The members of the Cabinet approved the carry-forward of the net services underspend of £12k for the year.
- At 2018/19 year-end, half of the departments and several corporate headings reported an underspend financial position, with an improvement in the financial position of the Education and Adults Departments by year end, and a significant increase in the level of underspend reported by the Environment Department. However, there was an increase in the trend of overspending by the Children and Families Department, and by the Highways and Municipal Department.
- The Comprehensive Income and Expenditure Statement on page 9 shows that the Council's gross revenue expenditure on 'Cost of Services' level was £377m during 2018/19, with the net position as £242m.
- The 2018/19 financial position was taken into consideration in the process of establishing the 2019/20 budget.

TABLE I – Budget and Actual Comparison Summary (Net)

The Council's net budget is mainly financed through council tax, general government grants and national non-domestic rates and totals £260m for 2018/19.

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

	Budget	Actual	Variance
	£'000	£'000	£'000
Net Expenditure on Operations	259,574	258,430	(1,144)
Departmental Carry Forward at year end	0	12	12
	259,574	258,442	(1,132)
Financed by -			
Council Tax Income	(84,447)	(84,490)	(43)
Share of National Non-Domestic Rate	(40,191)	(40,191)	0
General Government Grants	(134,936)	(134,936)	0
Contributon to the General Fund Balance	0	1,175	1,175
	0	0	0

- The Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement on pages 9 and 10 detail the movements for the year

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

Department	Performance Report (Outturn) £'000	Transposition Adjustment £'000	Net Expenditure Chargeable to the General Fund £'000	Adjustments between Funding and Accounting Basis £'000	Income & Expenditure Statement £'000
Education	83,442	(10)	83,432	0	83,432
Corporate Support	7,791	10	7,801	0	7,801
Finance	5,833	82	5,915	0	5,915
Economy and Community	4,264	9	4,273	0	4,273
Adults, Health and Wellbeing	50,964	171	51,135	(63)	51,072
Children and Family Support	15,733	59	15,792	0	15,792
Highways and Municipal (including Trunk Roads)	24,479	(170)	24,309	0	24,309
Environment	4,629	(1,660)	2,969	0	2,969
Corporate Management Team and Legal	1,741	(55)	1,686	0	1,686
Gwynedd Consultancy	135	297	432	0	432
Corporate	54,745	(45,448)	9,297	35,368	44,665
Cost of Services	253,756	(46,715)	207,041	35,305	242,346
Other (Contains Centralised and Corporate Adjustment)	4,686	46,715	51,401	(35,305)	16,096
Total	258,442	0	258,442	0	258,442

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

- **Material Items of Income and Expenditure**

Related items include:-

- Reductions of £49m on pensions, being the annual remeasurement of the net defined benefit assets relating to pensions, in line with Gwynedd Pension Fund’s Actuary’s assessment (Note 23).
- Following a revaluation of part of the Council’s land and buildings portfolio (which is now carried out on a rolling programme basis), a net surplus of £24m on the revaluation of property, plant and equipment assets (Note 15 & 23).

- **Other Issues**

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

Capital Expenditure in 2018/19

Capital expenditure for 2018/19 amounted to £22.8m. The following table gives an analysis of this expenditure and the way it was financed.

TABLE 3 - SUMMARY OF CAPITAL EXPENDITURE AND FINANCING

2017/18 £'000		2018/19 £'000
10,575	Education	3,481
4,888	Environment	4,340
28	Corporate Support	6
389	Finance	1,049
1,249	Economy and Community	656
2,781	Adults, Health and Wellbeing	4,832
214	Children and Family Support	93
3,095	Highways and Municipal	6,971
179	Gwynedd Consultancy	1,380
23,398		22,808
	FINANCED BY -	
7,785	Borrowing	7,918
11,109	Grants and Contributions	10,538
1,384	Capital Receipts	162
3,120	Revenue and Other Funds	4,190
23,398		22,808

- Revenue Expenditure Funded from Capital Under Statute of £3.5m is included in the above table. This has been charged to the Income and Expenditure Statement in the year. Total expenditure on Non-current Assets and Assets Held for Sale was £19.8m as shown in Note 15 and 20 on pages 38 to 40 and page 55.
- The Council's Loan Debt on 31 March 2019 was £108.7m – a decrease of £10m (from £118.7m) during the year. Repayments of £10.3m were made in accordance with the terms of individual loans.

Provisions and Reserves

In addition to the unearmarked element of General Balances of £7.1m, the Council had other provisions of £8m, earmarked reserves of £53.8m and school balances of £4m. In total, these amounted to £72.9m. These are detailed in the Balance Sheet, Movement in Reserves Statement and in Note 10 and 22.

The adequacy of the Council's specific reserves and provisions was reviewed by the Head of Finance on closure of this year's accounts, in accordance with the policy. This review succeeded in harvesting £4.262m of resources, of which £3m is to be earmarked for the priorities of the Council Plan, £1m to be moved to the Council's General Balances with £262k to be used over the next year to bridge the relevant commitment funding source for the Pension Fund.

Pension Fund

The Council (as an employer) has a net liability from its share of the assets and liabilities of the Gwynedd Pension Fund, which has been calculated in accordance with International Accounting Standard 19. The Balance Sheet contains an assessment by the Fund's Actuary, Hymans, of the Council's share of the Pension Fund liability. This net liability has increased by £72m to £299m in 2018/19. Refer to Note 38 for further information.

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

have on the Pension Fund. The triennial valuation will provide a more dependable picture of the situation by 31/03/2020.

Governance

Gwynedd Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk. Further information is included within the Annual Governance Statement.

Accounting Policies

The accounting policies adopted by the Council comply with all relevant recommended accounting practices and are fully explained in the Accounting Policies set out in Note 1 to the Accounts on page 13.

Changes in Accounting Policies and to the Accounts

The Council's existing accounting policies are amended only insofar as to reflect the changes required by proper accounting practices following revisions effective for the financial year 2018/19 to the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom in respect of accounting for financial instruments and income recognition.

These Statements have been fully revised to reflect the Code's adoption of *IFRS 9 Financial Instruments*, with additional disclosures and amended presentation of numbers in Note 17 Financial Instruments.

The additional guidance regarding recognition of income from contracts with customers, *IFRS 15 Revenue from Contracts with Customers* had minimal or no impact, as the new requirements are broadly consistent with the Council's existing income recognition principles.

Further Information

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

Further information relating to the accounts is available from:

Ffion Madog Evans
Senior Finance Manager
01286 679133

or

Sian Pugh
Principal Accountant
01286 679134

Finance Department
Gwynedd Council
Council Offices
Caernarfon
Gwynedd
LL55 1SH

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

GWYNEDD COUNCIL

STATEMENT OF ACCOUNTS

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

THE COUNCIL'S RESPONSIBILITIES

Gwynedd Council is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Gwynedd Council, that "Section 151 Officer" is the Head of Finance. It is also the Council'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 Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code").

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

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

RESPONSIBLE FINANCIAL OFFICER'S CERTIFICATE

I certify that the Statement of Accounts has been prepared in accordance with the arrangements set out above, and presents a true and fair view of the financial position of Gwynedd Council at 31 March 2019 and the Council's income and expenditure for the year then ended.



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

30 May 2019

EXPENDITURE AND FUNDING ANALYSIS

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

EXPENDITURE AND FUNDING ANALYSIS						
2017/18				2018/19		
Net Expenditure Chargeable to the General Fund	Adjustments between the Accounting Basis and Funding Basis (see Note 9)	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund	Adjustments between the Accounting Basis and Funding Basis (see Note 9)	Net Expenditure in the Comprehensive Income and Expenditure Statement
£'000	£'000	£'000		£'000	£'000	£'000
82,093	0	82,093	Education	83,432	0	83,432
7,843	0	7,843	Corporate Support	7,801	0	7,801
5,855	0	5,855	Finance	5,915	0	5,915
5,823	0	5,823	Economy and Community	4,273	0	4,273
45,402	0	45,402	Adults, Health and Wellbeing	51,135	(63)	51,072
13,620	0	13,620	Children and Family Support	15,792	0	15,792
21,065	0	21,065	Highways and Municipal (including Trunk Roads*)	24,309	0	24,309
4,242	0	4,242	Environment	2,969	0	2,969
1,879	0	1,879	Corporate Management Team and Legal	1,686	0	1,686
(168)	0	(168)	Gwynedd Consultancy	432	0	432
20,709	29,529	50,238	Corporate	9,297	35,368	44,665
208,363	29,529	237,892	Cost of Services	207,041	35,305	242,346
21,417	546	21,963	Other Operating Expenditure	22,578	174	22,752
16,774	(4,625)	12,149	Financing and Investment Income and Expenditure	17,502	(5,262)	12,240
(245,564)	(11,039)	(256,603)	Taxation and non-specific grant income	(259,617)	(13,581)	(273,198)
990	14,411	15,401	(Surplus)/Deficit on Provision of Services	(12,496)	16,636	4,140
(53,379)			Opening General Fund Balance	(52,389)		
990			(Surplus)/Deficit on General Fund in year	(12,496)		
(52,389)			Closing General Fund Balance	(64,885)		

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

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2017/18			2018/19			
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000	Note	£'000	£'000	£'000
103,039	(20,946)	82,093	Education	105,225	(21,793)	83,432
9,381	(1,538)	7,843	Corporate Support	9,339	(1,538)	7,801
8,172	(2,317)	5,855	Finance	8,298	(2,383)	5,915
14,310	(8,487)	5,823	Economy and Community	12,787	(8,514)	4,273
73,158	(27,756)	45,402	Adults, Health and Wellbeing	75,914	(24,842)	51,072
19,794	(6,174)	13,620	Children and Family Support	25,835	(10,043)	15,792
37,046	(15,981)	21,065	Highways and Municipal (including Trunk Roads*)	41,701	(17,392)	24,309
12,999	(8,757)	4,242	Environment	11,937	(8,968)	2,969
2,643	(764)	1,879	Corporate Management Team and Legal	2,342	(656)	1,686
2,155	(2,323)	(168)	Gwynedd Consultancy	5,862	(5,430)	432
81,736	(31,498)	50,238	Corporate	77,756	(33,091)	44,665
364,433	(126,541)	237,892	Cost of Services	376,996	(134,650)	242,346
21,963	0	21,963	Other Operating Expenditure	11	22,752	0
12,360	(211)	12,149	Financing and Investment Income and Expenditure	12	12,547	(307)
0	(256,603)	(256,603)	Taxation and Non-specific Grant Income	13	0	(273,198)
398,756	(383,355)	15,401	(Surplus) / Deficit on Provision of Services	412,295	(408,155)	4,140
	(5,813)		(Surplus)/Deficit on revaluation of Fixed Assets	23.1		(24,121)
	0		(Surplus) / Deficit on revaluation of Financial Instruments	23.4		448
	153		(Surplus)/Deficit on revaluation of available for sale financial assets	23.2		0
	(22,330)		Remeasurements of the net defined benefit liability/(asset)	23.6		48,870
	(27,990)		Other Comprehensive Income and Expenditure			25,197
	(12,589)		Total Comprehensive Income and Expenditure			29,337

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

MOVEMENT IN RESERVES STATEMENT

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in the year of the Authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following those adjustments.

	Note	Additional Information			Statement of Movement in Reserves					
		Unearmarked General Fund Balance	Earmarked General Fund Reserves	Total Reserves held by Schools	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance 31 March 2017 carried forward		(6,910)	(43,590)	(2,879)	(53,379)	(2,897)	(1,032)	(57,308)	(18,969)	(76,277)
Movement in reserves during 2017/18										
Total Comprehensive Income and Expenditure		15,401	0	0	15,401	0	0	15,401	(27,990)	(12,589)
Adjustments between accounting basis and funding basis under regulations	9	(14,411)	0	0	(14,411)	1,168	(1,070)	(14,313)	14,313	0
(Increase)/Decrease in 2017/18		990	0	0	990	1,168	(1,070)	1,088	(13,677)	(12,589)
Transfers to/from Earmarked Reserves		25	1,114	(1,139)	0	0	0	0	0	0
(Increase)/Decrease in 2017/18 (showing transfers to Earmarked Reserves)		1,015	1,114	(1,139)	990	1,168	(1,070)	1,088	(13,677)	(12,589)
Balance 31 March 2018 carried forward	10	(5,895)	(42,476)	(4,018)	(52,389)	(1,729)	(2,102)	(56,220)	(32,646)	(88,866)
Transition to IFRS 9	17	4	0	0	4	0	0	4	0	4
Movement in reserves during 2018/19										
Total Comprehensive Income and Expenditure		4,136	0	0	4,136	0	0	4,136	25,197	29,333
Adjustments between accounting basis and funding basis under regulations	9	(16,636)	0	0	(16,636)	(411)	(3,918)	(20,965)	20,965	0
(Increase)/Decrease in 2018/19		(12,496)	0	0	(12,496)	(411)	(3,918)	(16,825)	46,162	29,337
Transfers to/from Earmarked Reserves	10	11,321	(11,339)	18	0	0	0	0	0	0
(Increase)/Decrease in 2018/19 (showing transfers to Earmarked Reserves)		(1,175)	(11,339)	18	(12,496)	(411)	(3,918)	(16,825)	46,162	29,337
Balance 31 March 2019 carried forward		(7,070)	(53,815)	(4,000)	(64,885)	(2,140)	(6,020)	(73,045)	13,516	(59,529)

BALANCE SHEET

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

31 March 2018 £'000		Note	31 March 2019 £'000
438,420	Property, Plant and Equipment	15	464,876
60	Heritage Assets		60
116	Investment Property	16	705
2,259	Surplus Assets	15	2,225
17	Long-Term Investments	17	17
4,101	Long-Term Debtors	17	4,139
444,973	Long-Term Assets		472,022
35,028	Short-Term Investments	17	19,567
73	Assets Held for Sale	20	73
1,065	Inventories		1,251
57,074	Short-Term Debtors	18	55,834
12,403	Cash and Cash Equivalents	19	14,686
105,643	Current Assets		91,411
(45,538)	Bank Overdraft	19	(30,573)
(10,865)	Short-Term Borrowing	17	(2,770)
(56,573)	Short-Term Creditors	21	(53,280)
(257)	Short-Term Provisions	22	(278)
(1,787)	Capital and Revenue Grants Receipts in Advance	32	(1,618)
(115,020)	Current Liabilities		(88,519)
(7,519)	Long-Term Provisions	22	(7,685)
(107,810)	Long-Term Borrowing	17	(105,924)
(226,981)	Pension Liability	38	(298,514)
(1,851)	Finance Leases Liability	35	(1,700)
(2,569)	Capital and Revenue Grants Receipts in Advance	32	(1,562)
(346,730)	Long-Term Liabilities		(415,385)
88,866	Net Assets		59,529
(56,220)	Usable Reserves		(73,045)
(32,646)	Unusable Reserves	23	13,516
(88,866)	Total Reserves		(59,529)

CASH FLOW STATEMENT

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

2017/18 £'000		Note	2018/19 £'000
15,401	Net (Surplus)/Deficit on Provision of Services		4,140
(35,198)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	24a	(39,814)
240	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24b	699
(19,557)	Net cash flows from Operating Activities		(34,975)
31,104	Investing Activities	25	7,604
(7,063)	Financing Activities	26	10,123
4,484	Net (increase)/decrease in cash and cash equivalents		(17,248)
28,651	Cash and cash equivalents at the beginning of the reporting period	19	33,135
33,135	Cash and cash equivalents at the end of the reporting period	19	15,887

NOTES TO THE ACCOUNTS

NOTE I – ACCOUNTING POLICIES

I.1 General Principles

The Statement of Accounts summarises the Authority's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (Wales) (Amendment) Regulations 2018, in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19* supported by International Financial Reporting Standards (IFRS).

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

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

I.2 Accruals of Expenditure and Income

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

I.3 Cash and Cash Equivalents

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

I.4 Contingent Assets / Contingent Liabilities

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

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

NOTE 1 – ACCOUNTING POLICIES (continued)

Contingent assets and liabilities are not recognised in the Balance Sheet, but disclosed in the Contingent Liabilities and Contingent Assets notes in the accounts.

1.5 Corporate

The Corporate heading includes items relating to corporate policy-making and member activities, and costs that relate to the general running of the Authority.

1.6 Employee Benefits

1.6.1 Benefits Payable During Employment

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

1.6.2 Termination Benefits

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

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

1.6.3 Post-Employment Benefits

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

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

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

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

1.6.4 The Local Government Pension Scheme

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

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

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

NOTE 1 – ACCOUNTING POLICIES (continued)

Liabilities are discounted to their value at current prices, using a discount rate of 2.4% calculated as a weighted average of 'spot yields' on AA rated corporate bonds.

The assets of the Gwynedd Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value as determined by the Fund's Actuary.

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

Service cost comprising:

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

Remeasurements comprising:

- The return on plan assets – excluding amounts included in net interest on the net defined benefit liability/(asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the Gwynedd Pension Fund – cash paid as employer's contributions to the Pension Fund in settlement of liabilities not accounted for as an expense.

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

International Accounting Standard (IAS) 19 governs how the long-term liabilities which exist in relation to pension costs should be reported. Local Councils in England and Wales are required to produce their financial statements in accordance with IAS19.

1.6.5 Discretionary Benefits

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

NOTE 1 – ACCOUNTING POLICIES (continued)

1.7 Events After the Reporting Period

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

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

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

1.8 Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

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

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

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

1.9 Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI) [separate accounting policy is required where an authority holds financial instruments at fair value through other comprehensive income.

NOTE 1 – ACCOUNTING POLICIES (continued)

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure.

1.10 Government Grants and Other Contributions

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

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

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

NOTE 1 – ACCOUNTING POLICIES (continued)

1.11 Heritage Assets

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

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

The Council used an external valuer (Bonhams) to provide estimated valuations of its civic regalia and paintings and pictures. For consistency, the Council has applied the same de-minimis levels for valuation purposes to Heritage Assets as its other long-term assets – see policy 1.17.

The Council considers that heritage assets held by the Council will have indeterminate life and high residual value; hence, the Council does not consider it appropriate to charge depreciation for the assets. Heritage assets recognised in the accounts will be assessed annually for any impairment – see policy 1.17.

1.12 Inventories and Long-Term Contracts

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

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

1.13 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. These properties are valued on a fair value basis. Values are based on specific techniques, and the inputs to these measurement techniques are categorised in accordance with three levels. All the Authority's inputs are level 3 (unobservable inputs for the asset). This is due to the level of adjustment required to all evidence due to the uniqueness of the assets, and the dearth of relevant market transactions.

1.14 Leases

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

The Authority as Lessee:

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

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

The Authority as Lessor:

Where the Authority grants a finance lease over a property, the relevant asset is written out of the Balance Sheet as a disposal, to be included in the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is

NOTE 1 – ACCOUNTING POLICIES (continued)

fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

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

1.15 Surplus Assets

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

1.16 Overheads and Support Services

Some overheads and support services costs are apportioned to the appropriate services in accordance with the Council's arrangements for accountability and financial performance.

1.17 Long-Term Assets

The Council's assets as recorded on the Property Services database are revalued at least every five years. Since the 2015/16 financial year, the Authority has established a rolling programme for re-valuing different categories of these assets annually, with valuation usually effective on 31 March each year. This is in accordance with the Code and the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors.

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

Investment Properties are shown at fair value.

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

Infrastructure and community assets are shown at depreciated historical cost.

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

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

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

Impairment and Depreciation

Impairment

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

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

NOTE I – ACCOUNTING POLICIES (continued)

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

Depreciation

The main element of IAS 16 is that buildings must be depreciated if they are not valued each year. In addition, each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. A de-minimis threshold, below which assets are disregarded for componentisation purposes, needs to be established, which is based on potential material impacts on the financial statements. For the 2018/19 financial year this has been set at 1% of the total value of the buildings. The apportionment to be considered for the non-land element of assets above the de-minimis threshold is:

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

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

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

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

- (i) Vehicles, Plant, Furniture and Equipment are depreciated over their estimated useful life (3–15 years)
- (ii) Infrastructure is depreciated over 40 years
- (iii) Revenue Expenditure funded from Capital under Statute is written down in the period in which it arises
- (iv) Land is not depreciated
- (v) Buildings are depreciated over their estimated remaining useful life (5–80 years)
- (vi) Investment Properties, Assets under Construction and Assets Held for Sale are not depreciated

Depreciation is not charged in the year of acquisition.

Minimum Revenue Provision

The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2018 places a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Welsh Ministers and local authorities are required to "have regard" to such Guidance under section 21(1B) of the Local Government Act 2003.

The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: Capital Financing Requirement Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

NB This does not preclude other prudent methods.

MRP in 2018/19: Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) Non-HRA capital expenditure funded from borrowing. Methods of making prudent provision for unsupported Non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported Non-HRA capital expenditure if the Council chooses).

The MRP Statement was submitted to Council before the start of the 2018/19 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.

NOTE I – ACCOUNTING POLICIES (continued)

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

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

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

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

1.18 Council Tax and National Non-Domestic Rates

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

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

1.19 Provisions

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

1.20 Reserves (and Balances)

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

- General Fund which represents the general reserves (“balances”) of the Authority, namely a working balance to help cushion the impact of uneven cash flows and as a contingency to cushion the impact of unexpected events or emergencies.
- Number of capital and revenue Specific Reserves earmarked for specific purposes, namely, money accumulated to meet anticipated commitments. The Council undertakes a continuous review of the adequacy and use of specific reserves.
- The Council takes a risk-based approach to maintaining an adequate level of balances and reserves to meet future spending needs. When considering the annual budget and medium-term financial strategy, the Council will set out its intention regarding the level of general balances and reserves, in the context of all relevant risks. Refer to the approval of the full policy in respect of reserves by the Council Cabinet on 23 June 2015.
- Certain reserves, namely “unusable reserves”, are kept for the technical purpose of managing the accounting processes for non-current assets, financial instruments and employee benefits. These do not represent the usable resources of the Authority.

1.21 Revenue Expenditure Funded from Capital Under Statute

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

1.22 Value Added Tax

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

1.23 Debtors and Creditors

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

NOTE 1 – ACCOUNTING POLICIES (continued)

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

1.24 Allocation of Interest Received

The Authority invests surplus funds for periods varying from overnight to 13 months (with the exception of investments in property) and the interest is credited to the General Fund, Gwynedd Pension Fund, Welsh Church Fund and other trust funds based on the level of their daily balances and the rate of interest earned.

1.25 Borrowing Costs

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

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

1.26 Interest in Companies and Other Entities

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

1.27 Current Assets Held for Sale

In order for an asset to be recognised as Held for Sale, the asset must be available for immediate sale in its present condition, the sale must be highly probable, the asset must be actively marketed and the sale completed within one year from the date of classification. The asset is recognised at fair value (market value) less costs to sell on reclassification. Values are based on specific techniques, and the inputs to these measurement techniques are categorised in accordance with three levels. All the Authority's inputs are level 3 (unobservable inputs for the asset). This is due to the level of adjustment required to all evidence due to the uniqueness of the assets, and the dearth of relevant market transactions.

1.28 Disposal of Assets

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

1.29 Capital Receipts

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

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

1.30 Accounting for the Costs of the Carbon Reduction Commitment Energy Efficiency Scheme

Gwynedd Council is not part of the Carbon Reduction Commitment Energy Efficiency Scheme as it was below the relevant threshold in 2018/19.

1.31 Landfill Allowances Scheme

The Landfill Allowances Scheme operates under the Landfill Allowances Scheme (Wales) Regulations 2004. Local Authorities are allocated annual allowances for the maximum amount of biodegradable municipal waste that can be sent to landfill. For each ton of biodegradable municipal waste sent to landfill in excess of the allowance a Local Authority may be liable to a penalty of £200 per ton. It is not a "cap and trade" scheme since landfill allowances are not tradable in Wales. For this reason, landfill allowances are not recognised as assets on the Balance Sheet. Gwynedd Council was within its landfill allowance in 2018/19.

NOTE I – ACCOUNTING POLICIES (continued)

I.32 Service Concession Arrangements

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

I.33 Joint Operations

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

I.34 Schools

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

I.35 Fair Value

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

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

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

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

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

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

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

I.36 Other Policies

Gwynedd Council has policies in respect of the following, but they are not considered material for the 2018/19 financial year:

- Intangible Assets
- Foreign Currency Conversion.

2 – CHANGE IN ACCOUNTING POLICY

The Council's existing accounting policies are amended only insofar as to reflect the changes required by proper accounting practices following revisions effective for the financial year 2018/19 to the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom in respect of accounting for financial instruments and income recognition.

These Statements have been fully revised to reflect the Code's adoption of *IFRS 9 Financial Instruments*, with additional disclosures and amended presentation of numbers in Note 17 Financial Instruments.

The additional guidance regarding recognition of income from contracts with customers, *IFRS 15 Revenue from Contracts with Customers* had minimal or no impact, as the new requirements are broadly consistent with the Council's existing income recognition principles.

NOTE 3 – PRIOR PERIOD ADJUSTMENTS

There are no prior period adjustments during 2018/19.

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

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom requires the expected impact of any accounting standards that have been issued but not yet adopted to be disclosed. This applies to the following new or amended standards within the 2019/20 Code:-

Amendments to IAS 40 Investment Property: Transfers of Investment Property.

Annual Improvements to IFRS Standards 2014-2016 Cycle.

IFRIC 22 Foreign Currency Transactions and Advance Consideration.

IFRIC 23 Uncertainty over Income Tax Treatments.

Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation.

The Code requires implementation from 1 April 2019 and there is therefore no impact on the 2018/19 Statement of Accounts, and none of the new or amended standards within the 2019/20 Code are expected to have a material impact on the information provided in the financial statements.

NOTE 5 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Authority has had to make judgements, estimates and assumptions relating to complex transactions, those involving uncertainty about future events and also the carrying amounts of assets and liabilities that are not readily apparent from other sources.

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

In recent years there has been some uncertainty about future levels of funding from Welsh Government relating to revenue and capital grants. This issue forms an important part of the Council's continually revised financial strategy, and where all known and forecasted factors are given due consideration. The impact of the decision for Britain to leave the European Union also remains unclear. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired

All available and related information is sourced and applied in assessing and determining the position, which is particularly critical when considering such matters as the revaluation, depreciation and impairment of assets, actuarial valuation of pension fund assets and liabilities, earmarked reserves, provisions and contingent liability.

NOTE 5 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

However, because these issues cannot be determined with certainty, actual results may subsequently differ from those estimates. The estimates and underlying assumptions are continually reviewed.

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

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

The following items in the Authority's Balance Sheet at 31 March 2019 may be considered to be a significant risk (in terms of certainty in estimation of value), with the possibility of material adjustment in the forthcoming financial year:

- **Property, Plant and Equipment** – Assets are depreciated over their useful life in accordance with standard accounting and associated practices. Any difference between the depreciation applied and actual deterioration to assets will be naturally reflected in future spending patterns. The current economic climate brings with it uncertainties for councils in their ability to sustain the necessary spending on repair and maintenance. This obviously would have implications on asset life. Land and buildings are revalued at least every five years, and since 2015/16 a rolling programme of revaluation has been introduced. A number of judgements are required to be made as part of the revaluation and impairment assessment process. This brings with it uncertainties, and assumptions have to be made and responded to accordingly. Where necessary, any resultant long-term implications would be incorporated into our financial strategy. Information relating to Property, Plant and Equipment is contained in Note 15.
- **Provisions** – Various separate provisions, the basis of which have been individually assessed from the latest information available, are contained within these accounts as detailed in Note 22, and include provisions for items such as Waste Sites and certain insurance liability aspects. We are unable to confirm the accuracy of the provisions until such matters are concluded.
- **Pension Liability** – The Pension Liability position as contained within the accounts is based on a number of complex assessments and judgements and varying profiles such as discount rate used, projected salary levels, changes in retirement ages, mortality rates and expected returns on Pension Fund assets, as provided by Actuaries engaged by the Pension Fund. Further details are contained in Note 37 and 38.
- **Doubtful Debts Impairment** – A specific impairment level policy in respect of doubtful debts is contained within the accounts. The impairment level is reviewed regularly in order to respond to any changes in the economic climate, and necessary action taken as appropriate within the accounts to respond accordingly. Doubtful Debts impairments are contained within the figures for Short-Term Debtors contained in Note 18a.

NOTE 7 – MATERIAL ITEMS OF INCOME AND EXPENSE

Material items of income and expense include the following:

- (£49m) on pensions, being the remeasurements of the net defined benefit assets relating to pensions, in line with Gwynedd Pension Fund's Actuary's assessment (Note 23.6).
- Following a revaluation of part of the Council's land and buildings portfolio (which is now carried out on a rolling programme basis), a net surplus of £24m on the revaluation of property, plant and equipment assets (Note 15 & 23.1).

NOTE 8 – NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

<u>2018/19</u>	<u>ADJUSTMENTS BETWEEN FUNDING AND ACCOUNTING BASIS</u>					
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes £'000 (i)	Net change for the Pensions Adjustments (ii) £'000	Other Differences (iii) £'000	Total Statutory Adjustments £'000	Other (Non-statutory) Adjustments (iv) £'000	Total Adjustments £'000
Education	0	0	0	0	0	0
Corporate Support	0	0	0	0	0	0
Finance	0	0	0	0	0	0
Economy and Community	0	0	0	0	0	0
Adults, Health and Wellbeing	0	0	0	0	(63)	(63)
Children and Family Support	0	0	0	0	0	0
Highways and Municipal (including Trunk Roads*)	0	0	0	0	0	0
Environment	0	0	0	0	0	0
Corporate Management Team and Legal	0	0	0	0	0	0
Gwynedd Consultancy	0	0	0	0	0	0
Corporate	18,577	16,300	516	35,393	(25)	35,368
Cost of Services	18,577	16,300	516	35,393	(88)	35,305
Other Operating Expenditure	174	0	0	174	0	174
Financing and Investment Income and Expenditure	(11,635)	6,363	(78)	(5,350)	88	(5,262)
Taxation and non-specific grant income	(13,581)	0	0	(13,581)	0	(13,581)
(Surplus)/Deficit on Provision of Services	(6,465)	22,663	438	16,636	0	16,636

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

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

2017/18	ADJUSTMENTS BETWEEN FUNDING AND ACCOUNTING BASIS			
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (i) £'000	Net change for the Pensions Adjustments (ii) £'000	Other Differences (iii) £'000	Total Adjustments £'000
Education	0	0	0	0
Corporate Support	0	0	0	0
Finance	0	0	0	0
Economy and Community	0	0	0	0
Adults, Health and Wellbeing	0	0	0	0
Children and Family Support	0	0	0	0
Highways and Municipal (including Trunk Roads*)	0	0	0	0
Environment	0	0	0	0
Corporate Management Team and Legal	0	0	0	0
Gwynedd Consultancy	0	0	0	0
Corporate	22,327	7,661	(459)	29,529
Cost of Services	22,327	7,661	(459)	29,529
Other Operating Expenditure	546	0	0	546
Financing and Investment Income and Expenditure	(10,780)	6,237	(82)	(4,625)
Taxation and non-specific grant income	(11,039)	0	0	(11,039)
(Surplus)/Deficit on Provision of Services	1,054	13,898	(541)	14,411

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

(i) Adjustments for Capital Purposes

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

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

(ii) Net Change for the Pensions Adjustments

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

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

(iii) Other Differences

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

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

(iv) Other (Non Statutory) Adjustments

- **Services** - the impairment loss allowance on Trade Debtors is deducted and transferred to financing and investment income and expenditure.
- **Financing and investment income and expenditure** – adjusted to include the transfer of the impairment loss allowance on Trade Debtors from services.

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

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

2018/19	Usable Reserves			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000
ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS				
Adjustments to the Revenue Resources				
<i>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements</i>				
Pensions costs (transferred to (or from) the Pensions Reserve)	(22,663)	0	0	22,663
Financial instruments (transferred to the Financial Instruments Adjustments Account)	56	0	0	(56)
Holiday pay (transferred to (or from) the Accumulated Absences Reserve)	(484)	0	0	484
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(5,170)	0	0	5,170
Total Adjustments to Revenue Resources	(28,261)	0	0	28,261
Adjustments between Revenue and Capital Resources				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(10)	(572)	0	582
Revenue provision for the financing of supported capital investment	5,505	0	0	(5,505)
Revenue provision for the financing of unsupported capital investment	1,939	0	0	(1,939)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	4,191	0	0	(4,191)
Total Adjustments between Revenue and Capital Resources	11,625	(572)	0	(11,053)
Adjustments to Capital Resources				
Use of the Capital Receipts Reserve to finance capital expenditure	0	161	0	(161)
Application of capital grants to finance capital expenditure	0	0	(3,918)	3,918
Cash payments in relation to deferred capital receipts	0	0	0	0
Total Adjustments to Capital Resources	0	161	(3,918)	3,757
TOTAL ADJUSTMENTS	(16,636)	(411)	(3,918)	20,965

2017/18

ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

	Usable Reserves			
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000
Adjustments to the Revenue Resources				
<i>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements</i>				
Pensions costs (transferred to (or from) the Pensions Reserve)	(13,898)	0	0	13,898
Financial instruments (transferred to the Financial Instruments Adjustments Account)	17	0	0	(17)
Holiday pay (transferred to (or from) the Accumulated Absences Reserve)	548	0	0	(548)
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(11,834)	0	0	11,834
Total Adjustments to Revenue Resources	(25,167)	0	0	25,167
Adjustments between Revenue and Capital Resources				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(25)	(216)	0	241
Revenue provision for the financing of supported capital investment	5,547	0	0	(5,547)
Revenue provision for the financing of unsupported capital investment	2,114	0	0	(2,114)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	3,120	0	0	(3,120)
Total Adjustments between Revenue and Capital Resources	10,756	(216)	0	(10,540)
Adjustments to Capital Resources				
Use of the Capital Receipts Reserve to finance capital expenditure	0	1,384	0	(1,384)
Application of capital grants to finance capital expenditure	0	0	(1,070)	1,070
Cash payments in relation to deferred capital receipts	0	0	0	0
Total Adjustments to Capital Resources	0	1,384	(1,070)	(314)
TOTAL ADJUSTMENTS	(14,411)	1,168	(1,070)	14,313

NOTE 10 – TRANSFERS TO/FROM EARMARKED RESERVES

School Balances

This sum is represented by the element of balances released under the delegation of budgets directly to schools which remain unspent at the end of the financial year, and is a net decrease of £18k compared to the balance on 31 March 2018:

2018/19	Balance	Transfers		Balance	
	31 March 2018 £'000	between reserves £'000	in £'000	out £'000	31 March 2019 £'000
School Balances	4,018	(37)	1,048	(1,029)	4,000
Total	4,018	(37)	1,048	(1,029)	4,000

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

Earmarked Reserves

The note below sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans, and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2018/19, with a net increase of £11m since the position at 31 March 2018.

2018-19	Balance	Transfers		Balance	
		31 March 2018	between reserves		in
Note	£'000	£'000	£'000	£'000	£'000
10.1 Renewals Reserves	5,257	0	2,493	(1,901)	5,849
10.2 Capital Reserves	9,724	(505)	1,584	(63)	10,740
10.3 Insurance Reserves	1,832	0	611	(453)	1,990
10.4 Services Fund	4,149	(320)	482	(476)	3,835
10.5 Convergence Programme Fund	14	788	500	(23)	1,279
10.6 Redundancy Costs to Realise Savings Reserve	3,706	0	0	(138)	3,568
10.7 Central Training	94	0	405	(115)	384
10.8 Education Services Reserves	833	37	735	(711)	894
10.9 Economy and Community Reserves	437	0	17	(126)	328
10.10 Highways and Municipal Reserves	668	17	22	(364)	343
10.11 Waste Developments Reserve	38	(17)	0	(21)	0
10.12 Gwynedd Consultancy Reserves	185	0	0	0	185
10.13 Environment Reserves	869	0	1,912	(116)	2,665
10.14 Care Reserves	895	70	340	(281)	1,024
10.15 Ffordd Gwynedd Fund	387	0	63	0	450
10.16 Invest to Save Fund - Carbon Reduction Plan	312	670	44	(391)	635
10.17 Transformation Fund / Council Plan	9,259	1,937	260	(1,030)	10,426
10.18 Committed Revenue Grants Fund	798	(195)	373	(371)	605
10.19 Contracts Tendering Fund	164	(164)	0	0	0
10.20 Housing Water and Sewerage Services Fund	452	0	0	(55)	397
10.21 Housing Environmental Warranty	480	0	0	0	480
10.22 Information Technology Reserve	452	(138)	229	0	543
10.23 Preparatory Work for European Grant Funding Schemes	38	(38)	0	0	0
10.24 Supporting the Financial Strategy Reserve	3,448	(2,361)	3,713	(2,514)	2,286
10.25 Welfare Fund	222	0	0	0	222
10.26 Partnering Arrangements	414	0	8	(86)	336
10.27 North Wales Economic Ambition Board Fund	270	0	422	(356)	336
10.28 Liabilities Related to the Pension Fund	(4,256)	262	4,034	0	40
10.29 Council Tax Property Transfers Reserve	490	0	0	0	490
10.30 Council Tax Premium Reserve	0	0	2,749	0	2,749
10.31 Various Other Reserves	845	(6)	105	(208)	736
Total	42,476	37	21,101	(9,799)	53,815

The earmarked reserves closing balance as at 31 March 2019 does not reflect the level of commitments against them. Details are given below of the Council's main specific reserves.

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

- 10.1 The Renewals Reserve is used by the various departments of the Council to replace vehicles and equipment.
- 10.2 The Capital Reserve represents resources already committed to assist in financing the Council's Capital Programme and other requirements.
- 10.3 Gwynedd Council does not insure all risks with external insurers but instead it has established an internal reserve to meet those uninsured risks. The balance on the Insurance Reserve also includes an element relating to the relevant insurance requirements of the former Gwynedd County Council (pre 1996) and which is administered by Gwynedd Council.
- 10.4 The Services Fund represents the element of slippages and underspend that service departments have the right to carry forward for use in the subsequent financial year, other relevant specific budgets and one-off budgets that extend over more than one year.
- 10.5 Convergence Programme Fund - fund was created for additional capital or revenue costs which arise from the requirements to develop plans under the convergence programme.
- 10.6 Redundancy Costs to Realise Savings Reserve – provision for financing redundancy costs to realise budgetary savings.
- 10.7 Central Training – relates to the Council's staff training programme.
- 10.8 Education Service Reserves – includes sums set aside to respond to related financial problems with 'Integration' requirements, changeable demands in 'Out of County – Special Educational Needs', 'Supporting Schools' and the 'Schools Loans Scheme'.
- 10.9 The Economy and Community Reserves include a number of balances relating to schemes operating on a partnership basis mainly, where the scheme balances must be accounted for separately.
- 10.10 The Highways and Municipal Reserves include mostly sums set aside to protect situations of uneven income and expenditure (equalisation accounts) and likely requirements from contracts.
- 10.11 The Waste Development Reserve includes our commitment to the North Wales Residual Waste Partnership.
- 10.12 Gwynedd Consultancy Reserves – includes amounts set aside to protect against situations of uneven expenditure on some works areas and possible additional employment requirements resulting from changes in the Consultancy Service's work programme.
- 10.13 Environment Reserves – include a number of balances relating to Property and Transport, schemes operating mainly on a partnership basis, together with specific requirements relating to the Unitary Development Plan and amounts for uneven expenditure situation.
- 10.14 Care Reserves – includes amounts set aside to protect against possible situations of uneven expenditure due to contract requirements.
- 10.15 Ffordd Gwynedd Fund – to aid the business transformation process, realise savings and assist the Council to achieve "Ffordd Gwynedd" aims and objectives.
- 10.16 Invest to Save Fund – Carbon Reduction Plan – partly funding the Carbon Reduction Plan programme of works to reduce carbon emissions whilst generating monetary revenue savings for the Council.
- 10.17 Transformation Fund / Council Plan – for the Council's priorities and to transform internal procedures to be more effective and efficient, and to invest in various schemes to realise permanent financial savings.
- 10.18 Committed Revenue Grants Fund – includes revenue grants received and committed for future use.

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

- 10.19 Contracts Tendering Fund – in response to uneven spending situations as a result of the tendering process for transport.
- 10.20 Housing Water and Sewerage Services Fund – amounts reserved for requirements relating to sewerage procedures, water piping and sewage treatment work on old council housing estates, which were not adopted by Welsh Water.
- 10.21 Housing Environmental Warranty – reserved for possible implications as a result of giving environmental warranties to Cartrefi Cymunedol Gwynedd, in connection with specific and special circumstances that relate to environmental plans on the land of old council housing estates.
- 10.22 Information Technology Reserve – for responding to the demands in the information technology field, including a renewals fund and to respond to uneven patterns of expenditure.
- 10.23 Preparatory Work for European Grant Funding Schemes – provision towards the cost of preparing business cases to attract European grants.
- 10.24 Supporting the Financial Strategy Reserve – a fund established to assist and support the Council's financial strategy.
- 10.25 Welfare Fund - provision to respond to uneven patterns in the related requirements.
- 10.26 Partnering Arrangements – includes amounts allocated in relation to various requirements of partnerships and joint working.
- 10.27 North Wales Economic Ambition Board - for the requirements and commitments of the economic promotion plan relevant to the North Wales Economic Ambition Board.
- 10.28 Liabilities Related to the Pension Fund – for various future requirements and commitments related to the Pension Fund.
- 10.29 Council Tax Property Transfer Reserve – provision relating to the implications of properties transferring from Council Tax to National Non Domestic Rates.
- 10.30 Council Tax Premium Reserve - provision from the Council Tax Premium for achieving the Council's priorities which includes the Housing Strategy.
- 10.31 Various Other Reserves – includes amounts set aside to meet a variety of other commitments.

NOTE 11 – OTHER OPERATING EXPENDITURE

2017/18		2018/19
£'000		£'000
1,994	Community Council's Precepts Levies	2,206
12,518	North Wales Police & Crime Commissioner	13,444
5,852	North Wales Fire Authority	5,914
962	Snowdonia National Park Authority	912
91	Local Drainage Boards	102
19,423		20,372
546	(Gains)/losses on the disposal and de-recognition of non-current assets	174
21,963	Total	22,752

NOTE 12 – FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2017/18		2018/19
£'000		£'000
6,123	Interest payable and similar charges	6,092
6,237	Net interest on the net defined benefit liability (asset)	6,363
(211)	Interest receivable and similar income	(307)
0	Adjustments to provisions and the fair value of financial instruments	92
12,149	Total	12,240

NOTE 13 – TAXATION AND NON-SPECIFIC GRANT INCOME

2017/18		Note	2018/19
£'000			£'000
(76,608)	Council Tax Income	<i>13a</i>	(84,490)
(40,451)	Non-Domestic Rates	<i>13b</i>	(40,191)
(128,505)	Non-ring-fenced Government Grants	32	(134,936)
(11,039)	Capital Grants and Contributions	32	(13,581)
(256,603)	Total		(273,198)

NOTE 13a - COUNCIL TAX

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

The Council Tax Base for 2018/19 was calculated as follows:-

CALCULATION OF THE COUNCIL TAX BASE FOR 2018/19			
Valuation Bands	Number of Properties following discounts	Statutory Multiplier	Equivalent Band D Properties
A*	6	5/9	3.19
A	7,655	6/9	5,103.06
B	13,747	7/9	10,692.24
C	10,987	8/9	9,766.35
D	9,561	1	9,561.04
E	7,679	11/9	9,385.71
F	3,831	13/9	5,533.31
G	1,229	15/9	2,047.92
H	182	18/9	364.00
I	64	21/9	148.75
Total			52,605.57
Council Tax base after allowing for losses on collection			52,079.51

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

2017/18		2018/19
£'000		£'000
(76,848)	Council Tax raised	(84,956)
240	Less Increase in the provision for bad debts	466
(76,608)		(84,490)

NOTE 13b - NATIONAL NON-DOMESTIC RATES

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

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

The Government sets the National Non-Domestic rate for the year (51.4p in 2018/19) which is then multiplied by the rateable value of the property. Subject to the effects of transitional arrangements and some other reductions, this is the amount payable by the ratepayer.

At the end of the 2018/19 financial year there were 8,380 properties on the local valuation list in Gwynedd, representing a rateable value of £112,536,448.

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

2017/18	2018/19
£'000	£'000
(39,385) National Non-domestic Rate raised	(41,525)
394 Cost of Collection allowance	409
310 Provision for Bad Debts	501
<u>38,681</u> Sum paid to the National Pool	<u>40,615</u>
0	0
<u>(40,451)</u> Receipts from the National Pool	<u>(40,191)</u>
(40,451) Net Income from Non-Domestic Rates	(40,191)

NOTE 14 – BUILDING CONTROL INCOME AND EXPENDITURE ACCOUNT

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

The account is expected to break-even over a three-year rolling period, and this requirement is reviewed annually. There was a loss in 2018/19 and also in 2017/18 and therefore there is an accumulated loss over a period of three years.

2018/19	£'000
Total charges income received (excluding VAT)	(388)
Total charges expenditure incurred	412
(Surplus)/Deficit for 2018/19	24
(Surplus)/Deficit for 2017/18	20
(Surplus)/Deficit for 2016/17	(20)
(Surplus)/Deficit for the last three years	24

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT

Movements on Property, Plant and Equipment Balances

Movements in 2018/19:

	Land and Buildings £'000	Infrastructure £'000	Vehicles, Plant and Equipment £'000	Community Assets £'000	Surplus Assets £'000	Assets under Construction £'000	Total Property, Plant and Equipment £'000
Value							
Balance at 1.04.18	294,688	202,527	40,588	1,128	2,267	8,414	549,612
Additions	7,531	5,850	5,189	16	40	1,201	19,827
Sales	(901)	0	(1,546)	0	0	0	(2,447)
Transfers	(576)	0	0	0	76	0	(500)
Revaluation - to Revaluation Reserve	18,065	0	0	0	(141)	0	17,924
Revaluation - to Services	2,058	0	0	0	21	0	2,079
Balance at 31.03.19	320,865	208,377	44,231	1,144	2,263	9,615	586,495
Depreciation							
Balance at 1.04.18	6,397	44,545	25,242	0	(1)	0	76,183
Depreciation in year	5,634	5,438	3,702	2	0	0	14,776
Sales	(95)	0	(1,444)	0	0	0	(1,539)
Transfers	0	0	0	0	0	0	0
Revaluation	(4,731)	0	0	0	0	0	(4,731)
Balance at 31.03.19	7,205	49,983	27,500	2	(1)	0	84,689
Impairment							
Balance at 1.04.18	32,381	63	68	229	9	0	32,750
Impairment in year - to Revaluation Reserve	3,596	0	0	0	7	0	3,603
Impairment in year - to Services	3,377	0	0	0	33	0	3,410
Sales	(30)	0	0	0	0	0	(30)
Transfers	0	0	0	0	0	0	0
Revaluation	(5,018)	0	0	0	(10)	0	(5,028)
Balance at 31.03.19	34,306	63	68	229	39	0	34,705
Net Book Value 31 March 2019	279,354	158,331	16,663	913	2,225	9,615	467,101
Net Book Value 31 March 2018	255,910	157,919	15,278	899	2,259	8,414	440,679

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT (continued)

Comparative Movements in 2017/18:

	Land and Buildings £'000	Infrastructure £'000	Vehicles, Plant and Equipment £'000	Community Assets £'000	Surplus Assets £'000	Assets under Construction £'000	Total Property, Plant and Equipment £'000
Value							
Balance at 1.04.17	291,440	198,172	40,601	1,090	2,108	5,507	538,918
Additions	7,020	4,355	2,591	0	3	5,523	19,492
Sales	(3)	0	(2,604)	0	(166)	0	(2,773)
Transfers	2,211	0	0	0	405	(2,616)	0
Revaluation - to Revaluation Reserve	(4,703)	0	0	38	98	0	(4,567)
Revaluation - to Services	(1,277)	0	0	0	(181)	0	(1,458)
Balance at 31.03.18	294,688	202,527	40,588	1,128	2,267	8,414	549,612
Depreciation							
Balance at 1.04.17	4,790	39,215	23,511	10	2	0	67,528
Depreciation in year	5,024	5,330	3,864	1	2	0	14,221
Sales	0	0	(2,133)	0	(2)	0	(2,135)
Transfers	0	0	0	0	0	0	0
Revaluation	(3,417)	0	0	(11)	(3)	0	(3,431)
Balance at 31.03.18	6,397	44,545	25,242	0	(1)	0	76,183
Impairment							
Balance at 1.04.17	35,236	63	68	230	67	0	35,664
Impairment in year - to Revaluation Reserve	2,644	0	0	0	0	0	2,644
Impairment in year - to Services	4,033	0	0	0	9	0	4,042
Sales	0	0	0	0	(7)	0	(7)
Transfers	0	0	0	0	0	0	0
Revaluation	(9,532)	0	0	(1)	(60)	0	(9,593)
Balance at 31.03.18	32,381	63	68	229	9	0	32,750
Net Book Value 31 March 2018	255,910	157,919	15,278	899	2,259	8,414	440,679
Net Book Value 31 March 2017	251,414	158,894	17,022	850	2,039	5,507	435,726

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT (continued)

The Council's operational Land and Buildings were revalued by the Council's Corporate Property Manager (M.R.I.C.S) in accordance with the policies noted in section 1.17 of Note 1 of the Accounting Policies. Note that the Authority has established a rolling programme for revaluing different categories of these assets annually. Refer to this note also for the basis of depreciation on various categories of assets.

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

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

Capital Commitments

Significant commitments under capital contracts at 31 March 2019 were as follows:

	Sum	Payments	Balance
	£'000	to date	£'000
	£'000	£'000	£'000
Caernarfon Town and Shores Regeneration Scheme	679	446	233
Ysgol Y Garnedd - extension and refurbishment	8,104	216	7,888

NOTE 16 – INVESTMENT PROPERTIES

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

	2017/18	2018/19
	£'000	£'000
Rental income from investment property	9	91
Net gain/(loss)	9	91

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property nor for its repair, maintenance or enhancement.

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

	2017/18	2018/19
	£'000	£'000
Balance 1 April	197	116
Disposals	(81)	0
Net gains/(losses) from fair value adjustments	0	89
<u>Transfers:</u>		
(to)/from Property, Plant and Equipment	0	500
Balance 31 March	116	705

NOTE 17a – FINANCIAL INSTRUMENTS

(i) Financial Instruments - Classifications

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

Following revisions effective for the financial year 2018/19 to the CIPFA Code of Practice in respect of accounting for financial instruments *IFRS 9 Financial Instruments*, consequently there are changes to the requirements of this note with additional disclosures and amended presentation of numbers to that presented in the 2017/18 accounts.

Financial Liabilities

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

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

- long-term loans from the Public Works Loan Board and commercial lenders
- Service Concession Arrangements (Private Finance Initiative (PFI)) contracts detailed in Note 41
- overdraft with Barclays Bank plc
- short-term loans from other local authorities and housing associations
- finance leases detailed in Note 35
- trade payables for goods and services received

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash, equity instruments or a contractual right to receive cash or another financial asset or a right to exchange financial assets and liabilities with another entity that is favourable to the Council. The financial assets held by the Council during the year are accounted for under the following three classifications

NOTE 17a – FINANCIAL INSTRUMENTS (continued)

Amortised Cost (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flow) comprising:

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

Fair value through other comprehensive income (where cash flows are solely payments of principal and interest and the Council's business model is to both collect those cash flows and sell the instrument; and equity investments that the Council has elected into this category) comprising:

- pooled bond, equity and property funds held as strategic investments
- equity investments in a local waste company

Fair value through profit and loss (all other financial assets) comprising:

- money market funds

(ii) Financial Instruments - Balances

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

Financial Liabilities	Long-Term		Short-Term	
	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000
<i>Loans at amortised cost:</i>				
Principal sum borrowed	107,810	105,924	10,333	2,236
Accrued interest	0	0	532	534
Total Borrowing*	107,810	105,924	10,865	2,770
<i>Loans at amortised cost:</i>				
Bank overdraft	0	0	45,538	30,573
Total Cash Overdrawn	0	0	45,538	30,573
<i>Liabilities at amortised cost:</i>				
Finance Leases	1,851	1,700	0	0
Total other Long-Term Liabilities	1,851	1,700	0	0
<i>Liabilities at amortised cost:</i>				
Trade Payables	0	0	33,909	31,904
Finance Leases	0	0	142	151
Included in Creditors**	0	0	34,051	32,055
Total Financial Liabilities	109,661	107,624	90,454	65,398

Following adjustments to the Code of Practice, the 2017/18 figures have been restated to comply with the new requirements.

*The total short-term borrowing includes £2,770,000 (2018: £865,000) representing accrued interest and principal repayments due within 12 months on long-term borrowing.

** The short-term creditors line on the Balance Sheet includes £21,225,000 (£22,522,000 at 31 March 2018) creditors (Note 21) that do not meet the definition of a financial liability.

NOTE 17a – FINANCIAL INSTRUMENTS (continued)

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

Financial Assets	Long Term		Short Term	
	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000
<i>At amortised cost:</i>				
Principal	17	17	33,000	10,000
Accrued interest	0	0	34	19
Loss allowance	0	0	(2)	(4)
<i>At fair value through other comprehensive income:</i>				
Principal at amortised cost	0	0	1,991	10,000
Loss allowance	0	0	(1)	0
Fair value adjustment	0	0	0	(448)
Total Investments	17	17	35,022	19,567
<i>At amortised cost:</i>				
Principal	0	0	3,153	5,243
Accrued interest	0	0	3	3
Loss allowance	0	0	(1)	0
<i>At fair value through profit and loss:</i>				
Fair value	0	0	9,250	9,440
Total Cash and Cash Equivalents	0	0	12,405	14,686
<i>At amortised cost:</i>				
Trade receivables	4,101	4,139	11,516	12,133
Included in Debtors*	4,101	4,139	11,516	12,133
Total Financial Assets	4,118	4,156	58,943	46,386

Following adjustments to the Code of Practice, the 2017/18 figures have been restated to comply with the new requirements.

* The short-term debtors line on the Balance Sheet includes £43,701,000 (£45,558,000 at 31 March 2018) debtors (Note 18) that do not meet the definition of a financial asset.

Material Soft Loans

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

The fair values of such a soft loan are less than the amount of the cash lent. The fair value of a loan at nil interest rate or below the prevailing market rate is estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument. The sum by which the amount lent exceeds the fair value of the loan is charged to the Income and Expenditure Statement. The 2018/19 Code of Practice sets out specific accounting and disclosure requirements for soft loans. During 2018/19 Gwynedd Council identified the following “soft loans”:

- Deferred Payments on charges due from people under care (amount outstanding at 31.03.19 £1,973,627)
- Car and Bike Loans to employees (amount outstanding at 31.03.19 £1,069,122)

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

NOTE 17a – FINANCIAL INSTRUMENTS (continued)

Equity instruments elected to fair value through other comprehensive income

The Council has elected to account for the following investments in equity instruments at fair value through other comprehensive income because they are long-term strategic holdings and change in their fair value are not considered to be part of the Council's annual financial performances.

	Fair Value		Dividends	
	31 March 2018 £'000	31 March 2019 £'000	2017/18 £'000	2018/19 £'000
CCLA LAMIT Property Fund	0	4,603	0	17
Investec Diversified Income Fund	0	1,246	0	4
Schroder Income Maximiser Fund	0	2,445	0	38
Kames Diversified Monthly Income Fund	0	1,258	0	11
TOTAL	0	9,552	0	70

Offsetting Financial Assets and Liabilities

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

	31 March 2018			31 March 2019		
	Gross assets (liabilities) £'000	(Liabilities) assets set off £'000	Net position on Balance Sheet £'000	Gross assets (liabilities) £'000	(Liabilities) assets set off £'000	Net position on Balance Sheet £'000
Bank accounts in credit	9,917	(9,917)	0	19,656	(19,656)	0
Total Financial Assets	9,917	(9,917)	0	19,656	(19,656)	0
Bank overdraft	(55,455)	9,917	(45,538)	(50,229)	19,656	(30,573)
Total Financial Liabilities	(55,455)	9,917	(45,538)	(50,229)	19,656	(30,573)

NOTE 17a – FINANCIAL INSTRUMENTS (continued)

(iii) Financial Instruments - Gains and Losses

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

	Financial Liabilities	Financial Assets			2018/19 Total	2017/18 Total
	Amortised Cost	Amortised Cost	Elected to Fair Value through OCI	Fair Value through Profit & Loss		
	£'000	£'000	£'000	£'000		
Interest expense	6,092	0	0	0	6,092	6,122
Expected credit loss	0	4	0	0	4	0
Interest payable and similar charges	6,092	4	0	0	6,096	6,122
Interest income	0	(138)	0	0	(138)	(211)
Dividend income	0	0	(70)	(99)	(169)	0
Interest and investment income	0	(138)	(70)	(99)	(307)	(211)
Net impact on surplus/deficit on provision of services	6,092	(134)	(70)	(99)	5,789	5,911
Gains on revaluation	0	0	7	0	7	0
Losses on revaluation	0	0	(455)	0	(455)	0
Impact on other comprehensive income	0	0	(448)	0	(448)	0
Net (gain)/loss for the year	6,092	(134)	(518)	(99)	5,341	5,911

(iv) Financial Instruments - Fair Values

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For most assets, including property funds and shares in money market funds, the fair value is taken from the market price.

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2019, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.

NOTE 17a – FINANCIAL INSTRUMENTS (continued)

- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31st March.
- The fair values of financial guarantees have been estimated based on the likelihood of the guarantees being called and the likely payments to be made.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.

The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

NOTE 17a – FINANCIAL INSTRUMENTS (continued)

	Fair Value Level	Balance Sheet 31 March 2018 £'000	Fair Value 31 March 2018 £'000	Balance Sheet 31 March 2019 £'000	Fair Value 31 March 2019 £'000
<i>Financial Liabilities held at amortised cost:</i>					
Long- term loans from PWLB	2	(90,608)	(143,524)	(90,609)	(142,222)
Other long-term loans	2	(18,067)	(32,358)	(18,085)	(28,264)
Lease payables	2	(1,993)	(1,993)	(1,851)	(1,851)
<i>Other liabilities:</i>					
Loan commitments	2	(10,000)	(10,000)	0	0
TOTAL		(120,668)	(187,875)	(110,545)	(172,337)
Liabilities for which fair values is not disclosed		(33,909)		(31,904)	
TOTAL FINANCIAL LIABILITIES		(154,577)		(142,449)	
Recorded on balance sheet as:					
Short- term creditors		(33,909)		(31,904)	
Short-term borrowing		(10,865)		(2,770)	
Short-term finance lease liability		(142)		(151)	
Long-term borrowing		(107,810)		(105,924)	
Long-term finance lease liability		(1,851)		(1,700)	
TOTAL FINANCIAL LIABILITIES		(154,577)		(142,449)	

Following adjustments to the Code of Practice, the 2017/18 figures have been restated to comply with the new requirements.

The fair value of short-term financial liabilities held at amortised cost, including trade payable, is assumed to approximate to the carrying amount.

NOTE 17a – FINANCIAL INSTRUMENTS (continued)

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

	Fair Value	Balance Sheet	Fair Value	Balance Sheet	Fair Value
	Level	31 March 2018	31 March 2018	31 March 2019	31 March 2019
		£'000	£'000	£'000	£'000
<i>Financial assets held at fair value:</i>					
Money market funds	1	9,253	9,250	9,440	9,440
Property funds	1	0	0	9,552	9,552
<i>Financial assets held at amortised cost:</i>					
Covered bonds	1	1,991	1,991	0	0
Bank deposits	2	11,162	11,162	15,261	15,261
Loans to local authorities	2	25,025	25,025	0	0
Treasury Stock	1	17	17	17	17
TOTAL		47,448	47,445	34,270	34,270
Assets for which fair values is not disclosed		15,617		16,272	
TOTAL FINANCIAL ASSETS		63,065		50,542	
<i>Recorded on balance sheet as:</i>					
Long- term debtors		4,101		4,139	
Long- term investments		17		17	
Short-term debtors		11,516		12,133	
Short-term investments		35,028		19,567	
Cash and cash equivalents		12,403		14,686	
TOTAL FINANCIAL ASSETS		63,065		50,542	

Following adjustments to the Code of Practice, the 2017/18 figures have been restated to comply with the new requirements.

The fair value of short-term financial assets held at amortised cost, including trade receivables, is assumed to approximate to the carrying amount.

Transition to IFRS 9 Financial Instruments

The Council adopted the IFRS 9 Financial Instruments accounting standard with effect from 1st April 2018. The main changes include the reclassification and remeasurement of financial assets and the earlier recognition of the impairment of financial assets.

The Council has made use of the transitional provisions in IFRS 9 to not restate the prior year's financial statements, and the effect of the remeasurement is instead shown as an additional line in the Movement in Reserves Statement.

NOTE 17a – FINANCIAL INSTRUMENTS (continued)

The changes made on transition to the balance sheet are summarised below:

	IAS 39 31.3.18	Reclassi- fication	Expected Credit Loss	IFRS 9 1.4.18
	£'000	£'000	£'000	£'000
<u>FINANCIAL ASSETS</u>				
Investments				
L&R /Amortised cost	35,045	0	(3)	35,042
Total investments	35,045	0	(3)	35,042
Debtors				
L&R /Amortised cost	11,516	0	0	11,516
Total debtors	11,516	0	0	11,516
Cash & cash equivalents				
L&R /Amortised cost	12,403	(9,250)	(1)	3,152
FVPL	0	9,250	0	9,250
Total cash & equivalents	12,403	0	(1)	12,402
TOTAL FINANCIAL ASSETS	58,964	0	(4)	58,960
<u>FINANCIAL LIABILITIES</u>				
Borrowing				
Amortised cost	(118,675)	0	0	(118,675)
Creditors				
Amortised cost	(33,909)	0	0	(33,909)
Provisions				
Lease payables	(1,993)	0	0	(1,993)
TOTAL FINANCIAL LIABILITIES	(154,577)	0	0	(154,577)
NET FINANCIAL ASSETS	(95,613)	0	(4)	(95,617)

NOTE 17a – FINANCIAL INSTRUMENTS (continued)

	IAS 39 31.3.18	Impairment	IFRS 9 1.4.18
	£'000	£'000	£'000
RESERVES			
Usable Reserves			
General Fund	(52,389)	4	(52,385)
Capital Receipts Reserve	(1,729)	0	(1,729)
Capital Grants Unapplied	(2,102)	0	(2,102)
Total usable reserves	(56,220)	4	(56,216)
Unusable Reserves			
Revaluation Reserve	(76,405)	0	(76,405)
Available For Sale Financial Instruments Reserve	170	0	170
Capital Adjustment Account	(187,522)	0	(187,522)
Financial Instruments Adjustment Account	743	0	743
Pensions Reserve	226,981	0	226,981
Accumulated Absences Account	3,387	0	3,387
Total unusable reserves	(32,646)	0	(32,646)
TOTAL RESERVES	(88,866)	4	(88,862)

NOTE 17b – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2017.

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

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

The main risks covered are:

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

Credit Risk: Investments

The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK Government, and other local authorities without credit ratings upon which the

**NOTE 17b – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS
(continued)**

Council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial organisations for investment.

During 2018/19 a limit of 5% of the total portfolio was placed on the amount that can be invested with a single counterparty (reduced to £1m for some building societies). The Council also set a total group investment limit of 5% for institutions that are part of the same banking group. No more than £60m in total could be invested for a period longer than one year.

During 2008/09 the Council made a deposit of £4m with Heritable Bank which was a UK registered bank under Scottish Law. The company was placed in administration on 7 October 2008. The Council has received a return of £3,938,407 equating to 98% from the administrators up to 31 March 2019. The administration is ongoing, but it is likely that the full amount should eventually be recovered.

The Council does not hold collateral security against any investments.

The table below summarises the credit risk exposures of the Council’s investment portfolio by credit rating:

Short-Term		
Credit Rating	31 March 2018 £'000	31 March 2019 £'000
AAA	4,991	0
AA+	0	0
AA	3,000	0
AA-	13,000	2,005
A+	0	2,004
A	4,000	4,002
A-	0	2,004
Unrated building societies	1,000	0
Unrated local authorities	9,000	0
Total	34,991	10,015
Pooled funds	0	9,552
Total Investments	34,991	19,567

Loss allowances on treasury investments have been calculated by reference to historic default data published by credit rating agencies, multiplied by 150% to adjust for current and forecast economic conditions. A two-year delay in cash flows is assumed to arise in the event of default. Investments are determined to have suffered a significant increase in credit risk where they have been downgraded by three or more credit rating notches or equivalent since initial recognition, unless they retain an investment grade credit rating. They are determined to be credit-impaired when awarded a “D” credit rating or equivalent. At 31st March 2019, £4,181 (2018: £4,098) of loss allowances related to treasury investments.

**NOTE 17b – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS
(continued)**

Credit Risk: Trade Receivables

The age profile of the trade balance in our debtor system at 31 March can be analysed as follows:-

31 March 2018		31 March 2019
£'000		£'000
5,164	Less than a year	5,162
2,061	Over a year	1,913
7,225		7,075

Historical experience of default and current and forecast economic conditions are considered in calculating our impairment loss allowance.

Credit Risk: Loans, Financial Guarantees and Loan Commitments

The Council manages the credit risk inherent in its loans for service purposes, financial guarantees and loan commitments in line with its published Investment Strategy.

Liquidity Risk

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

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

Time to maturity (years)	31 March 2018	31 March 2019
	£'000	£'000
Less than 1 year	10,333	2,236
Over 1 but not over 2	2,236	1,577
Over 2 but not over 5	4,590	4,195
Over 5 but not over 10	17,128	16,244
Over 10 but not over 20	32,792	34,612
Over 20 but not over 30	7,511	5,744
Over 30 but not over 40	17,986	27,352
Over 40	25,567	16,200
Total	118,143	108,160

Market Risk: Interest Rate Risk

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

**NOTE 17b – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS
(continued)**

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

Investments measured at amortised cost and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments measured at fair value will be reflected in Other Comprehensive Income or the Surplus or Deficit on the Provision of Services as appropriate.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2019, 100% (2018:100%) of net principal borrowed (i.e. debt net of investments) was exposed to fixed rates and 0% to variable rates.

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

	31 March 2018 £'000	31 March 2019 £'000
Increase in interest payable on variable rate borrowings	0	0
Increase in interest receivable on variable rate investments	31	20
Impact on Surplus or Deficit on the Provision of Services	31	20
Change in fair value of fixed rate investment assets	0	(9)
Impact on Other Comprehensive Income and Expenditure	0	(9)
Change in fair value of fixed rate borrowings / liabilities*	(25,393)	(24,192)

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

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Market Risk: Price Risk

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

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to pooled property investments of £10m. A 5% fall in commercial property prices at 31st March 2019 would result in a £0.5m (2018: £0m) charge to Other Comprehensive Income and Expenditure.

Market Risk: Foreign Exchange Risk

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

NOTE 18a – SHORT-TERM DEBTORS

	31 March 2018	31 March 2019
	£'000	£'000
Trade receivables	10,837	11,754
Prepayments	789	569
Other receivable amounts	45,449	43,512
Total	57,074	55,834

Following adjustments to the Code of Practice, the 2017/18 figures have been restated to comply with the new requirements.

NOTE 18b - COUNCIL TAX DEBTORS

The past due date but not impaired amount for Council Tax can be analysed by age as follows:

	31 March 2018	31 March 2019
	£'000	£'000
Less than one year	1,346	1,682
More than one year	586	584
Total	1,932	2,266

The analysis above only shows those balances where assessment has indicated that, by exception, no impairment is required.

NOTE 19 – CASH AND CASH EQUIVALENTS

	31 March 2018	31 March 2019
	£'000	£'000
Cash in Hand	13	15
Bank Current Accounts	45	47
Call Accounts	12,345	14,624
Cash and Cash Equivalents	12,403	14,686
Bank Overdraft	(45,538)	(30,573)
Total	(33,135)	(15,887)

In order to maximise the returns from Short-Term Investments and Cash Deposits, the Council invests any surplus funds in its bank accounts along with any surplus funds in the Gwynedd Pension Fund bank accounts. An appropriate share of the interest earned is paid to the Pension Fund and any losses on investment are shared with the Pension Fund in the same proportion. Due to the nature of the banking arrangements any surplus cash in the Pension Fund bank accounts is not transferred to the Council's bank accounts and therefore a proportion of the above Short-Term Investments (Note 17) and the Call Accounts and Money Market Funds above represent money invested on behalf of the Pension Fund at the Balance Sheet date. As the Short-Term Investments are made in the name of Gwynedd Council, they are shown in full on the Balance Sheet. The Pension Fund element of the Short-Term Investments and Cash Deposits was £22.6m (£37m at 31 March 2018).

NOTE 20 – ASSETS HELD FOR SALE

	2017/18	2018/19
	£'000	£'000
Balance 1 April	148	73
<u>Assets newly classified as held for sale:</u>		
Property, Plant and Equipment	0	0
Expenditure in year	0	0
Revaluation Losses	0	0
Impairment Losses	0	0
<u>Assets declassified as held for sale:</u>		
Property, Plant and Equipment	0	0
Assets sold	(75)	0
Balance 31 March	73	73

NOTE 21 – SHORT-TERM CREDITORS

	31 March 2018	31 March 2019
	£'000	£'000
Trade payables	34,051	32,055
Other payables	22,522	21,225
Total	56,573	53,280

Following adjustments to the Code of Practice, the 2017/18 figures have been restated to comply with the new requirements.

NOTE 22 – PROVISIONS

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

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

	Balance at 31 March 2018 £'000	(Addition) / Reduction / Transfer £'000	Used during the year £'000	Balance at 31 March 2019 £'000
<u>Short-Term Provisions</u>				
Waste Sites Provision	(257)	(323)	302	(278)
	(257)	(323)	302	(278)
<u>Long-Term Provisions</u>				
Waste Sites Provision	(7,335)	(235)	0	(7,570)
Third Party Claims Provision	(93)	69	0	(24)
MMI Insurance Provision	(91)	0	0	(91)
	(7,519)	(166)	0	(7,685)
Total	(7,776)	(489)	302	(7,963)

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

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

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

NOTE 23 – UNUSABLE RESERVES

31 March 2018	31 March 2019
£'000	£'000
76,405 Revaluation Reserve	98,630
(170) Available For Sale Financial Instruments Reserve	(170)
187,522 Capital Adjustment Account	191,543
0 Financial Instruments Revaluation Reserve	(448)
(743) Financial Instruments Adjustment Account	(687)
(226,981) Pensions Reserve	(298,514)
(3,387) Accumulated Absences Account	(3,870)
32,646 Total Unusable Reserves	(13,516)

23.1 Revaluation Reserve

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

- Revalued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are realised.

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

2017/18	2018/19
£'000	£'000
71,974 Balance 1 April	76,405
10,889 Upward revaluation of assets	28,488
(5,076) Downward revaluation of assets and impairment losses	(4,367)
5,813 Surplus/(deficit) on revaluation of assets	24,121
(1,232) Difference between fair value depreciation and historical cost depreciation	(1,412)
(150) Accumulated gains on assets sold	(484)
(1,382) Amount written off to the Capital Adjustment Account	(1,896)
76,405 Balance 31 March	98,630

23.2 Available-for-Sale Financial Instruments Reserve

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

- Revalued downwards or impaired and the gains are lost.
- Disposed of and the gains are realised.

NOTE 23 – UNUSABLE RESERVES (continued)

2017/18	2018/19
£'000	£'000
(17) Balance 1 April	(170)
(153) Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	0
(170) Balance 31 March	(170)

23.3 Capital Adjustment Account

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

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

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

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

2017/18	2018/19
£'000	£'000
187,120 Balance 1 April	187,522
<u>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</u>	
(19,721) Charges for depreciation and impairment of non-current assets	(16,058)
(3,892) Revenue Expenditure funded from Capital under Statute	(3,540)
(637) Adjustment to non-current balance on the sale of assets	(394)
1,232 Transfer from Capital Revaluation Reserve	1,411
<u>Capital financing applied in the year:</u>	
1,384 Capital Receipts	161
11,255 Grants and contributions credited to Comprehensive Income and Expenditure Statement that have been applied to capital financing	10,684
5,547 Revenue provision for the financing of supported capital investment	5,505
3,120 Capital expenditure charged in year against the General Fund	4,191
2,114 Capital receipts set aside / Revenue provision for the financing of unsupported capital investment	2,061
187,522 Balance 31 March	191,543

NOTE 23 – UNUSABLE RESERVES (continued)

23.4 Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the Council arising from increases in the value of its investments that are measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are.

- Revalued downwards or impaired and the gains are lost.
- Disposed of and the gains are realised.

2017/18 £'000	2018/19 £'000
0 Balance 1 April	0
0 Fair Value Adjustment	(448)
0 Balance 31 March	(448)

23.5 Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account at the end of the financial year represents the amount that should have been charged to the Comprehensive Income and Expenditure Statement in accordance with proper accounting practices under the Code of Practice, but which Statutory Provisions allow or require them to be deferred over future years.

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

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

The transactions reflected in the Financial Instruments Adjustment Account are as follows:

2017/18 £000	2018/19 £000
(760) Balance 1 April	(743)
46 Proportion of premiums incurred in previous years charged to General Fund in accordance with statute	46
(29) Deferred credit for receipt of charges due from people under care	10
(743) Balance 31 March	(687)

NOTE 23 – UNUSABLE RESERVES (continued)

23.6 Pensions Reserve

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

2017/18		2018/19
£000		£000
(235,413)	Balance 1 April	(226,981)
22,330	Remeasurements of the net defined benefit (liabilities) / assets	(48,870)
(41,757)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(43,015)
27,859	Employer's pensions contributions and direct payments to pensioners payable in the year	20,352
(226,981)	Balance 31 March	(298,514)

23.7 Accumulated Absences Account

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

2017/18		2018/19
£000		£000
(3,935)	Balance 1 April	(3,387)
548	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(483)
(3,387)	Balance 31 March	(3,870)

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

2017/18 £'000		2018/19 £'000
(14,221)	Depreciation	(14,776)
(5,500)	Impairment and downward valuations	(1,282)
248	(Increase)/Decrease in Creditors	4,514
2,178	Increase/(Decrease) in Debtors	(1,252)
(221)	Increase/(Decrease) in Stock	186
(13,898)	Pension Liability	(22,663)
(786)	Carrying amount of non-current assets sold or de-recognised	(878)
(2,998)	Other non-cash items charged to net surplus/deficit on the provision of services	(3,663)
(35,198)		(39,814)

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

2017/18 £'000		2018/19 £'000
0	Purchase of short-term and long-term investments	(5)
240	Proceeds from sale of property, plant, equipment, investment property and intangible assets	704
240		699

NOTE 24c – CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2017/18 £'000		2018/19 £'000
(218)	Interest received	(325)
5,410	Interest paid	5,286

NOTE 25 – CASH FLOW STATEMENT – INVESTING ACTIVITIES

2017/18		2018/19
£'000		£'000
20,431	Purchase of property, plant and equipment, investment property and intangible assets	19,717
409,330	Purchase of short-term and long-term investments	80,000
3,900	Other payments for investing activities	3,571
(216)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(694)
(402,341)	Proceeds from short-term and long-term investments	(94,990)
31,104	Net cash flows from investing activities	7,604

NOTE 26a – CASH FLOW STATEMENT – FINANCING ACTIVITIES

2017/18		2018/19
£'000		£'000
134	Cash payments for the reduction of the outstanding liability relating to a finance lease	142
(7,197)	Repayments of short-term and long-term borrowing	9,981
(7,063)	Net cash flows from financing activities	10,123

NOTE 26b – CASH FLOW STATEMENT – RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 April 2018 £'000	Financing cash flows £'000	Non-cash changes £'000	31 March 2019 £'000
Long-term borrowings	(107,810)	1,886	0	(105,924)
Short-term borrowings	(10,865)	8,095	0	(2,770)
On balance sheet PFI liabilities	(1,993)	142	0	(1,851)
Total liabilities from financing activities	(120,668)	10,123	0	(110,545)

NOTE 27 – EXPENDITURE AND INCOME ANALYSED BY NATURE

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

2017/18		2018/19
£'000	<u>Expenditure / Income</u>	£'000
	Expenditure	
178,611	Employee benefits expenses	176,143
159,266	Other Services expenses	180,378
2,922	Support Services recharges	944
23,634	Depreciation, amortisation, impairment	19,619
12,360	Interest Payments	12,459
21,417	Precepts and Levies	22,578
546	Loss on the disposal of assets	174
398,756	Total Expenditure	412,295
	Income	
(50,785)	Fees, charges and other service income	(60,048)
(211)	Interest and investment income	(307)
(117,059)	Income from council tax and non-domestic rates	(124,681)
(215,300)	Government grants and contributions	(223,119)
0	(Gain) on the disposal of assets	0
(383,355)	Total Income	(408,155)
15,401	(Surplus) / Deficit on the Provision of Services	4,140

NOTE 28 – AGENCY SERVICES

Gwynedd Council acts as an agent for various schemes on behalf of the Welsh Government:

- Houses into Homes – closing balance £380k (£521k in 2017/18)
- Houses into Homes 2 – closing balance £415k (£396k in 2017/18)
- Home Improvement Loans – closing balance £315k (£315k in 2017/18)
- Supporting Town Centre Regeneration in Caernarfon – closing balance £153k (£228k in 2017/18)
- Caernarfon and Bangor Town Centre Scheme – closing balance £745k (£800k in 2017/18)
- Bangor and Bethesda Town Centre Scheme – closing balance £475k (£500 in 2017/18).

The Council also administers the North and Mid Wales Trunk Road Agency on behalf of the Welsh Government. The principal area of work is managing and maintaining the trunk road network in the North and Mid Wales Council's Partnership region that extends to 1,100 kilometres. The income transactions recovered during 2018/19 were £55.5m (£54.5m in 2017/18).

NOTE 29 – MEMBERS’ ALLOWANCES

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

2017/18		2018/19	
£'000		£'000	
1,255	Allowances	1,281	
61	Expenses	67	
1,316		1,348	

NOTE 30 – OFFICERS’ REMUNERATION

30a. The Accounts and Audit (Wales) (Amendment) Regulations 2018 require the Council to disclose the following information relating to employees appointed as Senior Officers, and whose salary is between £60,000 and £150,000. In compliance with the defined requirements, the pensionable pay, employer’s pension contributions and other employer costs are included below (including termination benefits), but the employer’s national insurance contributions are excluded.

2017/18			Chief Officers	2018/19			
Employer's				Employer's		Other	
Salary	Pension Contributions	Total	Salary	Pension Contributions	Employer Costs	Total	
£	£	£	£	£	£	£	
109,811	24,598	134,409					
			Chief Executive	112,168	25,126	137,294	
92,036	20,616	112,652	Corporate Director	94,013	21,059	115,072	
92,036	20,616	112,652	Corporate Director	94,013	21,059	115,072	
71,950	16,117	88,067	Head of Education ¹	81,189	18,227	99,416	
17,737	3,973	21,710	Head of Education (previous holder) ²				
78,122	17,499	95,621	Head of Finance	79,800	17,875	97,675	
73,485	16,461	89,946	Head of highways and Municipal ³	33,577	7,521	98,477	
			Head of highways and Municipal (Temporary) ⁴	42,414	9,501	51,915	
72,692	16,283	88,975	Head of Adults, Health and Wellbeing	74,563	16,702	91,265	
72,692	16,283	88,975	Head of Economy & Community	74,254	16,633	90,887	
72,692	16,283	88,975	Head of Children and Families	74,254	13,985	88,239	
69,058	15,469	84,527	Head of Environment	72,398	16,217	88,615	
69,058	15,469	84,527	Head of Corporate Support	72,398	16,217	88,615	
61,406	13,755	75,161	Head of Gwynedd Consultancy	62,725	14,050	76,775	

"Other Employee Costs" - in accordance with the requirements the related costs to the Council are included.

1. Holder in post on a temporary basis since May 2017, and permanently since November 2017.
2. Holder in post until 31 May 2017. 80% of his salary and other remuneration was recharged to GwE.
3. Holder in post until 31 August 2018.
4. Holder in post on a temporary basis since September 2018.

30b. The Accounts and Audit (Wales) (Amendment) Regulations 2018 require the Council to include a ratio of remuneration. The ratio of the Chief Executive’s remuneration to the median remuneration of all the Authority’s employees for 2018/19 is 6.37 : 1 (6.70 : 1 in 2017/18).

NOTE 30 – OFFICERS' REMUNERATION (continued)

30c. Other Authority employees receiving more than £60,000 remuneration for the year (excluding employer's pension and national insurance contributions) were paid the following amounts but which include termination benefits paid in two cases in 2018/19 and two cases in 2017/18. These posts would not appear below except for the termination benefits paid in the individual year.

Number of other employees who received more than £60,000 and includes remuneration and termination benefits:						
Number in 2017-18				Number in 2018-19		
Schools	Other	Total		Schools	Other	Total
9	2	11	£60,000 - 64,999	11	2	13
4	1	5	£65,000 - 69,999	2	0	2
7	0	7	£70,000 - 74,999	6	0	6
0	1	1	£75,000 - 79,999	3	1	4
2	0	2	£80,000 - 84,999	0	0	0
0	0	0	£85,000 - 89,999	1	0	1
0	0	0	£90,000 - 94,999	0	0	0
1	0	1	£95,000 - 99,999	1	0	1

NOTE 31 – EXTERNAL AUDIT COSTS

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

2017/18		2018/19
£'000		£'000
182	Fees payable to auditors appointed by the Auditor General for Wales with regard to external audit services	182
100	Fees payable to auditors appointed by the Auditor General for Wales in respect of statutory inspections	100
89	Fees payable to auditors appointed by the Auditor General for Wales for the certification of grant claims and returns for the year	38
371		320
(2)	Less: Fees payable to auditors appointed by the Auditor General for Wales in respect of Joint Committees and Harbour Accounts	(1)
(9)	Less: Adjustment for 2016/17 statutory audit fees	0
360	Gwynedd Council Net Fees	319

Deloitte have been appointed by the Auditor General for Wales as Gwynedd Council's external auditor.

NOTE 32 – GRANT INCOME

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

	Note	2017/18 £'000	2018/19 £'000
Credited to Taxation and Non-Specific Grant Income			
Revenue Support Grant (Non-ring-fenced Government Grants)	13	128,505	134,936
Government Revenue Grants and Contributions - Other		413	176
Government Capital Grants and Contributions -			
21st Century Schools		1,629	2,288
General Capital Grant		2,525	4,855
Other		4,852	5,526
	13	9,006	12,669
Other Capital Grants and Contributions	13	2,033	912
Total		139,957	148,693
Grants and Contributions Credited to Services			
Welsh Government -			
Supporting People Grant (SPPG)		4,992	5,075
Improvement and Deprivation Grants (Education)		7,533	7,305
Sustainable Waste Management Grant		3,414	1,142
Post-16 Grant (Education)		3,387	3,180
Other		15,840	15,799
		35,166	32,501
Other Government Grants and Contributions -			
Department for Work and Pensions		29,790	29,800
Other		12,833	13,213
		42,623	43,013
Other Grants and Contributions		4,789	4,040
Total		82,578	79,554

NOTE 32 – GRANT INCOME (continued)

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

	31 March 2018 £'000	31 March 2019 £'000
Grants Received in Advance		
<u>Long-Term</u>		
Revenue Grants and Contributions		
Regulatory (Planning, Transport and Public Protection) Grants	843	0
	843	0
Capital Grants and Contributions		
Highways and Municipal Capital Contributions	1,373	1,227
Regulatory (Planning, Transport and Public Protection) Grants	353	335
	1,726	1,562
Total Long Term	2,569	1,562
<u>Short Term</u>		
Revenue Grants and Contributions		
Economy and Community Grants	287	309
Regulatory (Planning, Transport and Public Protection) Grants	446	0
Adults, Health and Wellbeing Grants	682	702
Other Grants	115	76
	1,530	1,087
Capital Grants and Contributions	257	531
Total Short-Term	1,787	1,618
Total	4,356	3,180

NOTE 33 – RELATED PARTIES

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

Welsh and Central Government

Welsh Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework, it provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from the Welsh Government and other Government departments are set out in the subjective analysis in Note 27 which analyses expenditure and income by nature. The position as at 31 March is detailed in Note 32.

Members

Members of the Council have direct control over the Council's financial and operating policies. The personal declaration wasn't returned by one Council Member. The total of members' allowances paid in 2018/19 is shown in Note 29.

The Council appoints members to some external charitable or voluntary bodies or the members have disclosed a link to organisations, public bodies and authorities. A breakdown of the payments made to these bodies under this heading during 2018/19 and balances at 31 March 2019 is as follows:

Payments made	Amounts owed by the Authority	Amounts owed to the Authority
£'000	£'000	£'000
14,250	527	(2,892)

Members have declared an interest or relationship (as defined) in companies or businesses which may have dealings with the Council. A breakdown of the payments made to these companies under this heading during 2018/19 and balances at 31 March 2019 is as follows:

Payments made	Amounts owed by the Council	Amounts owed to the Council
£'000	£'000	£'000
3,134	44	(607)

Officers

Senior Officers (as defined) have declared as required and where appropriate an interest or relationship (as defined) in companies, voluntary, charitable, or public bodies which receive payments from the Council. A breakdown of the payments made to these bodies under this heading during 2018/19 and balances at 31 March 2019 is as follows:

Payments made	Amounts owed by the Authority	Amounts owed to the Authority
£'000	£'000	£'000
1,692	50	(184)

Other Public Bodies

The Council is the administering authority for the Pension Fund. Details of transactions with the Pension Fund are shown in Note 38 on pages 74 to 79.

NOTE 33 – RELATED PARTIES (continued)

Welsh Joint Education Committee (WJEC)

WJEC was established in 1948 as a consortium of local education authorities in Wales. Now, WJEC CBAC Ltd. is a company limited by guarantee, registered in England and Wales and is a registered independent charity managed by a Board of Directors and Senior Management Team. The Education Department has a Service Level Agreement with WJEC to produce and publish educational resources and provide professional development support.

Payments made	Amounts owed by the Authority	Amounts owed to the Authority
£'000	£'000	£'000
647	1	0

Entities Controlled or Significantly Influenced by the Authority

Cwmni Cynnal Cyf. was established in 1996 to provide education support services under contract to maintained schools and the local education authorities as well as school inspection services to Estyn. The company is limited by guarantee and the Council's liability is limited to £1. The income of the company can only be applied towards promotion of its objectives. Copies of the financial statements are available from Cwmni Cynnal, Penrallt, Caernarfon, Gwynedd, LL55 1BN. Payments to Cwmni Cynnal during 2018/19 for services to schools and balances at 31 March 2019 are as follows:

Payments made	Amounts owed by the Authority	Amounts owed to the Authority
£'000	£'000	£'000
1,074	28	0

NOTE 34 – CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

31 March		31 March
2018		2019
£'000		£'000
440,928	Non-current Assets	467,939
(76,405)	Revaluation Reserve	(98,630)
(187,522)	Capital Adjustment Account	(191,543)
177,001	Capital Financing Requirement	177,766

NOTE 34 – CAPITAL EXPENDITURE AND CAPITAL FINANCING (continued)

The movement in the year is explained as follows:

2017/18		2018/19
£'000		£'000
177,037	Capital Financing Requirement 1 April	177,001
7,020	Land and Buildings	7,531
4,355	Infrastructure	5,850
2,591	Vehicles, Plant and Equipment	5,189
0	Community Assets	16
3	Surplus Assets	40
5,523	Assets under construction	1,201
3,892	Funded from capital under statute	3,540
(1,384)	Capital Receipts used	(161)
(11,255)	Government Grants and other contributions	(10,684)
(3,120)	Capital expenditure charged to revenue	(4,191)
(5,547)	Revenue provision for the financing of supported capital investment	(5,505)
	Additional voluntary sums set aside:	
(2,114)	Capital receipts set aside / Revenue provision for the financing of unsupported capital investment	(2,061)
177,001	Capital Financing Requirement 31 March	177,766

NOTE 35 – LEASES

Authority as Lessee

Finance Leases

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

31 March		31 March
2018		2019
£'000		£'000
3,738	Property, Plant and Equipment	3,489
3,738		3,489

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

NOTE 35 – LEASES (continued)

31 March 2018 £'000		31 March 2019 £'000
Finance Lease Liabilities		
(net present value of minimum lease payments):		
142	current	151
1,851	non-current	1,700
1,993	Minimum lease payments	1,851

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

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March	31 March	31 March	31 March
	2018	2019	2018	2019
	£'000	£'000	£'000	£'000
No later than one year	142	151	142	151
Later than one year and not later than five years	662	703	662	703
Later than five years	1,189	997	1,189	997
	1,993	1,851	1,993	1,851

In 2018/19, minimum lease payments were made by the Council of £142,205 (£133,947 in 2017/18) in respect of those assets held as a finance lease.

Operating Leases

	31 March 2018 £'000	31 March 2019 £'000
No later than one year	402	435
Later than one year and not later than five years	449	540
Later than five years	115	287
	966	1,262

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

	2017/18 £'000	2018/19 £'000
Minimum lease payments	596	591
	596	591

NOTE 35 – LEASES (continued)

Authority as Lessor

Finance Leases

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

- The Sailing Academy in Pwllheli,
- Rhyd Ddu Centre

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

Operating Leases

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

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

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

	31 March	31 March
	2018	2019
	£'000	£'000
No later than one year	336	392
Later than one year and not later than five years	511	1,074
Later than five years	2,819	4,102
	3,666	5,568

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2018/19 £956,540 minimum lease payments were receivable by the Council (£930,904 in 2017/18).

NOTE 36 – EXIT PACKAGES

The number of exit packages with total cost per band, and total cost of the compulsory and other redundancies are set out in the table below. The cost in the table below reflects the related package cost to the employer, rather than the actual value of the payments to the individuals. In accordance with the requirements the related commitments as known to the Council as at 31 March 2019 are included. Included below are the related gross costs but not the financial savings to the Council, where appropriate.

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18 £'000	2018/19 £'000
£								
0 - 20,000	69	84	15	5	84	89	331	214
20,001 - 40,000	10	6	7	2	17	8	489	229
40,001 - 60,000	1	2	2	1	3	3	161	150
60,001 - 80,000	1	0	4	0	5	0	337	0
80,001 - 100,000	0	0	2	4	2	4	172	359
100,001 - 150,000	0	0	2	0	2	0	215	0
Adjustment to previous year's estimate							0	(1)
Total	81	92	32	12	113	104	1,705	951

NOTE 37 – PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

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

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

In 2018/19 the Council paid £6.75m (£6.63m in 2017/18) in respect of teachers' pension costs, which represented 16.10% (16.07% in 2017/18) of teachers' pensionable pay. In addition the Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms for the teachers' scheme. In 2018/19 these amounted to £1.26m (£1.54m in 2017/18) representing 3.01% (3.74% in 2017/18) of teachers' pensionable pay. These costs are accounted for on a defined benefits basis and are included in Note 38.

NOTE 38 – PENSION COSTS

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

Gwynedd Council participates in two post-employment schemes:

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

The Gwynedd Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pensions Committee of Gwynedd Council. Policy is determined in accordance with the Local Government Pensions Scheme Regulations. In the past the investment managers of the fund have been appointed by the Gwynedd Pension Fund Committee. As the investments are transferred to the Wales Pension Partnership (WPP) the managers will be appointed by the partnership.

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

Transactions Relating to Post-employment Benefits

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

NOTE 38 – PENSION COSTS (continued)

Change in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liability	Period ended 31 March 2018			Period ended 31 March 2019		
	Assets	Liabilities	Net (liability) /asset	Assets	Liabilities	Net (liability) /asset
	£'000	£'000	£'000	£'000	£'000	£'000
Fair Value of Plan Assets	649,714	0	649,714	682,876		682,876
Present Value of Funded Liabilities	0	(856,715)	(856,715)	0	(882,416)	(882,416)
Present Value of Unfunded Liabilities	0	(28,412)	(28,412)	0	(27,441)	(27,441)
Opening Position at 1 April	649,714	(885,127)	(235,413)	682,876	(909,857)	(226,981)
Service Cost						
Current Service Cost*	0	(34,926)	(34,926)	0	(36,511)	(36,511)
Past Service Costs (including curtailments)	0	(594)	(594)	0	(141)	(141)
Total Service Cost	0	(35,520)	(35,520)	0	(36,652)	(36,652)
Net interest						
Interest Income on Plan Assets	17,021	0	17,021	18,464	0	18,464
Interest Cost on Defined Benefit Obligation	0	(23,258)	(23,258)	0	(24,827)	(24,827)
Total Net Interest	17,021	(23,258)	(6,237)	18,464	(24,827)	(6,363)
Total Defined Benefit Cost Recognised in Profit/(Loss)	17,021	(58,778)	(41,757)	18,464	(61,479)	(43,015)
Cash flows						
Plan participants' contributions	5,269	(5,269)	0	5,701	(5,701)	0
Employer contributions	24,531	0	24,531	17,158	0	17,158
Contributions in respect of unfunded benefits	1,695	0	1,695	1,703	0	1,703
Benefits Paid	(18,937)	18,937	0	(19,939)	19,939	0
Unfunded Benefits Paid	(1,695)	1,695	0	(1,703)	1,703	0
Expected Closing Position	677,598	(928,542)	(250,944)	704,260	(955,395)	(251,135)
Remeasurements						
Change in demographic assumptions	0	0	0	0	0	0
Change in financial assumptions	0	18,801	18,801	0	(84,177)	(84,177)
Other experience	0	(116)	(116)	0	(937)	(937)
Return on Assets excluding amounts included in net interest	5,278	0	5,278	37,735	0	37,735
Total remeasurements recognised in Other Comprehensive Income (OCI)	5,278	18,685	23,963	37,735	(85,114)	(47,379)
Fair Value of Plan Assets	682,876	0	682,876	741,995	0	741,995
Present Value of Funded Liabilities	0	(882,416)	(882,416)	0	(1,012,703)	(1,012,703)
Present Value of Unfunded Liabilities**	0	(27,441)	(27,441)	0	(27,806)	(27,806)
Closing Position at 31 March	682,876	(909,857)	(226,981)	741,995	(1,040,509)	(298,514)

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

** This liability comprises approximately £10,432,000 in respect of LGPS unfunded pensions and £17,374,000 in respect of Teachers' unfunded pensions. For unfunded liabilities as at 31 March 2019, it is assumed that all unfunded pensions are payable for the remainder of the member's life. It is further assumed that 90% of pensioners are married (or cohabiting) at death and that their spouse (cohabitee) will receive a pension of 50% of the member's pension as at the date of the member's death.

NOTE 38 – PENSION COSTS (continued)

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

The actuary has provided a detailed breakdown of Fund assets in accordance with the requirements of IAS19. This analysis distinguishes between the nature and risk of those assets, and to further break them down between those with a quoted price in an active market, and those that are not quoted. The asset split for Gwynedd Council is assumed to be in the same proportion to the Fund's asset allocation as at 31 December 2018. The split is shown in the table below. The actuary estimates the bid value of the Fund's assets as at 31 March 2019 to be £2.090m based on information provided by the administering authority and allowing for index returns where necessary.

Fair Value of Employer Assets

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

Asset Category	At 31 March 2018				At 31 March 2019			
	Quoted Prices in Active Markets	Prices not quoted in Active Markets	Total		Quoted Prices in Active Markets	Prices not quoted in Active Markets	Total	
	£'000	£'000	£'000	%	£'000	£'000	£'000	%
Equity Securities								
Consumer	20,282	0	20,282	3	18,465	0	18,465	3
Manufacturing	22,403	0	22,403	3	22,213	0	22,213	3
Energy and Utilities	2,139	0	2,139	0	0	0	0	0
Financial Institutions	12,080	0	12,080	2	8,659	0	8,659	1
Health and Care	34,675	0	34,675	5	47,442	0	47,442	6
Information Technology	25,962	0	25,962	4	12,980	0	12,980	2
Other	2,355	0	2,355	0	25,194	0	25,194	3
Private Equity								
All	0	26,556	26,556	4	0	40,280	40,280	5
Debt Securities								
Other	0	99,269	99,269	14	0	107,817	107,817	15
Real Estate								
UK Property	15,953	36,155	52,108	8	23,594	44,250	67,844	9
Overseas Property	0	630	630	0	0	393	393	0
Investment Funds and Unit Trusts								
Equities	138,639	208,134	346,773	51	144,365	212,650	357,015	48
Bonds	0	0	0	0	0	0	0	0
Infrastructure	0	11,927	11,927	2	0	14,607	14,607	2
Cash and Cash Equivalents								
All	25,717	0	25,717	4	19,086		19,086	3
Total	300,205	382,671	682,876	100	321,998	419,997	741,995	100

Basis for estimating assets and liabilities

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

NOTE 38 – PENSION COSTS (continued)

Both the Gwynedd Pension Scheme and Discretionary Benefits liabilities have been estimated by Hymans Robertson, an independent firm of actuaries. Estimates for the Gwynedd Pension Fund were based on the latest full valuation of the scheme as at 31 March 2016. The significant assumptions used by the actuary in the following table have had a significant impact on the values of the assets and liabilities as follows:-

	31 March 2018	31 March 2019
Financial Assumptions	% p.a.	% p.a.
Pensions Increase Rate	2.4	2.5
Salary Increase Rate*	2.4	2.5
Inflation Rate	2.4	2.5
Discount Rate	2.7	2.4
Long-term expected rate of return on all categories of assets	2.7	2.4
Take-up option to convert annual pension into retirement lump sum		
for pre-April 2008 service	50	50
for post-April 2008 service	75	75
Mortality assumptions	Years	Years
Longevity at 65 for current pensioners		
Men	22.0	22.0
Women	24.2	24.2
Longevity at 65 for future pensioners		
Men	24.0	24.0
Women	26.4	26.4

*For unfunded liabilities as at 31 March 2019, it is assumed that all unfunded pensions are payable for the remainder of the member's life. It is further assumed that 90% of pensioners are married (or cohabiting) at death and that their spouse (cohabitee) will receive a pension of 50% of the member's pension at the date of the member's death.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. In order to quantify the impact of a change in the financial assumptions used, the actuary has calculated and compared the value of the scheme liabilities as at 31 March 2019 on varying bases. The approach taken is consistent with that adopted to derive the IAS19 figures provided in this note.

To quantify the uncertainty around life expectancy, the actuary has calculated the difference in cost to the Council of a one-year increase in life expectancy. For sensitivity purposes this is assumed to be an increase in the cost of benefits of broadly 3%. In practice the actual cost of a one-year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages). The figures in the table below have been derived based on the membership profile of the Council as at 31 March 2016, the date of the most recent actuarial valuation. The approach taken in preparing the sensitivity analysis shown is consistent with that adopted in the previous year.

NOTE 38 – PENSION COSTS (continued)

Impact on the Defined Benefit Obligation in the Scheme		
Change in assumption	Approximate increase to Defined Benefit Obligation	Approximate monetary amount
	31 March 2019	31 March 2019
	%	£'000
0.5% decrease in real discount rate	11	117,272
0.5% increase in the salary increase rate	2	20,412
0.5% increase in the pension increase rate	9	94,705

The principal demographic assumption is the longevity assumption (i.e. member life expectancy). For sensitivity purposes, we estimate that a one-year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3-5%. In practice the actual cost of a one-year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply to younger or older ages).

Impact on the Council's Cash Flows

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

The contributions paid by the Council are set by the Fund Actuary at each triennial valuation (the most recent being as at 31 March 2016), or at any other time as instructed to do so by the Administering Authority. The contributions payable over the period to 31 March 2020 are set out in the Rates and Adjustments certificate. For further details on the approach adopted to set contribution rates for the Council, please refer to the 2016 actuarial report dated 31 March 2017.

Information about the Defined Benefit Obligation

	Liability Split		Weighted Average Duration
	31 March 2019		
	£'000	%	
Active Members	593,673	58.6	24.7
Deferred Members	152,899	15.1	25.3
Pensioner Members	266,131	26.3	12.0
Total	1,012,703	100.0	19.6

The above figures are for the funded obligations only and do not include any unfunded pensioner liabilities. The durations are effective at the previous formal valuation as at 31 March 2016.

Impact in Future Years

The total contributions expected to be made to the Local Government Pensions Scheme by the Council in the year to 31 March 2020 are £16.9m.

In April 2017, Gwynedd Council made a payment of £8.627m to the Gwynedd Pension Fund to cover the fixed element of the employer contributions for the period 2017/18 to 2019/20. By making this payment, the Council benefited from a lower contribution rate than would have otherwise been calculated.

As the Actuary's report is based on estimates and due to timing issues, an adjustment of £1,490,826 has been made in 2018/19 (£1,632,772 in 2017/18) to bring the deficit in the Scheme based on the Actuarial figures in line with the liability related to the defined benefit pension scheme in the Balance Sheet. This variance has been treated as

NOTE 38 – PENSION COSTS (continued)

Actuarial Gains and Losses on Pension Assets and Liabilities and therefore has been included in the Liability related to the defined benefit pension schemes in the Balance Sheet.

McCloud Legal Judgement

Our Actuary has advised that it is too early to know what the likely impact may be on LGPS members' benefits and therefore no allowance has been made within employer's 31 March 2019 IAS19 reports for the potential outcome of this judgement. There is uncertainty regarding the judgement with the Government awaiting news of its right to appeal.

NOTE 39 – CONTINGENT LIABILITIES

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

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

- The capping and aftercare requirements for the Authority's landfill sites – the provision contained in the accounts is based on existing and known circumstances, in addition to relevant forecasts. However, the actual final cost may differ from the current estimated future cost.
- This Authority is exposed to a potential insurance liability relating to the insurance arrangements of its predecessor authorities, being Gwynedd County Council, Arfon Borough Council, Dwyfor District Council, and Meirionnydd District Council, and the closure of the Municipal Mutual Insurance (MMI) Fund on 30 September 1992.

MMI made a scheme of arrangement with its creditors, by which, if MMI had insufficient funds to meet future claims, a claw-back clause would be triggered (i.e. Scheme of Arrangements) which could affect claims paid since 1992/93. On 13 November 2012, the directors of the Company concluded that the terms of the Scheme of Arrangement should be triggered and served notice on the Scheme Administrator and the Company to that effect. The decision is irrevocable. An initial levy of 15% of the payments made since 30 September 1992 was paid during 2013/14, and a further 10% was paid in 2016/17.

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

NOTE 40 – TRUSTS

The Council acts as sole trustee for 172 bequests such as school prize funds, and comforts and improvements funds for numerous Council Establishments. The largest fund, the Welsh Church Fund, has a completely separate accounting ledger, whereas, the Council holds the property for 171 of these bequests but makes no decision on the funds use. In every case, the funds do not represent the assets of the Council and therefore they have not been included in the Balance Sheet.

The total balance of the 171 bequests derecognised from the Council's Balance Sheet at 31 March 2019 was £972,101 (£875,560 on 31 March 2018). The funds are fully invested to generate income.

The largest bequests, the Welsh Church Fund and FMG Morgan Trust Fund, are detailed in appendices A and B of these accounts.

NOTE 41 – SERVICE CONCESSION ARRANGEMENTS

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

The assets used to provide the service are recognised on the Council’s Balance Sheet. The value of the related assets was £3.5m as at 31 March 2019 (£3.7m as at 31 March 2018). The Council makes an agreed payment (gate fee) each year based on a minimum amount of tonnage which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year. The Council has the right to increase the amount of tonnages over the agreed 7,500 tons to a maximum of 11,000 tons, and will pay a reduced gate fee for anything over 7,500 tons.

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Total
	£’000	£’000	£’000	£’000
Paid in 2018/19	498	142	123	763
Payable in 2019/20	498	151	114	763
Payable within 2 to 5 years	1,991	703	357	3,051
Payable within 6 to 10 years	2,198	997	174	3,369
Payable within 11 to 15 years	0	0	0	0
Total	5,185	1,993	768	7,946

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

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

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

	2018/19	
	Lease Liability	Deferred Income
	£’000	£’000
Balance outstanding at 1 April 2018	(1,993)	(1,518)
Repayment of principal during the year	142	0
Release of deferred income	0	145
Balance outstanding at 31 March 2019	(1,851)	(1,373)

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

NOTE 42 – JOINT OPERATIONS AND JOINT COMMITTEES

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

During the year 2018/19, Gwynedd Council participated in four joint committees, collaborating in particular areas between local authorities. Separate accounts are required for joint committees. The four joint committees relating to Gwynedd in 2018/19 are:

- Joint Planning Policy Committee
- GwE
- North Wales Residual Waste Treatment Project (NWRWTP)
- North Wales Economic Ambition Board

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

Joint Committee	Host Authority for Finance	Councils and Organisations participating in the Joint Committees	Gwynedd Council's Share %	Value of Gwynedd's Share (Income and Expenditure Account) £'000
Joint Planning Policy Committee	Gwynedd Council	Gwynedd Council Anglesey County Council	50%	242
GwE	Gwynedd Council	Conwy County Borough Council Denbighshire County Council Cyngor Sir y Fflint Gwynedd Council Anglesey County Council Wrexham County Borough Council	17.61%	725
North Wales Residual Waste Treatment Project	Flintshire County Council	Conwy County Borough Council Denbighshire County Council Flintshire County Council Gwynedd Council Anglesey County Council	20%	20
North Wales Economic Ambition Board ¹	Gwynedd Council	Anglesey County Council Gwynedd Council Conwy County Borough Council Denbighshire County Council Flintshire County Council Wrexham County Borough Council Bangor University Grŵp Llandrillo Menai Wrexham Glyndŵr University Coleg Cambria	12.5%	5

¹ The formal start date of the North Wales Economic Ambition Board was the 1 February 2019. Therefore the 2018/19 accounts include the transactions for the period of 2 months from 1 February 2019 to 31 March 2019.

The individual joint committees' accounts are available on the website of the councils who are host authorities for finance.

NOTE 43 – EVENTS AFTER THE BALANCE SHEET DATE

There are no known events after the balance sheet date to report.

THE WELSH CHURCH FUND

2017/18 £'000		2018/19 £'000	£'000
952	Amount of Fund at 1 April		930
	Add - Income during the year:-		
4	Interest on Investments		8
	Less - Expenditure during the year:-		
(22)	Decrease in the land value	0	
(11)	Grants and expenses	(8)	
7	Transferring Gwynedd's (Under) / Overspend	0	
		(8)	
930	Amount of Fund at 31 March		930
	Represented by the following Assets:-		
315	Land and Buildings		0
22	Debtors		24
1,804	Cash in Hand		1,805
2,141			1,829
	Less - Proportion owing to Anglesey and Conwy Councils		
(1,203)			(891)
938			938
	Less - Creditors		
(13)			(18)
	Add - Proportion owing from Anglesey and Conwy Councils		
5			10
930	Total		930

NOTES TO THE ACCOUNTS

1. The Scheme for the administration of the Fund provides that the income be applied for charitable purposes - educational, recreational and social, at the discretion of the Council.
2. The Charities Act 1993 requires that an independent examination of the statement of accounts of the Welsh Church Fund be carried out annually.
3. In 2018/19, the assets relating to Anglesey Council and Conwy Council was distributed in accordance to the 1996 agreement. That agreement stated that Anglesey Council was to keep the land and that the total land and cash would be apportioned based on the following allocation:

Gwynedd	44%
Anglesey	38%
Conwy	18%

FMG MORGAN TRUST FUND

2017/18 £'000		2018/19 £'000
174	Amount of Fund at 1st April	182
	Add - Income during the year	
11	Interest on Assets	13
	Less - Expenditure during the year	
(3)	Grants	(6)
182	Amount of Fund at 31st March	189
	Assets	
144	Investments	145
38	Cash in Hand	44
182		189

NOTES TO THE ACCOUNTS

1. This Fund was established from the residuary estate of the late Mrs. Florence Merthyr Guest Morgan. The income from the Fund was to be applied to aid residents of certain areas of Llŷn for specified purposes.
2. The investments are shown in accounts at cost. The market value of the investments at 31 March 2019 was £351,837 (£347,947 at 31 March 2018).
3. The FMG Morgan Trust Fund is outside the provisions of the Charities Act 1993. No independent examination or audit is therefore required in respect of this trust fund.

Agenda Item 6

MEETING	AUDIT AND GOVERNANCE COMMITTEE
DATE	29 JULY 2019
TITLE	Gwynedd Pension Fund's Final Accounts for the year ended 31 March 2019 and relevant Audit
PURPOSE	To Submit – <ul style="list-style-type: none">• Statement of Accounts post- Audit;• Deloitte's 'ISA260' report ;• Letter of Representation. (Appendix 1)
RECOMMENDATION	To consider and approve the information before authorising the Chairman to certify the letter.
AUTHOR	Dafydd L Edwards, Head of Finance

1. ACCOUNTS FOR 2018/19

Introduce the Pension Fund's statutory Statement of Accounts for the 2018/19 financial year which provides details of the Fund's financial activities during the year which ended on 31 March 2019.

2. AUDIT BY DELOITTE ON BEHALF OF THE AUDITOR GENERAL FOR WALES

These accounts have been audited by Deloitte, and the 'ISA 260' report is presented here by the Auditor General for Wales, detailing Deloitte's main findings.

3. RECOMMENDATION

The Audit and Governance Committee is asked to consider and approve-

- The Pension Fund's Statement of Accounts for 2018/19 (post-audit)
- The 'ISA 260' report by Deloitte in respect of Gwynedd Pension Fund

4. LETTER OF REPRESENTATION

The Chairman of the meeting, together with the Head of Finance, are asked to certify the Letter of Representation (Appendix 1 to Deloitte's report) after the Audit and Governance Committee has approved the above.

5. CERTIFICATE BY THE APPOINTED AUDITOR

After receiving the Letter of Representation duly certified by the Chairman and the Head of Finance, the Auditor General for Wales and the Auditor General for Wales (Adrian Crompton) will issue the certificate on the accounts.

6. PENSION FUND ANNUAL GENERAL MEETING

Gwynedd Pension Fund's Statement of Accounts will also be presented formally to all employers at the Pension Fund's Annual General Meeting on 24 October 2019.

Gwynedd Pension Fund

STATEMENT OF ACCOUNTS 2018/19

Introduction

Gwynedd Pension Fund's accounts and notes for the year 2018/19 are presented here on pages 5 to 38.

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 Authority, Police and Crime Commissioner for North Wales, Cartrefi Conwy, Cartrefi Cymunedol Gwynedd, various town and community councils, and other scheduled and admitted bodies.

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

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 onwards.

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

It 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.

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.

29 September 2019

Audit and Governance Committee Chair

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 2019 and the Pension Fund's income and expenditure for the year then ended.

29 September 2019

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

GWYNEDD PENSION FUND ACCOUNTS

2018/19

THE FUND ACCOUNT

31 March 2018 £'000		Notes	31 March 2019 £'000
Dealings with members, employers and others directly involved in the Fund			
82,302	Contributions	7	67,930
3	Other Income	8	6
4,360	Transfers in from other pension funds	9	3,007
86,665	Total contributions received		70,943
(53,911)	Benefits paid or payable	10	(59,213)
(2,306)	Payments to and on account of leavers	11	(3,128)
(56,217)	Total benefits paid		(62,341)
(13,367)	Management Expenses	12	(14,659)
Returns on Investments			
15,155	Investment income	15	13,964
(252)	Taxes on income		(195)
41,758	Profit and (loss) on disposal of investments and changes in the market value of investments	16	135,660
56,661	Returns on investments net of tax		149,429
73,742	Increase in the net assets available for benefits during the year		143,372
Net assets of the Fund			
1,864,233	At 1 April		1,937,975
73,742	Increase in net assets		143,372
1,937,975			2,081,347

The notes on pages 5 to 38 form part of these Financial Statements

NET ASSETS STATEMENT

31 March 2018 £'000		Notes	31 March 2019 £'000
1,859,635	Investment assets	16	2,054,595
44,352	Cash deposits	16	538
1,903,987	Total Investment assets		2,055,133
(4,690)	Investment liabilities	16	(123)
42,626	Current assets	21	29,226
(3,948)	Current liabilities	22	(2,889)
1,937,975			2,081,347

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 Fund. 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 be able to meet 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 (LGPS) and is administered by Gwynedd Council. The Council is the reporting entity for this Pension Fund. The following description of the Fund is a summary only. For more detail, reference should be made to the Gwynedd Pension Fund Annual Report 2018/19 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 benefit pension scheme administered by Gwynedd Council to provide pensions and other benefits for pensionable employees of Gwynedd Council, two other local authorities and other 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	NMWTRA
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	Llanfairfechan Town Council
Admission Bodies	
Adult Learning Wales (formerly Coleg Harlech WEA)	North Wales Society for the Blind
CAIS	Conwy Voluntary Services
Conwy Citizens Advice	Careers Wales North West
Ynys Môn Citizens Advice (up to 31/03/18)	Mantell Gwynedd
Cwmni Cynnal	Medrwn Môn
Cwmni'r Fran Wen	Menter Môn
Holyhead Joint Burial Committee	
Community Admission Bodies	
Cartrefi Conwy	Cartrefi Cymunedol Gwynedd
Transferee Admission Bodies	
ABM Catering	Caterlink
Superclean I	Dawnus (Went into administration on 15/03/19)

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 2019. 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.

NOTE 1 – DESCRIPTION OF FUND (continued)

d) Benefits

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

	Service pre-1 April 2008	Service post-31 March 2008
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.

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 2018/19 financial year and its position at year-end as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 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 fund's actuary or on receipt if earlier than the due date.

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

b) Transfers to and from other schemes

Transfer 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 9 and 11).

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.

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 9).

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

c) Investment income

i) Interest income

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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, accommodation and other overheads associated with oversight and governance are apportioned to the Fund in accordance with Council policy.

Investment management expenses

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the asset are recognised in the fund account.

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

- i) **Equities**
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) **Pooled investment vehicles**
Pooled investment 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.
- iii) **Private Equity and Infrastructure**
Investments in private equity funds and infrastructure funds which are unquoted listed partnerships are valued based on the fund's share of the net assets in the funds or limited partnerships 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 and infrastructure investments. They are inherently based on forward-looking estimates and judgements involving many factors.

h) Foreign currency transactions

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

i) Cash and cash equivalents

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial liabilities

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

k) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the fund 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

The fair value of private equity investments and infrastructure are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure are valued by the investment managers using guidelines set out by IFRS accounting standards. The value of unquoted securities at 31 March 2019 was £145.6 million (£104.3 million at 31 March 2018).

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 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
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 £145.6 million. There is a risk that this investment may be under or overstated in the accounts.

NOTE 6 – EVENTS AFTER THE REPORTING DATE

On 10 April 2019 EU leaders agreed to an extension of article 50 which may delay the date the UK will exit the EU until 31 October 2019. While there is little agreement on the terms of a final exit deal, it is likely that there will be long-term and short-term ramifications of any decision. The Pension Fund's officers and Committee continue to monitor developments carefully, including the expected impact on the Fund's liabilities and its investment portfolio.

NOTE 7 – CONTRIBUTIONS

By category

2017/18		2018/19
£'000		£'000
15,930	Employees/Members contributions	17,003
	Employers' contributions:	
47,186	• Normal contributions	50,821
19,186	• Deficit recovery contributions	106
66,372	Total employers' contributions	50,927
82,302	Total contributions receivable	67,930

By type of employer

2017/18		2018/19
£'000		£'000
29,868	Gwynedd Council	22,410
48,301	Other scheduled bodies	40,980
1,674	Admission bodies	2,000
1,957	Community admission bodies	1,953
206	Transferee admission bodies	247
242	Resolution bodies	268
54	Closed fund*	72
82,302		67,930

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

NOTE 8 – OTHER INCOME

2017/18		2018/19
£'000		£'000
1	Interest on deferred contributions	1
1	Income from divorce calculations	5
1	Income from transfer value calculations	0
3		6

NOTE 9 – TRANSFERS IN FROM OTHER PENSION FUNDS

2017/18		2018/19
£'000		£'000
4,360	Individual transfers	3,007
4,360		3,007

NOTE 10 - BENEFITS PAID

By category

2017/18		2018/19
£'000		£'000
42,708	Pensions	45,278
9,670	Commutation and lump sum retirement benefits	11,949
1,533	Lump sum death benefits	1,986
53,911		59,213

By type of employer

2017/18		2018/19
£'000		£'000
15,454	Gwynedd Council	16,494
26,173	Other scheduled bodies	30,510
1,615	Admission bodies	1,467
812	Community admission body	963
42	Transferee admission body	61
70	Resolution body	225
9,745	Closed fund	9,493
53,911		59,213

NOTE 11 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2017/18		2018/19
£'000		£'000
	Refunds to members leaving service net of tax	
143	repayments	139
5	Payments for members joining state scheme	2
0	Group Transfers	984
2,158	Individual transfers	2,003
2,306		3,128

The group transfer in 2018/19 was to the North and Mid Wales Trunk Road Agency.

NOTE 12 – MANAGEMENT EXPENSES

2017/18		2018/19
£'000		£'000
1,261	Administrative costs	1,311
12,046	Investment management expenses (Note 14)	13,283
60	Oversight and governance costs	65
13,367		14,659

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

NOTE 13 – ADMINISTRATIVE, OVERSIGHT AND GOVERNANCE COSTS

2017/18		2018/19
£'000		£'000
	Administrative costs	
514	Direct employee costs	504
264	Other direct costs	320
357	Support services, including IT	357
34	External audit fees	35
92	Actuarial fees	95
1,261		1,311
	Oversight and governance costs	
60	Pensions Committee and Local Pension Board	65
1,321		1,376

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 14 – INVESTMENT MANAGEMENT EXPENSES

2017/18		2018/19
£'000		£'000
11,933	Management fees	13,166
50	Custody fees	56
8	Performance monitoring service	13
55	Investment consultancy fees	48
12,046		13,283

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

The investment management expenses in 2017/18 included £22,562 in respect of performance-related fees paid to one of the Fund's investment managers. There are no performance-related fees in 2018/19. 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 15 – INVESTMENT INCOME

2017/18		2018/19
£'000		£'000
7,662	Dividends from equities	6,309
544	Private equity income	1,090
1,201	Infrastructure income	126
5,256	Pooled property investments	6,241
492	Interest on cash deposits	198
15,155	Total before taxes	13,964

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 to minimise the number and costs of exchange transactions.

NOTE 16 – INVESTMENTS

2017/18		2018/19
£'000		£'000
	Investment assets	
337,188	Equities	0
1,412,705	Pooled investment vehicles (PIV)	1,908,982
76,137	Private equity (PIV)	107,218
28,173	Infrastructure (PIV)	38,395
1,854,203		2,054,595
44,352	Cash deposits	538
5,432	Amount receivable from sales of investments	0
1,903,987	Total investment assets	2,055,133
	Investment liabilities	
(4,690)	Amounts payable for purchases	(123)
(4,690)	Total investment liabilities	(123)
1,899,297	Net investment assets	2,055,010

During the year 2018/19 Gwynedd Pension Fund transferred most of the active equities into the two global funds in the Wales Pension Partnership (WPP). Further transfers will be made in the coming years until most of the investments are in the WPP.

Note 16a – Reconciliation of movements in investments and derivatives

2018/19	Market value at 1 April 2018	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2019
	£'000	£'000	£'000	£'000	£'000
Equities	337,188	115,778	(489,524)	36,558	0
Pooled investment vehicles (PIV)	1,412,705	631,601	(216,255)	80,931	1,908,982
Private equity / infrastructure (PIV)	104,310	43,758	(11,401)	8,946	145,613
	<u>1,854,203</u>	<u>791,137</u>	<u>(717,180)</u>	<u>126,435</u>	<u>2,054,595</u>
Cash deposits	44,352			31	538
Amount receivable from sales of investments	5,432				0
Amounts payable for purchases of investments	(4,690)				(123)
Fees within pooled vehicles				9,194	
Net investment assets	1,899,297			135,660	2,055,010

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
Equities	345,284	79,717	(89,912)	2,099	337,188
Pooled investment vehicles (PIV)	1,342,335	153,278	(108,389)	25,481	1,412,705
Private equity / infrastructure (PIV)	110,076	15,913	(27,847)	6,168	104,310
	<u>1,797,695</u>	<u>248,908</u>	<u>(226,148)</u>	<u>33,748</u>	<u>1,854,203</u>
Cash deposits	49,248			188	44,352
Amount receivable from sales of investments	630				5,432
Amounts payable for purchases of investments	(235)				(4,690)
Fees within pooled vehicles				7,822	
Net investment assets	1,847,338			41,758	1,899,297

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 £165,628 (2017/18 £103,937). 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 2018 £'000		31 March 2019 £'000	
337,188	Equities		0
961,611	Pooled Equities (PIV)		1,444,431
292,050	Pooled Fixed Interest (PIV)		285,250
159,044	Pooled property investments (PIV)		179,301
76,137	Private equity (PIV)		107,218
28,173	Infrastructure (PIV)		38,395
1,854,203			2,054,595

Investments analysed by fund manager

Market Value at 31 March 2018			Market Value at 31 March 2019		
£'000	%		£'000	%	
618,768	32.6	BlackRock	656,138	31.9	
384,762	20.3	Fidelity	192,395	9.4	
292,053	15.4	Insight	285,254	13.9	
50,372	2.6	Lothbury	61,073	3.0	
104,310	5.5	Partners Group	145,614	7.1	
18,149	1.0	Threadneedle	20,862	1.0	
48,604	2.5	UBS	50,182	2.4	
382,279	20.1	Veritas	411	0.0	
0	0.0	Wales Pensions Partnership	643,081	31.3	
1,899,297	100.0		2,055,010	100.0	

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

Market Value at 31 March 2018			Market Value at 31 March 2019		
£'000	%		£'000	%	
324,729	15.6	Aquila Life UK Equity Index Fund	324,729	15.6	
0	0	LF Wales PP Global Opportunities Equity Fund	322,200	15.5	
0	0	LF Wales PP Global Opportunities Equity Fund	285,253	15.4	
292,053	15.4	LDI Solutions Plus Bonds	285,251	13.7	
337,295	15.7	Fidelity Institutional Select Global Equity	142,648	7.1	
129,689	15.0	Aquila Life Global Dev Fundamental Fund	139,699	6.7	

Note 16c – Stock lending

The Investment Strategy Statement permits stock lending 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 2018			As at 31 March 2019		
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					
337,188			0		
1,412,705			1,908,982		
76,137			107,218		
28,173			38,395		
	79,923			23,151	
	1,468			0	
	11,019			6,613	
1,854,203	92,410	0	2,054,595	29,764	0
Financial liabilities					
		(8,638)			(3,012)
		(8,638)	0	0	(3,012)
1,854,203	92,410	(8,638)	2,054,595	29,764	(3,012)

Note 17b – Net gains and losses on financial instruments

31 March 2018		31 March 2019	
Fair value		Fair value	
£'000		£'000	
Financial assets			
33,748	Fair value through profit and loss	126,435	
188	Loans and receivables	31	
33,936	Total financial assets	126,466	
Financial liabilities			
0	Fair value through profit and loss	0	
0	Financial liabilities at cost	0	
0	Total financial liabilities	0	
33,936	Net financial assets	126,466	

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 2018			31 March 2019	
Carrying value	Fair value		Carrying value	Fair value
£'000	£'000		£'000	£'000
Financial assets				
1,210,252	1,854,203	Fair value through profit and loss	1,532,175	2,054,595
92,372	92,410	Loans and receivables	29,764	29,764
1,302,624	1,946,613	Total financial assets	1,561,939	2,084,359
Financial liabilities				
(4,675)	(4,690)	Fair value through profit and loss	(123)	(123)
(3,948)	(3,948)	Financial liabilities at cost	(2,889)	(2,889)
(8,623)	(8,638)	Total financial liabilities	(3,012)	(3,012)
1,294,001	1,937,975	Net financial assets	1,558,927	2,081,347

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.

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

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.

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2019	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	0	1,797,728	256,867	2,054,595
Loans and receivables	29,764	0	0	29,764
Total financial assets	29,764	1,797,728	256,867	2,084,359
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(123)	0	(123)
Financial liabilities at cost	(2,889)	0	0	(2,889)
Total financial liabilities	(2,889)	(123)	0	(3,012)
Net financial assets	26,875	1,797,605	256,867	2,081,347

	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	332,498	1,318,419	203,286	1,854,203
Loans and receivables	92,410	0	0	92,410
Total financial assets	424,908	1,318,419	203,286	1,946,613
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(4,690)	0	(4,690)
Financial liabilities at cost	(3,948)	0	0	(3,948)
Total financial liabilities	(3,948)	(4,690)	0	(8,638)
Net financial assets	420,960	1,313,729	203,286	1,937,975

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.

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

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 2018/19 reporting period.

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 2018	31 March 2019
	%	%
UK Equities	16.8	16.6
Global Equities	17.9	16.9
Private Equity	28.3	28.3
Pooled Fixed Income	2.8	3.0
Alternatives (Infrastructure)	20.1	20.1
Property	14.3	14.3
Cash	0.0	0.0
Whole Fund	12.6	12.3

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.

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

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

Asset type	Value as at 31 March 2019 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Pooled Equities	1,444,431	16.8	1,687,566	1,201,297
Pooled Private Equity	107,218	28.3	137,561	76,875
Pooled Fixed Income	285,250	3.0	293,808	276,693
Pooled Alternatives (Infrastructure)	38,395	20.1	46,112	30,678
Pooled Property	179,301	14.3	204,941	153,661
Cash	26,752	0.0	26,752	26,752
Total assets available to pay benefits	2,081,347	12.6*	2,343,597	1,819,098

* 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 2018 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Pooled Equities	1,298,799	17.6	1,527,528	1,070,060
Pooled Private Equity	76,137	28.3	97,684	54,590
Pooled Fixed Income	292,050	2.8	300,227	283,873
Pooled Alternatives (Infrastructure)	28,173	20.1	33,837	22,511
Pooled 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.

Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2019 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 2018 £'000	As at 31 March 2019 £'000
Cash and cash equivalents	37,038	22,614
Cash balances	44,352	538
Pooled Fixed Income	292,050	285,251
Total	373,440	308,403

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

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 2019	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	22,614	226	(226)
Cash balances	538	5	(5)
Pooled Fixed Income *	285,251	34,230	(34,230)
Total change in assets available	308,403	34,461	(34,461)

* 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 2018	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	37,038	370	(370)
Cash balances	44,352	444	(444)
Pooled Fixed Income *	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.

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 0.79% amounting to interest of £166,303 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, (€256 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 2019 and as at the previous year end:

Currency exposure - asset type	As at	As at
	31 March 2018	31 March 2019
	£'000	£'000
Overseas and Global Equities	958,275	1,119,701
Global Pooled Fixed Income	292,050	285,250
Overseas Alternatives (Pooled Private Equity and Pooled Infrastructure)	104,310	145,613
Pooled Overseas Property	1,808	1,000
Overseas Currency	1,468	0
Total overseas assets	1,357,911	1,551,564

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 2019. The equivalent rate for the year ended 31 March 2018 was 10%. This analysis assumes that all other variables, in particular interest rates, remain constant.

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

The tables below show a breakdown of the Fund's exposure to individual currencies as at 31 March 2019 and at the end of the previous financial year:

Currency exposure - by asset type	Carrying amount as at 31 March 2019	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	1,119,701	1,231,671	1,007,731
Global Pooled Fixed Income	285,250	313,776	256,726
Overseas Alternatives (Pooled Private Equity and infrastructure)	145,613	160,174	131,052
Overseas Property	1,000	1,100	900
Total change in assets available	1,551,564	1,706,721	1,396,409

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 Pooled Fixed Income	292,050	321,255	262,845
Overseas Alternatives (Pooled Private Equity and infrastructure)	104,310	114,741	93,879
Pooled Overseas Property	1,808	1,989	1,628
Overseas Currency	1,468	0	0
Total change in assets available	1,357,911	1,492,088	1,220,800

b) Credit risk

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

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

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

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

From 17 January 2019

Investment Manager	Percentage of Portfolio
BlackRock	29.5%
Fidelity	10.0%
Wales Pension Partnership	28.0%
Insight	15.0%
Property (UBS, Threadneedle, Lothbury, BlackRock)	10.0%
Partners Group	7.5%

To 16 January 2019

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 2019 was £22.6m (£37.0m at 31 March 2018).

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.

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2019 the value of illiquid assets was £256m, which represented 12.3% of the total Fund assets (31 March 2018: £202m, which represented 10.5% 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 2019 are due within one year as was the case at 31 March 2018.

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.

NOTE 19 – FUNDING ARRANGEMENTS (continued)

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.

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:

NOTE 19 – FUNDING ARRANGEMENTS (continued)

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 but there have been strong asset returns over the 3 years. Both events are of broadly similar magnitude with regards to the impact on the funding position.

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 2019 are shown below:

	31 March 2018	31 March 2019
Assumptions	£m	£m
Active members	1,378	1,674
Salary increase rate	385	434
Discount Rate	718	722
Total	2,481	2,830

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:

	31 March 2018	31 March 2019
Assumption	%	%
Inflation/pension increase rate	2.4	2.5
Salary increase rate	2.4	2.5
Discount rate	2.7	2.4

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 the HMRC limit for pre-April 2008 service and 75% of the maximum tax-free cash up to the HMRC limit 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 2019	Approximate % increase to liabilities	Approximate monetary amount
	%	£m
0.5% p.a. increase in the pension increase rate	9	245
0.5% p.a. increase in the salary increase rate	2	59
0.5% p.a. decrease in the discount rate	11	325

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

31 March 2018 £'000		31 March 2019 £'000
842	Contributions due - employees	1,227
2,508	Contributions due – employers	3,682
2,238	Sundry debtors	1,704
5,588	Total debtors	6,613
37,038	Cash	22,613
42,626	Total	29,226

NOTE 22 – CURRENT LIABILITIES

31 March 2018 £'000		31 March 2019 £'000
2,370	Sundry creditors	1,922
1,578	Benefits payable	967
3,948	Total	2,889

NOTE 23 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

The market value of the funds are stated below:

	Market value at 31 March 2018 £'000	Market value at 31 March 2019 £'000
Clerical Medical	3,506	3,851
Equitable Life	226	203
Standard Life	70	61
Total	3,802	4,115

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

	2017/2018 £'000	2018/2019 £'000
Clerical Medical	591	613
Standard Life	13	14
Total	604	627

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 £1,152,315 (£1,056,813 in 2017/18) 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 £22.41m to the Fund in 2018/19 (£29.87m in 2017/18). At the end of the year the Council owed £1.921m to the Fund which was primarily in respect of contributions for March 2019 and the Fund owed £1.02m to the council 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 2018/19, the Fund received interest of £166,303 (£127,666 in 2017/18) from Gwynedd Council.

Governance

There were two members of the Pensions Committee who were in receipt of pension benefits from the Gwynedd Pension Fund during 2018/19 (committee members J.B. Hughes and P. Jenkins). In addition, committee members S.W. Churchman, D. Cowans, S. Glyn, J.B. Hughes, A.W. Jones, P. Read and R.W. Williams are active members of the Pension Fund.

Two members of the Pension Board were in receipt of pension benefits from the Gwynedd Pension Fund during 2018/19 (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	Commitment at 31 March 2018	Commitment at 31 March 2019
	€'000	€'000	€'000
P.G. Direct 2006	20,000	776	776
P.G. Global Value 2006	50,000	3,477	3,477
P.G. Secondary 2008	15,000	1,960	1,960
P.G. Global Value 2011	15,000	2,712	2,096
P.G. Global Infrastructure 2012	40,000	12,133	8,147
P.G. Direct 2012	12,000	1,181	1,181
P.G. Global Value 2014	12,000	4,109	2,302
P.G. Direct Equity 2016	50,000	29,374	10,348
P.G. Global Value 2017	42,000	0	33,677
Total Euros	256,000	55,722	63,964
	\$'000	\$'000	\$'000
P.G. Emerging Markets 2011	7,000	1,225	1,082
P.G. Secondary 2015	38,000	29,150	24,692
P.G. Direct Infrastructure 2015	43,600	30,896	23,798
Total Dollars	88,600	61,271	49,572

NOTE 25 - COMMITMENTS UNDER INVESTMENT CONTRACTS (continued)

'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 – CONTINGENT LIABILITIES

There are no contingent liabilities identified in accordance with the following explanations:

The McCloud Case

When the LGPS benefit structure was reformed in 2014, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme, by effectively giving them the better of the benefits from the old and new schemes.

In December 2018 the Court of Appeal upheld a ruling ("McCloud/Sargeant") that similar transitional protections that protected older judges and firefighters from the public sector pension schemes changes in 2015 were unlawful on the grounds of age discrimination. The UK Government requested leave to appeal to the Supreme Court but the appeal was denied on the 27 June 2019. The implications of the Supreme Court's decision are expected to apply to the LGPS (and other public service schemes) as well.

As a result benefits accrued from 2014 may need to be enhanced so that all members, regardless of age, will benefit from the underpin. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that many more members would see an enhanced benefit rather than just those currently subject to these protections. In this situation, there would likely be a retrospective increase to members' benefits, which in turn would give rise to a past service cost for the Fund employers when the outcome is known.

Quantifying this impact is very difficult because it will depend on the compensation awarded, members' future salary increases, length of service and retirement age, and whether (and when) members withdraw from active service. Salary increases in particular can vary significantly from year to year and from member to member depending on factors such as budget restraint, job performance and career progression.

The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. The salary increase assumption used by GAD for its estimate was CPI + 1.5% pa. A full description of the data, methodology and assumptions underlying these

estimates is given in GAD's paper, dated 10 June 2019.

At the 2016 valuation, the long-term salary increase assumption adopted by the Gwynedd Pension Fund was set equal to CPI. This means that both final salary and CARE benefits are assumed to revalue in line with CPI. This in turn, due to the more generous accrual rate applied to CARE benefits, means that the underpin would not 'bite' for any members, as final salary benefits increasing in line with CPI would not exceed the value of CARE benefits accruing over the same period. As such, for the purposes of the 2018/19 pension accounting report, there is no additional liability to be recognised and the McCloud case would have no impact on the stated liabilities.

Guaranteed Minimum Pension Equalisation

Guaranteed minimum pension (GMP) accrued in the LGPS from 6 April 1978 to 5 April 1997. In broad terms, the GMP represents the minimum pension an occupational pension scheme must provide a scheme member as an alternative to the State Earnings Related Pension Scheme (SERPS).

GMP's are inherently unequal due to a number of factors, including the differing retirement ages for men (age 65) and women (age 60) and female GMP's accruing at a higher rate. While this can result in differences in GMP Values, what was deemed to matter more is what the members receive in total from the LGPS and the state and whether that leads to inequality. In the past responsibility for paying annual pension increases was divided between the LGPS fund and the state. However, the introduction of the new Single State Pension in April 2016 brought uncertainty over the ongoing indexation of the GMP amount. This led to the Government announcing an interim solution for members reaching State Pension Age between 6 April 2016 and 5 December 2018, which was later extended to at least 5 April 2021, which involves the LGPS fund paying for everything i.e. both initial pension and all increases.

Hymans Robertson, the Fund's Actuary, have said that given the interim solution has been extended to 5 April 2021 they intend to allow for the Government's preferred long term (i.e. post 2021) solution of converting GMP to scheme pension in the 31 March 2019 valuations. This will lead to an increase in liabilities as a result of the scheme paying full GMP increases for all members with a SPA after 2016. They estimate that the impact of converting GMP to scheme pension is likely to be immaterial to the accounts.

NOTE 28 – 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 2019.

NOTE 29 - 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:

Investment Strategy Statement

Funding Strategy Statement

Governance Policy and Governance Compliance Statement

Communications Policy Statement

Copies can be obtained from the Pension Fund website www.gwynedd-pensionfund.org.uk on the investment page or by contacting Mrs Caroline Roberts on 01286 679128.



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – Gwynedd Pension Fund

Audit year: 2018/19

Date issued: 29 July 2019

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

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000.

The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at

infoofficer@audit.wales.

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

This document is also available in Welsh.

Contents

The Auditor General intends to issue **an unqualified** audit report on your financial statements. There are no material issues to report to you prior to their approval.

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Summary report

Introduction

- 1 The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Gwynedd Pension Fund at 31 March 2019 and its income and expenditure for the year then ended.
- 2 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
- 3 The quantitative levels at which we judge such misstatements to be material for Gwynedd Pension Fund are £20,800k for income and expenditure items. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
- 4 International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
- 5 This report sets out for consideration the matters arising from the audit of the financial statements of Gwynedd Pension Fund, for 2018-19 that require reporting under ISA 260.

Status of the audit

- 6 We have now substantially completed the audit work, all outstanding areas of testing are detailed below:
 - a. Completeness testing of journals and purchases
 - b. Review of the annual report for consistency and the disclosure of GMPs /McCloud within the annual report
 - c. Final quality assurance procedures
 - d. Receipt of signed management representation letter
- 7 We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with Dafydd L. Edwards (Head of Finance) during our close meeting on 16 July 2019.

Proposed audit report

- 8 It is the Auditor General's intention to issue an **unqualified audit report** on the financial statements subject to satisfactory resolution of outstanding matters above and once you have provided us with a Letter of Representation based on the one set out in [Appendix 1](#).
- 9 The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

The Pension Committee has received initial indications for the 31 March 2019 valuation that the impact of GMP Equalisation will be approx. £14.5m. The estimate is not material and has not yet been split between past and future costs. As a result, we have included the £14.5m in the uncorrected misstatement schedule as the 'worst case' provision required. We would expect the past amount to be much lower than this total figure.

Corrected misstatements

There were no corrected misstatements in the financial statements. The investment note disclosures were reanalysed this year in line with our prior year finding as detailed in [Appendix 3](#).

Significant Risks

Financial audit risk	Proposed audit response
Management Override of Controls. The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].	My audit team performed the following tests to address the significant risk around Management Override of Controls: <ul style="list-style-type: none">• using enhanced data analytics to analyse the whole journal population for characteristics of interest and then substantively test the appropriateness of the journals identified;• reviewed the design and implementation of controls over journal entries to the financial ledger and accounting estimates;• reviewed accounting estimates for evidence of bias; and• evaluated the rationale for any significant transactions outside the normal course of

Financial audit risk	Proposed audit response
	<p>business including those with related parties.</p> <p>No issues were noted other than the control observation in respect of a lack of review of journal entries (as noted in prior year reports).</p>

10 Carmarthenshire County Council (CCC) is the host authority for the Wales Pension Partnership joint committee (WPP). Gwynedd Pension Fund (GPF) (administered by Gwynedd County Council) has transferred funds to the WPP Global Opportunities and Global Growth sub-funds in January 2019. The audit team based at CCC has provided audit assurance to the audit teams at the other pension funds in Wales. They have:

- obtained, reviewed and drawn conclusions on the control assurance reports for both the fund operator, relevant fund managers and the custodian for the funds;
- provided confirmation of the year end balances in each equity sub fund; and
- reviewed the committee disclosure note that has been provided to all individual administering bodies along with confirmation that the disclosure note is consistent with the Committee's 2018-19 financial statements.

No issues were noted with their testing.

Other significant issues arising from the audit

11 In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year:

- We have no concerns about the qualitative aspects of your accounting practices and financial reporting.
- We did not encounter any significant difficulties during the audit.
- There were no significant matters discussed and corresponded upon with management which we need to report to you.
- There are no other matters significant to the oversight of the financial reporting process that we need to report to you.
- We did not identify any material weaknesses in your internal controls that we have not reported to you already.
- There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.

Recommendations arising from our 2018/19 financial audit work

- 12 The recommendations arising from our financial audit work are set out in Appendix 3. Management has responded to them and we will follow up progress on them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

Independence and objectivity

- 13 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 14 We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and Gwynedd Pension Fund that we consider to bear on our objectivity and independence.

Appendix 1

Draft Letter of Representation

Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

29 July 2019

Representations regarding the 2019 financial statements

This letter is provided in connection with your audit of the financial statements of Gwynedd Pension Fund for the year ended 31 March 2019 for the purpose of expressing an opinion on their truth and fairness and their proper preparation. We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you:

Management representations

Responsibilities

We have fulfilled our responsibilities for:

1. The preparation of the financial statements in accordance with legislative requirements and Code of Practice on Local Authority Accounting in the United Kingdom 2018/19; in particular the financial statements give a true and fair view in accordance therewith.
2. The design, implementation, maintenance and review of internal control to prevent and detect fraud and error.
3. We confirm that the Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Fund should change.
4. We have not made any reports to The Pensions Regulator nor are we aware of any such reports having been made by any of our advisors. We confirm that we are not aware of any late contributions or breaches of the payment schedule/schedule of contributions that have arisen which we considered did not require reporting. We also confirm that we are not aware of any other matters which have arisen that would require a report to The Pensions Regulator.
5. We have drawn to your attention all correspondence and notes of meetings with regulators.

6. We confirm that, under section 27 of the Pensions Act 1995, no person charged with governance of the Fund is connected with, or is an associate of Wales Audit Office, which would render Wales Audit Office ineligible to act as auditor to the Fund.
7. There have been no changes to the Fund rules during the year and up to the current date.

Information provided

We have provided you with:

Full access to:

1. all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
2. additional information that you have requested from us for the purpose of the audit; and unrestricted access to staff from whom you determined it necessary to obtain audit evidence;
3. The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
4. Our knowledge of fraud or suspected fraud that we are aware of and that affects Gwynedd Pension Fund and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
5. Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
6. Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
7. The identity of all related parties and all the related party relationships and transactions of which we are aware.
8. The Membership data contained within the annual report is accurate and a true and fair view of the Pension Fund's membership numbers.

Financial statement representations

9. All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.
10. Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.
11. Related party relationships and transactions have been appropriately accounted for and disclosed.

12. All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.
13. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.
14. The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in aggregate, to the financial statements taken as a whole.

Representations by Gwynedd Audit & Governance Committee

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by Gwynedd Audit & Governance Committee on 29 July 2019.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

.....

Dafydd L Edwards
 Head of Finance
 Gwynedd Council

Date:

.....

Signed by:

.....

Councillor John Brynmor Hughes
 Chairman
 Audit & Governance Committee

Date:

.....

Appendix 2

Proposed independent auditor's report of the Auditor General for Wales to the members of Gwynedd Council as administering authority for Gwynedd Pension Fund

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Gwynedd Pension Fund for the year ended 31 March 2019 under the Public Audit (Wales) Act 2004. Gwynedd Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2019 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2019.

Basis for opinion

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

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of

accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Report on other requirements

Matters on which I report by exception

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

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

Certificate of completion of audit

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

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Anthony J Barrett
For and on behalf of the Auditor General for Wales

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Recommendations arising from our 2018-19 financial audit work

We have no recommendations arising from our 2018-19 audit.

Follow up of recommendations arising from our 2017-18 financial audit work

1. Market value reconciliation -Insight	
Findings	<p>On review of the Insight 2017/18 report, we identified £79,950,000 of sales and £79,950,000 of purchases which should have been included within the financial statements. These are liquidity funds transactions which we are buying and selling units in a fund and these are genuine investment transactions.</p> <p>We also identified a cash account - IS 2497 totalling £20,908 at the year end, which had not been included within the financial statements.</p>
Priority	Medium
Recommendation	We recommend that a full cash reconciliation is completed quarterly to ensure all of these items are identified and accounted for going forward
Management response	<p>The £79.950m has been amended in the accounts</p> <p>The £20,908 cash is held within the Insight Fund so does not appear as a separate amount in the accounts. We have the overall value of the fund in our accounts.</p>
Implementation date	5/09/18
2018-19 Finding	No issues noted in the current year.
Status:	Closed

2. Monthly contributions reconciliation	
Findings	<p>During our review of the controls around the accuracy & completeness of contributions data received from the Fund's Employers, we noted that although the contributions received are recalculated each month, these are based purely on a monthly contribution return completed by the employer, which is not currently checked to any underlying data. The Fund has no comfort that the figures within these returns are accurate or complete.</p> <p>Though the responsibility for this does lie with the Employer, the Fund should be able to obtain a greater degree of comfort over the accuracy and completeness of contributions. Currently there is no way of knowing how many members it relates to, any changes etc.</p>
Priority	High

Recommendation	On enquiry it was confirmed that the fund administering authority's management have introduced a 'compliance checklist', which they require employers' statutory finance officers, or equivalent, to sign, confirming that various processes and checks have taken place (contributions in line with % bandings, starters, leavers, correct pay details etc.) and that information and contributions passed over to the fund are accurate and in line with LGPS regulations. This provides some additional comfort, though still does not give the Fund access to the detailed data. We recommend that the checklist is used in each instance going forwards and if possible, further checks performed to ensure that the underlying data is complete and accurate. We understand management are making the checklist compulsory from next year, where data integrity is not supported by 'i-Connect' on-line interfaces.
Management response	The Fund relies on the reports from the employers and the signed compliance checklist will be helpful. The Accounts team do not have the resources to reconcile back to the payroll of individual employers.
Implementation date	March 2019
2018-19 Finding	Finding re-raised
Status:	Open

3. Late monthly contributions

Findings	On our review of the key monthly controls around the receipt of contributions, we noted that if contributions are not received by their due date the pension accountant team will chase the members. On further inquiry, we confirmed that due to short staffing, the timeliness of contributions during 17/18 was not monitored at all.
Priority	Medium
Recommendation	We would recommend that contribution monitoring is resumed. Additionally, we would recommend that a process is put in place, to help mitigate late contributions before they happen, rather than purely chasing those that are already late.
Management response	Due to the staff absences over the last two years this was not possible. With a complete team this will be possible in 2018/19
Implementation date	March 2018
2018-19 Finding	This has been done on a monthly basis in 2018/19.
Status:	Closed

4. Fair Value Hierarchy disclosure

Findings	On review of the fair value hierarchy categorisations of the Fund's financial instruments, we identified that the UBS Triton Property Trust Fund, the UBS (Lux) Core Real Estate –Euro fund and the Lothbury Property Trust fund should all be held at Level 3 due to redemption restrictions in place, however were initially held at level 2.
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	There were also several funds held at Level 1 that should have been at Level 2 as they are not exchange traded.
Priority	Low
Recommendation	We recommend that these are reviewed carefully going forward to ensure that the categorisation is appropriate for all funds.
Management response	This has been amended in the accounts.
Implementation date	N/A
2018-19 Finding	No issues noted in current year.
Status:	Closed

5. Investment note disclosures

Findings	<p>On review of the investment and investment income notes in the financial statements, we identified that they are not currently being analysed in-line with the current requirements of IFRS and CIPFA. The analysis should split the investments into these headings:</p> <ul style="list-style-type: none"> - Bonds (analysed between public sector and other) - Equities (including convertible shares) - Pooled investment vehicles (analysed between unit trusts, unitised insurance policies and managed funds, showing separately those funds invested in property) - Property - Cash deposits - Other investment balances <p>Further to this, the 3 lines on the financial statements shown below, should be grouped together in the fund account and called "Other income"</p> <ul style="list-style-type: none"> - Interest on deferred contributions - Income from divorce calculations - Income from transfer value calculations
Priority	Low
Recommendation	We recommend that the investment and investment income balances are reanalysed in line with the above categories.
Management response	Due to the staff absences over the last 16 months this was not possible. We will reanalyse in the 2018/19 accounts.
Implementation date	N/A
2018-19 Finding	Notes were analysed correctly in the current year.
Status:	Closed

The below findings are the open findings from the 2016/2017 audit:

6. Membership Numbers

Recommendation	<p>It is recommended that the Pensions Manager develops an Altair report that can count the total (and identify individual) retrospective changes to membership data.</p> <p>In addition, it is recommended that the Pension Database Administrator runs a data extract of Membership data on, or as close to 31 March as possible.</p> <p>It is also recommended that the Pensions Manager performs a reconciliation between prior-year reported membership numbers and revised membership numbers.</p>
Priority	Medium
2017-18 Finding	<p>We identified that the Pensions Manager could not supply a membership number reconciliation between 2016-17 and 2017-18.</p> <p>The reconciliation should show movements of members in the financial year and retrospective changes that revised any prior-year figures. This reconciliation would allow us to audit the movement of member numbers, which we have not been able to do.</p>
Management response	<p>An Altair report will be developed to produce the movements in membership between two specific dates. This should enable reconciliation.</p> <p>Running the data extract of membership data close to 31 March will not solve the problem as the March data is entered during April when it is received from employers.</p>
2018-19 Finding	<p>We identified that the Pensions Manager could not supply a membership number reconciliation between 2017-18 and 2018-19.</p> <p>The reconciliation should show movements of members in the financial year and retrospective changes that revised any prior-year figures. This reconciliation would allow us to audit the movement of member numbers, which we have not been able to do.</p>
Status:	<p>Recommendation Re-raised</p> <p>Updated management comment: This is aspirational and requires third party software developments even if it is possible for it to be delivered in due course</p>

7. Suspense Accounts are not Formally Reconciled

PY Recommendation	It is recommended that the Fund's suspense accounts are reviewed on a monthly basis.
Priority	Medium

2017-18 Finding	We identified that the suspense account which is used to allocate the employee and employer contributions on an almost daily basis and the suspense account which posts transactions between the Pension Fund and Gwynedd Council are not formally reconciled and signed off as prepared and then separately reviewed.
Management Response	No specific response made as recommendation largely focussed on review of journals.
2018-19 Finding	It was identified that the suspense accounts are not currently being formally reconciled on a monthly basis
Status	Recommendation Revised: It is recommended that the Fund's suspense accounts are reconciled and reviewed on a monthly basis.
Management response	Due to the staff absences over the last two years this was not possible. With a complete team this will be possible in 2019/20.

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MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	29 JULY 2019
TITLE:	TREASURY MANAGEMENT 2018/19
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 2018/19 financial year the Council's borrowing remained within the limits originally set and total interest received on deposits was £330,614 which was above the budgeted level of £130,000. There were no defaults by banks in which the Council had deposited money.

1. Introduction and Background

CIPFA's revised Code of Practice on Treasury Management was adopted by the Council on 1st March 2011 and the Council fully complies with its requirements. The Code requires that I report on the results of the Council's actual treasury management 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 2018/19 against the strategy which was established in February 2019 and was approved by the full Council on 8 March 2018 and can be accessed at Item 11 on <https://democratiaeth.cyngor.gwynedd.gov.uk/ielistdocuments.aspx?cid=130&mid=2409&ver=4&>

The report includes:

- the external and local context;
- 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

Economic background: After spiking at over \$85/barrel in October 2018, oil prices fell back sharply by the end of the year, declining to just over \$50 in late December before steadily climbing toward \$70 in April 2019. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.

After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.

The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in December. However, a recent softening in US data caused the Fed to signal a pause in hiking interest rates at the last Federal Open Market Committee (FOMC) meeting in March.

With the 29th March 2019, the original EU 'exit day' now been and gone, having failed to pass a number of meaningful votes in Parliament, including shooting down Theresa May's deal for the third time, MPs voted by a majority of one (313 to 312) to force the prime minister to ask for an extension to the Brexit process beyond 12th April in order to avoid a no-deal scenario. Recent talks between the Conservative and Labour parties to try to reach common ground on a deal which may pass a vote by MPs have yet to yield any positive results. The EU must grant any extension and its leaders have been clear that the terms of the deal are not up for further negotiation. The ongoing uncertainty continues to weigh on sterling and UK markets.

While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be show signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

Financial markets

December was a month to forget in terms of performance of riskier asset classes, most notably equities. The FTSE 100 (a good indicator of global corporate sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.

Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the new year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. During March the US yield curve inverted (10-year Treasury yields were lower than US 3 month money market rates) and German 10-year Bund yields turned negative. The drivers are a significant shift in global economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations. Further to this is world trade growth which collapsed at the end of 2018 falling by 1.8% year-on-year. A large proportion of this downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards.

Credit background

Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ringfenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ringfenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 33 and 79bps at the end of the period.

The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities.

In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.

There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.

Local Context

At 31 March 2019 the Council had net borrowing of £91m arising from its revenue and capital activities, an increase against £74m in 2018. 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

	31.3.18 Actual £m	2018/19 Movement £m	31.3.19 Actual £m
CFR	177	1	178
Less: Other debt liabilities	(2)	0	(2)
Borrowing CFR	175	1	176
Less: Usable reserves	(59)	(15)	(74)
Less: Working capital	(46)	19	(27)
Net borrowing	70	6	76

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 2019 and the year-on-year change in show in the table below.

Treasury management summary

	31.3.18 Balance £m	31.3.18 Rate %	31.3.19 Balance £m	31.3.19 Rate %
Long-term borrowing	(107,810)	5.6	(105,924)	5.6
Short-term borrowing	(10,865)	0.5	(2,770)	8.5
Total borrowing	(118,675)	5.2	(108,694)	5.6
Long-term investments	17	4.0	17	4.0
Short-term investments	35,028	0.4	19,567	0.8
Cash and cash equivalents	12,403	0.4	14,686	0.8
Total investments	47,448	0.4	34,270	0.8
Net borrowing	71,227	5.2	74,424	4.8

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 2018/19

At 31st March 2019, the Council held £107.8m of loans, a decrease of £10.0m on the previous year.

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

Borrowing Position

	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	31.3.19 Rate %	31.3.19 WAM* years
Public Works Loan Board	91.6	(0.0)	91.6	5.86	19
Banks (fixed-term)	26.2	(10.0)	16.2	4.23	59
Total borrowing	117.8	(10.0)	107.8	5.62	26

*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 2018/19, 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 Arlingclose (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 short-term loan taken last year to ensure sufficient cash was available during the period from January to March 2018 rather than taking on long-term borrowing, was repaid in 2018/19.

4. Treasury Investment Position

The Council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2018/19 the Council's investment balances have ranged between £17.6million and £79.4 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

	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	31.3.19 Rate %	31.3.19 WAM* days
Banks & building societies (unsecured)	11.3	0.9	12.2	0.5	85
Covered bonds (secured)	2.0	(2.0)	0.0	0	0
Government (incl. local authorities)	25.0	(25.0)	0.0	0	0
Money Market Funds	9.2	3.2	12.4	0.7	5
Property Funds	0.0	10.0	10.0	1.0	365+
Total investments	47.5	(12.9)	34.6	0.7	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
31.03.2018	3.96	AA-	43%	48	0.55%
30.06.2018	3.85	AA-	42%	52	0.69%
30.09.2018	4.21	AA-	53%	43	0.69%
31.12.2018	5.19	A+	62%	47	0.70%
31.03.2019	4.96	A+	92%	41	2.13%
Similar LAs	3.93	AA-	38%	125	0.97%
All LAs	4.02	AA-	55%	29	1.45%

*Weighted average maturity

During the year the exposure to 'bail-in' has increased and the credit score has also increased from 4 to 5. This is due to investment in property funds.

In February 2019 £10m of the Council's cash was invested in externally managed strategic pooled property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds will generate an additional return of income return which will be used to support services from next year onwards and the capital growth in the longer term.

Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. In light of their performance over the medium-term and the Council's latest cash flow forecasts, investment in these funds has been maintained.

Readiness for Brexit

With little by way of political clarity as to the exact date on whether there would be an agreed deal prior to leaving the EU and to be prepared for the outside chance of a particularly disruptive Brexit (such as last-minute no-deal) on 29th March, the Authority ensured there were enough accounts open at UK-domiciled banks and Money Market Funds to hold sufficient liquidity over the year end and that its account with the Debt Management Account Deposit Facility (DMADF) remained available for use in an emergency.

The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was maintained.

Treasury Performance

The outturn for debt interest paid in 2018/19 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 £44.7m during the year. The UK Bank Rate had been between 0.25% and 0.5% since March 2009 until August 2018 when it was raised to 0.75%. Short-term money market rates have remained at relatively low levels. New deposits were made at an average rate of 0.78%. Investments in Money Market Funds generated an average rate of 0.65%.

The Council's budgeted investment income for the year was £0.13m. The Council's investment income outturn for the year was £0.33m.

Compliance Report

The Head of Finance is pleased to report that all treasury management activities undertaken during 2018/19 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.

Debt Limits

	2018/19 Maximum	31.3.19 Actual	2018/19 Operational Boundary	2018/19 Authorised Limit	Complied
Borrowing	£108m	£108m	£178m	£188m	✓
PFI and Finance Leases	£1.8m	£1.7m	£2m	£2m	✓
Total debt	109.8	109.7	£180m	£190m	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Investment Limits

	2018/19 Maximum	31.3.19 Actual	2019/20 Limit	Complied
Any single organisation, except UK Government	£6m each	£5m and below	£8m each	✓
Any group of funds under the same ownership	£6m per group	£5m and below	£8m per group	✓
Foreign countries	£6m per country	£2m and below	£8m per country	✓
Unsecured investments with Building Societies	£6m in total	£2m in total	£8m in total	✓
Money Market Funds	£30m in total	£10m in total	£40m in total	✓

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.

	31.3.19 Actual	2018/19 Target	Complied
Portfolio average credit score	4.96	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.

	31.3.19 Actual	2018/19 Target	Complied
Total cash available within 3 months	£36.6m	£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:

	31.3.19 Actual	2018/19 Target	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:

	31.3.19 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	2.0%	25%	0%	✓
12 months and within 24 months	1.5%	25%	0%	✓
24 months and within 5 years	3.9%	50%	0%	✓
5 years and within 10 years	15.0%	75%	0%	✓
10 years and within 20 years	32.0%	100%	0%	✓
20 years and within 30 years	5.3%	100%	0%	✓
30 years and within 40 years	25.3%	100%	0%	✓
40 years and above	15.0%	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:

	2018/19	2019/20	2020/21
Actual principal invested beyond year end	£10.0m	£0	£0
Limit on principal invested beyond year end	£40m	£20m	£10m
Complied	✓	✓	✓

Prudential Indicators 2018/19

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 2018/19. 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	2018/19 Estimate £m	2018/19 Actual £m	Difference £m
General Fund Expenditure	14.8	22.8	8.0
Capital receipts	0.3	0.2	(0.1)
Government Grants	3.5	10.5	7.0
Revenue contributions	6.1	4.2	(1.9)
Supported borrowing	4.1	4.1	0.0
Prudential borrowing	0.8	3.8	3.0
Total Financing	14.8	22.8	8.0

Capital Financing Requirement

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

Capital Financing Requirement	31/03/19 Estimate £m	31/03/19 Actual £m	Difference £m
General Fund	178.9	177.7	1.2

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 2019 was as follows:

Debt	31/03/19 Estimate £m	31/03/19 Actual £m	Difference £m
Borrowing	108.7	108.7	0
Finance leases	0.0	1.7	1.7
Total Debt	108.7	110.4	1.7

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	31/03/19 Estimate £m	31/03/19 Actual £m	Difference £m
Total debt	108.7	110.4	1.7
CFR	175.0	177.7	2.7
Headroom	66.3	67.3	1.0

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	31/03/19 Boundary £m	31/03/19 Actual Debt £m	Difference £m
Borrowing	175	110.4	64.6
Other long-term liabilities	0	1.7	(1.7)
Total Debt	175	112.1	62.9

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	31/03/19 Boundary £m	31/03/19 Actual Debt £m	Difference £m
Borrowing	195	110.4	84.6
Other long-term liabilities	0	1.7	(1.7)
Total Debt	195	112.1	82.9

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	31/03/19 Estimate %	31/03/19 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.

Agenda Item 8

COMMITTEE	AUDIT AND GOVERNANCE COMMITTEE
DATE	29 JULY 2019
TITLE	REPORT OF THE CONTROLS IMPROVEMENT WORKING GROUP
PURPOSE OF THE REPORT	TO REPORT ON THE MEETING HELD ON 12 JULY 2019
AUTHOR	COUNCILLOR JOHN BRYNMOR HUGHES
ACTION	TO ACCEPT THE REPORT

1. INTRODUCTION

1.1 A meeting of the Working Group was held on 12 July 2019 with the Chair of the Audit and Governance Committee, Councillor John Brynmor Hughes and Councillors Alwyn Gruffydd, Dewi Roberts, Berwyn Parry Jones, Sharon Warnes (Lay Member), Luned Fôn Jones (Audit Manager) and David Lloyd-Williams (Senior Auditor) present.

1.2 It was decided at the Audit and Governance Committee held on 13 June to invite officers and the relevant Cabinet Members involved in the follow-up audits before the Controls Improvement Working Group. The relevant Cabinet Members associated with the audits in Table 1 below, together with the relevant officers were invited to the Working Group meeting.

Table 1

FAILURE TO REPORT PROGRESS ON THE AGREED ACTIONS DERIVED FROM THE ORIGINAL REPORT	
TITLE	DEPARTMENT
Arrangements for Children Leaving Care	Children and Family Support
Smallholdings	Environment
Recycling Targets	Highways and Municipal

1.3 The following reports were addressed by the Working Group:

Table 2

TITLE	DEPARTMENT	ASSURANCE LEVEL
Diesel Tanks and Diesel Management	Highways and Municipal	Limited
Safeguarding Arrangements – Establishments	Corporate	Limited
General Data Protection Regulation`	Corporate	Limited

1.4 Relevant officers attended to discuss the individual reports.

2. ARRANGEMENTS FOR CHILDREN LEAVING CARE

2.1 Following the audit report published in March 2018, the following were agreed to mitigate risk:

Risk	Agreed Action	Responsible Officer	Implementation Timetable
Incomplete Records	Keep records of 'When I am Ready' meetings on WCCIS	After-Care Resources Officer	01/04/2018

2.2 The follow-up was conducted in the 2018/19 financial year and despite the fact that two e-mails had been sent requesting progress and evidence of implementation, no response had been received. The original audit report received a "B" audit opinion.

2.3 David Owen, Manager 16 Plus Team and Gwyneth Thomas, After-Care Resources Officer were welcomed to the meeting.

2.4 The Audit Manager explained the background to the "When I am Ready" scheme which provides foster care to continue for children until they are 21 years old or until they are ready to "move on". It was explained that the new WCCIS computer system for social services where developments and updates were continuing possibly contributed to the delay in response. The officers reiterated that at the time of the request for feedback it was extremely busy when the core work of the scheme had to be prioritised such as assisting children to prepare to attend university by arranging accommodation, travel cards and student loans on their behalf. It was ensured that the work was done but not recorded.

2.5 The Manager 16 Plus Team stated that they had welcomed the action and explained that they had adapted and tightened the Process of reviewing the "When I am Ready" scheme by collaborating with the social worker who records on WCCIS. The After-Care Resources Officer added that she had created a letter to be sent to scheme members which includes elements such as the 'living together agreement'. She explained that the terminology used (e.g. lodger) can give a misimpression of the scheme and worry the children at times. She further explained that the opportunities available to the children were much more widespread and a number of successes had resulted from the scheme including securing homes, accommodation, employment and complete independence when leaving the scheme.

2.6 Internal Audit and the Working Group recognised the effort by the Post 16 team and were commendable of the success and opportunities it provides for individuals, which would not be possible without the scheme. The Audit Manager added that the fact that the work had been completed was important in this situation. The Manager 16 Plus stated that the months of March, August and September were extremely busy and that July and December were quieter when it would be easier for them to provide a satisfactory response to the Committee's request.

2.7 The Officers were thanked for attending the meeting and providing the Working Group on the developments and the arrangements in place.

3. SMALLHOLDINGS

3.1 Following the audit report published in March 2018, the following were agreed to mitigate risks:

Risk	Agreed Action	Responsible Officer	Implementation Timetable
Lack of budgetary Control	Income Unit and the Property Service to agree the parameters for the budgetary control reports.	Estates Manager and Income Manager	30/04/18
Lack of control over tenancies and agreements	Adopt TF system for managing leases.	Estates Manager	30/09/18
Lack of communication	Income Unit and Property Service to meet on a quarterly basis to discuss the situation of the agreements, including debts.	Estates Manager and Income Manager	30/06/18

3.2 The follow-up was conducted in the 2018/19 financial year and despite the fact that two e-mails had been sent requesting progress and evidence of implementation, no response had been received. The original audit report received an “Ch” audit opinion and was before the Control Improvement Working Group held in June 2018.

3.3 The Estates Manager was welcomed to the Working Group. The Audit Manager explained that the findings of another audit confirmed that action had been taken in relation to recurring billing. However, no update had been received regarding the other actions although further requests for progress had been made in November and March.

3.4 The Estates Manager apologised for the lack of communication and failure to provide update on progress. He added that the lack of response did not amount to a lack of action. He explained that shortfalls have been identified and the Audit and Governance Committee has helped to draw attention to some of them. He explained that smallholdings had received considerable attention during the year with reports submitted to the Cabinet and scrutiny committee.

3.5 With regard to the financial loss element, the Audit Manager explained that the Income Service had made amendments on this and introduced a new procedure and a quarterly arrangement to ensure that budgetary control was correct and relevant. The Estates Manager stated that the present arrangement had existed for over 50 years in some cases and that they have amended the wording where possible.

- 3.6 In terms of the tenancy aspect, the Estates Manager explained the adoption of a new Lease Management system, TF (Tech Forge) has been underway for some time and had recently been completed. The system will summarise relevant dates and provide output that will assist in managing a work programme and give timely attention to the relevant estates. The Audit Manager asked if it was possible to provide a report from the system for the Income Service but the Estates Manager replied that this element was not currently available. The Estates Manager added that two elements had been addressed. Planning for the future in a new manner and arrangements to tighten billing. This has been addressed through regular meetings with the Income Service to ensure that invoicing instructions are in accordance with what is included in the tenants' agreements. The second stage is to respond to non-payment. If the invoice was not originally created, the result was that no payment was being highlighted.
- 3.7 Following an inquiry by a Member of the Working Group, the Audit Manager explained that the intention was to operate in a self-sufficient manner but that this had not yet been realised. The Estates Manager responded by explaining that the estates were self-financing in relation to costs and expenditure but that there was no recognition of the value locked up in the holding.
- 3.8 The Working Group inquired about the staffing situations and whether they had contributed to the shortcomings. The Estates Manager explained that insufficient attention was given to smallholdings and very few staffing resources had been invested in the last 10 years. He added that the audit report had highlighted a number of weaknesses and as a result had contributed to work programs and staff time being allocated in a different manner. The Audit Manager added that Smallholdings is included in the Internal Audit plan for the current financial year which would provide an opportunity to revisit.
- 3.9 The Estates Manager was thanked for attending the meeting and for updating the Working Group on the developments since the audit report was released and the arrangements in place. The Working Group suggested that consideration should be given to programming work so that one officer was responsible for smallholdings to reconcile and streamline arrangements and encourage stronger relationships with the tenants.

4. RECYCLING TARGETS

4.1 Following the audit report published in March 2018, the following were agreed to mitigate risks:

Risk	Agreed Action	Responsible Officer	Implementation Timetable
Failure to recycle bulky items.	Increase awareness of schemes such as bulky waste collections in order to increase income and reduce "fly tipping".	Senior Manager – Waste and Commissioning	November 2018
Lack of awareness of the public needs resulting in waste being disposed in a green bin rather than at a Recycling Centre or "fly tipping".	Review the Overtime arrangements of the Recycling Centre Workers	Senior Manager – Waste and Commissioning	November 2018
Lack of communication resulting in the public not being aware of the recycling arrangements.	Increase awareness of the Recycling Centres to reduce "fly tipping" and incidents of large items/waste being disposed in the green bins.	Senior Manager – Waste and Commissioning	November 2018
	Continue with the campaigns to encourage residents to increase the amount of waste recycled and reduce residual waste.		Continuous
Disposing of too much waste to landfill resulting in financial penalties.	Challenge commercial waste customers to increase the amount of waste they recycle and reduce the amount of residual waste sent to landfill.	Senior Manager – Waste and Commissioning	November 2018

4.2 The follow-up was conducted in the 2018/19 financial year and despite the fact that two e-mails had been sent requesting progress and evidence of implementation, no response had been received. The original audit report received a "B" audit opinion.

- 4.3 The Fleet Manager was welcomed to the Working Group who attended to receive comments on behalf of the Acting Head who was unable to attend as he was attending an Assessment Centre on the day. The Audit Manager explained the staffing situation within the Department where the Head and two Senior Managers had left their posts recently. The Audit Manager had already met the Acting Head and received a report confirming the lack of response and the fact that the restructuring within the Department had been a contributing factor. The Acting Head added that e-mails were easy to miss and asked if it would be possible to receive a telephone call in the future.
- 4.4 The Acting Head had prepared comments on the agreed actions and these were shared with members of the Working Group. The comments were discussed and the Working Group was of the opinion that reaching a balance between preventing tipping and obtaining income was difficult. Culture, unfortunately plays a key role and it is not possible or practical to try to prevent “fly tipping” at all times.
- 4.5 A request was received from the Acting Head for Internal Audit’s assistance with the situation regarding overtime management. The Audit Manager confirmed that there would be a focus on overtime this year and that an audit had already been planned. In addition, the Fleet Manager confirmed that the Dwyfor area workers had already reverted back to working five days and that Arfon will follow soon.

5. DIESEL TANKS AND DIESEL MANAGEMENT

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

Following an inspection by BSI in November 2016, it was reported that Gwynedd did not comply with ISO14001 (Environmental Management) standards. In response, the Phoenix Forecourt Services (PFS) company was commissioned to carry out an assessment of all fuel tanks on Highways and Municipal sites during April and May 2017. The poor standard of tanks was highlighted in the report and noted recommendations for the Department to implement. So far, most of the recommendations do not appear to have been implemented and the staff on the sites appear to be unaware of who was responsible, or willing to accept responsibility. During the visits, some of the tanks and equipment were in poor condition, such as volume readers and alarms, but when discussed with the staff it did not become clear who is responsible for maintaining them. There is no clear procedure for cleaning, attending to and maintaining the tanks and there appears to be no clear communication between the Services within the Department.

The Manager of one site expressed his concern about the condition of the tank and the drainage system on the site and he is not willing to accept responsibility as he has shared his concerns several times and has not received a satisfactory response. This was endorsed in a report on the condition of the fuel locations by the Fleet Manager in conjunction with the Assistant Environmental Quality Assurance Engineer. The report notes that a health and safety check of the Site in February 2008 recommended decommissioning the tank as soon as possible. However, the tank continues to be used.

Digital volume readers have been installed on all the tanks that are part of the system operated by the Fleet Service. The Service monitors the data collected by these readers and uses it to set a minimum stock (re-order level) and then order a new supply of fuel as necessary. Neither the sites nor their staff are part of this process. As a result, no checks are made when supplies arrive at the sites. When an invoice is received, the Fleet Service verifies the total indicated on it and compares it to the reading at the beginning of the day the supply was received. This gives a rough idea of the volume of fuel in the tank and space within it when checking that the supply indicated on the invoice is correct. Staff on the sites have raised concerns about the procedure, as no digital ticket is always provided by the supplier's driver to indicate the volume of supply in detail.

Many of the readers do not seem to provide accurate readings, the digital reader in Afonwen showed readings that rose and dropped by 100 litres during the visit, and the parallel analogue reader indicated a total of approximately 900 litres difference to what was correct. Site Managers were asked about this and stated that they did not have confidence in the readers and that the Ffridd Rasus tank had emptied on one occasion even though the reader indicated that there was still enough left inside.

The Fleet Manager has planned to introduce a new procedure when diesel is accepted on the sites, where a member of staff is expected to meet the provider's driver and follow specific actions and also completing a dedicated checklist.

A keyfob system is used for most fleet vehicles where the drivers scan a unique keyfob and enter the vehicle's odometer number. The Timeplan software that controls the system determines if the record is valid or not in order to release fuel. Some vehicles such as screened lorries and street cleaning vehicles (Sweepers) do not contain an odometer so the control is not so reliable for these vehicles. In theory, the system is adequate in terms of regulation but there cannot be full assurance because of the reliance on staff to commit to correct implementation of the keyfobs and the odometer records.

It was found that 'Spill Kits' were present at each site but that the equipment was kept in storage at the Depot at Afonwen rather than in a practical location near the side of the tank. The tanks within the other sites contain an area protected against the weather where the pump and electrical components are located, the 'Spill Kit' is also kept in this area. The Cibyn site was found to have rubbish in the container holding the 'kit'.

- 5.2 The Fleet Manager explained that the level of responsibilities was difficult in terms of specific sites, the responsibilities of the Fleet Service and the Highways and Municipal responsibilities. The Acting Head had prepared comments against the actions and these were reported to the Working Group. The Working Group was very concerned about the lack of action regarding one tank and the staff responsibilities. The Fleet Manager noted that a better reporting and communication procedure had been emphasised and a new system was in the pipeline by the Fleet Service regarding ordering and storing fuel and reporting on defects. Plans are being implemented on a priority basis to change the tanks.

He added that the exchange of tanks was not the only work undertaken and that substantial work in terms of improving the drainage systems was necessary in order to comply with the requirements of Environmental Health and Natural Resources Wales. Planning work with YGC (Gwynedd Consultancy) has already started on one site to address the issues.

- 5.3 A Member of the Working Group inquired about considering fuel cards in order to avoid the need to plan and manage tanks and the possible environmental implications. The Fleet Manager responded that the additional cost is the main factor as the saving of approximately £0.05 per litre is very significant when considering the size of the Council's fleet of around 450 vehicles and the high mileage travelled. Fuel cards are also available in an emergency and these are used by some staff depending on their jobs, work placement and vehicle. As a result of the Audit, he added that they were trying to avoid similar situations in the future and are discussing with the accountants to use a depreciation model for the tanks. This would ensure that funding was available within the budget to renew when required. In addition, a system of conducting a monthly audit will become part of the work of the Site Manager and an external report has been scheduled annually or at least every three years depending on the site and progress.
- 5.4 The Fleet Service outlined the new process during the Audit but it is not yet fully operational due to the staffing situation and the lack of a senior manager to cascade the information. The Fleet Manager confirmed that all new procedures were in place ready for implementation.
- 5.5 The Fleet Manager was thanked for an open discussion and the plans in place to improve controls.

6. SAFEGUARDING ARRANGEMENTS - ESTABLISHMENTS

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

It was generally seen that there was awareness of safeguarding issues, but there was scope to improve awareness further. As part of the 2018-19 audit plan a sample of the Council's leisure centres, residential homes, beaches and harbours were audited. Within the audit program, the safeguarding arrangements such as safeguarding policies, training and Disclosure and Barring Service (DBS) disclosures were examined. Below is a summary of the findings.

Leisure Centres

Each centre followed the Council's corporate policy. Safeguarding is included as part of every new member of staff's induction, and training is held over the Christmas period while the centres are closed to the public. Two of the centres did not have corporate safeguarding posters but it was arranged that posters were sent to them following the visits.

The e-learning modules' training records were checked for all of the centres' staff. In

one centre, 9 members of staff from a sample of 10 had completed the 'Safeguarding Adults', 'Child Protection and Safeguarding' and 'Domestic Abuse' modules in the last two years. Whilst a small number of staff from the other centres had completed the safeguarding modules. One Duty Manager explained that this training was under way and that the intention was to get the workers to complete the training in the coming weeks.

A sample of officers from the four centres were selected and each was found to have current DBS disclosures except two who were in the process of renewing them. In addition, each centre displayed posters notifying individuals not to take public photos, as a dedicated form must be completed if this is to be done. Leisure centre staff are aware of the arrangements and actions to take if such a case occurs.

Residential Homes

Each home followed the Council's corporate policy. It was found that a policy dated July 2013 was used in one Home, although the policy had been reviewed in September 2017. The Manager has ensured that the current policy is now available to the employees. Safeguarding posters were seen in every home.

Not all staff had received safeguarding of vulnerable adults training, and cases were identified where it was necessary for the training to be renewed. Employees should receive classroom training for safeguarding every 3 years. The training of several staff dated back more than the 3 year period with some dating back to 2010. The Manager was aware of the situation and it was found that she had organised safeguarding training for 13 members of staff during the year to come.

E-learning training records including 'Domestic Abuse', 'Safeguarding Adults' and 'Child Protection and Safeguarding' modules were checked, a small number of staff had completed these modules at the time of the audit. Managers were aware of the need to complete these modules, one of them identified the difficulties they have had to get access to all staff and also the need to ensure a supply of staff on duty while others complete the modules. It is not necessary for staff to complete the safeguarding modules as they already receive face to face training but in terms of the 'Domestic Abuse' module it is necessary for all Council staff to complete the module.

A sample of officers from the four homes were selected and each was found to have a current DBS disclosure.

Beaches and Harbours

A safeguarding poster was visible in one of the harbours and one of the beaches visited. The workers, mostly seasonal, were asked about corporate training messages and opportunities such as 'Domestic Abuse' and safeguarding but they expressed that they were not aware of e-learning and the statutory need to complete the 'Domestic Abuse' module.

- 6.2 Emlyn Jones, Chair of the Safeguarding Operational Panel attended to discuss the audit.

- 6.3 The Audit Manager explained the purpose of the original audit and provided some background to the plan and the policy.
- 6.4 Emlyn Jones has been appointed as Chair of the Safeguarding Operational Panel and explained that his lack of understanding helped to ask the questions required and possibly come from the same angle as the people we are trying to educate/target. He thought 'Are people safe' is the question that should be asked. 'Safeguarding' is part of every staff member's job description and all staff need to understand and accept this responsibility and understand the appropriate procedure and share the information and procedure. Simply, this is the aim and it has taken time to try to establish this and for the group to realise that it is a simple process to get people to understand and trust the system. The Chair of the Operational Panel added that the process of making the call to the number on the poster was effective as long as the details were clear and sufficient information provided so that the relevant officers/teams could act. He added that it was important for the people who were willing to phone to know that sufficient information was needed to ensure and enable action to be taken. A Member of the Working Group was aware that people were afraid of the implications of contacting and did not want to be involved in a court case or giving evidence. The Chair of The Operational Panel ensured that the process could be completely anonymous and some may not be aware of this. As a result, the Operational Panel is in the process of producing an effective message that will be distributed by the Communications Team in order to spread the message and update the posters and cards used. In order to ensure that the Operational Panel achieves its purpose effectively, each department was invited to meet to share their views and needs in order to report and implement rather than repeat work that has already been reported.
- 6.55 Following an inquiry in relation to the modules completed by staff, the Chair of the Operational Panel was concerned about the current arrangements as it did not add value. He was of the opinion that it should be part of the teaching materials rather than a one-off course. There is no end to the process – it is a completely ongoing process. He added that the Panel's work programme was currently being formulated and a report would be submitted to the Strategic Safeguarding Panel.
- 6.6 The Chair of the Operational Panel stated that the number of referrals had increased during the last year but the challenge would be decide how success will be measured as measuring awareness is difficult.
- 6.7 The Chair of the Operational Safeguarding Panel was thanked for attending the meeting.

7. GENERAL DATA PROTECTION REGULATION

7.1 The main findings of the audit were as follows:

The report is given a 'limited' level of assurance as it is the auditor's opinion that the Council is exposed to risks of reputational damage, financial losses and possibly legal proceedings arising from breaches of personal data and/or the Council receives a fine due to non-compliance. However, the service considers the impact to be lower than substantial. At present there is no test of how the Information Commissioner will fine under the new regime - it is this uncertainty that maximizes the risk.

It was found that the foundation for planning and dissemination of information on the General Data Protection Regulation had been established by the Council. A Data Protection Officer has been appointed, a corporate action plan and work program for departments have been established. It was also seen that staff awareness training was run and the service has distributed all the information/guidance as well as the current data protection policy to staff. However, many activities appear to be in progress and not implemented within the timescale set, with only one activity within the implementation target set for December 2018.

It was found that the Data Protection Policy had been updated and presented on the 'Canolfan Bolisi' with emails having gone out to all staff informing them of the changes. However, there are no robust arrangements in place to ensure that all Council staff read and understand the data protection policy, as well as being able to act on the changes that cover the new law and regulation.

The asset register appears to have not been completed in full. There was a lack of services being able to identify whether personal data contracts were required and/or identify the legal basis of their data processing activities. Following our inquiries, a number of staff appear to be unsure of the requirements, including whether or not they rely on consent as a legal basis for processing data (and also consent from children), and whether contracts need to be established and/or reviewed.

It was noted that guidelines for completing a Data Protection Impact Assessment (DPIA) have been established including Screening Questions and DPIA template. However, there were no controls to identify projects to ensure that each have completed the screening questions as well as the DPIA form.

The Corporate Data Protection Officer reported that there was currently a lack of resources to carry out compliance checks as part of her job and that there was a lack of resource within the team to conduct audits which is a risk to the Council.

Services that had carried out reviews of their privacy notices were identified. Out of the sample of services queried, it was found that some were completed but the majority were in progress.

There was no confirmation of any automatic profiling and decision-making work carried out within GDPR compliance.

- 7.1 Ian Jones, Assistant Head – Corporate Support and Helen Parry, Senior Data Protection Statutory Officer were welcomed to the meeting.

- 7.2 The Audit Manager stated that GDPR had come into force for over a year now and the purpose of the original audit was to verify whether the Council had put in place suitable arrangements. The audit was conducted in the months of August and September and that Internal Audit was aware of the subsequent progress. The Senior Data Protection Statutory Officer agreed with the observations and added that the report had been started in August and that it was an ongoing process with a number of elements in progress. The nature of the work suggests that it will not come to an end and that it is a task that evolves continuously. It is dependent on the commitment of the Departments and this fact is a challenge in order to ensure that the focus remains with the Departments not reporting this year and then forgetting.
- 7.3 An individual in each Department has specific responsibility and task groups have been established to report on the work. The Senior Officer does not have any concerns about any department but the difficulties include the possibility of failing to keep up with the changes.
- 7.4 The Audit Manager confirmed that this area was being addressed within their audits with elements of data and information protection being incorporated in most audits. E.g. personal data in care homes and leisure centres or salaries and pensions – personnel files etc. One specific audit carried out involved visiting offices out-of-hours to verify contents on desks and leave a ‘flyer’ to raise staff awareness. Any concerns following internal audits are reported to the Senior Statutory Officer.
- 7.5 A Member of the Working Group added that it was a matter of culture and not the responsibility of a specific individual - similar to the previous item in respect of Safeguarding. The Assistant Head added that they were working on increasing staff awareness and understanding as well as increasing accountability as part of scrutinising performance.
- 7.6 The Assistant Head and the Senior Data Protection Statutory Officer were thanked for attending the meeting and explaining the current situation and the continuous work in respect of the General Data Protection Regulation.