# Gwynedd Council

# STATEMENT OF ACCOUNTS 2017/18

Finance Department
www.gwynedd.llyw.cymru

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# NARRATIVE REPORT

## Introduction

Gwynedd Council's accounts for the year 2017/18 are presented here on pages 8 to 78.

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 2018.

- **The Cash Flow Statement** - This statement summarises the flow of cash to and from the Council during 2017/18 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 is 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, 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 2017/18 Budget adopted by the Council at its meeting on 2 March 2017 sets out the foundation for us to achieve the improvement priorities whilst also trying to meet continuous increase in demand for our services. The Financial Strategy is unavoidably dependent upon the prioritisation. 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 establishing 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. Over the last eight years, we have had to cut £48m from the Council's budget.

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.

**2017/18 Performance**

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 2017/18 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 2017/18**

- Despite the sustained need to achieve challenging savings, the final financial position of the Council's departments for 2017/18 confirms that there was effective financial management. The financial out-turn position for 2017/18 was reported to the Cabinet at its meeting on 22 May 2018. The members of the Cabinet approved the carry-forward of the net services underspend of £316k for the year.

- At 2017/18 year-end, most of the departments and several corporate headings reported an underspend financial position, with a significant improvement in the financial position of the Adults' Department during the last quarter of the year. There was an overspend on placements and operational services in the Children and Families Department, on transport by the Education Department and in the waste and engineering field 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 £364m during 2017/18, with the net position as £238m.

- The 2017/18 financial position was taken into consideration in the process of establishing the 2018/19 budget.

## TABLE 1 – 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 £246m for 2017/18.

Table 1 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 | 246,014 | 246,271 | 257 |
| Departmental Carry-forward at year-end | 0 | 316 | 316 |
| | 246,014 | 246,587 | 573 |
| Financed by - | | | |
| Council Tax Income | (77,050) | (76,608) | 442 |
| Share of National Non-Domestic Rate | (40,451) | (40,451) | 0 |
| General Government Grants | (128,513) | (128,513) | 0 |
| Contribution to the General Fund Balance | | (1,015) | (1,015) |
| | 0 | 0 | 0 |

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

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

| Department | Performance Report (Outturn) | Transposition Adjustment | Net Expenditure Chargeable to the General Fund | Adjustments between Funding and Accounting Basis | Income & Expenditure Statement |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Education | 82,854 | (761) | **82,093** | 0 | **82,093** |
| Corporate Support | 7,843 | 0 | **7,843** | 0 | **7,843** |
| Finance | 5,766 | 89 | **5,855** | 0 | **5,855** |
| Economy and Community | 5,893 | (70) | **5,823** | 0 | **5,823** |
| Adults, Health and Wellbeing | 44,070 | 1,332 | **45,402** | 0 | **45,402** |
| Children and Family Support | 13,654 | (34) | **13,620** | 0 | **13,620** |
| Highways and Municipal (including Trunk Roads) | 21,044 | 21 | **21,065** | 0 | **21,065** |
| Environment | 4,204 | 38 | **4,242** | 0 | **4,242** |
| Corporate Management Team and Legal | 1,831 | 48 | **1,879** | 0 | **1,879** |
| Gwynedd Consultancy | 152 | (320) | **(168)** | 0 | **(168)** |
| Corporate | 50,606 | (29,897) | **20,709** | 29,529 | **50,238** |
| **Cost of Services** | 237,917 | (29,554) | **208,363** | 29,529 | **237,892** |
| Other (Contains Centralised and Corporate Adjustment) | 8,670 | 29,554 | **38,224** | (29,529) | **8,695** |
| **Total** | 246,587 | 0 | **246,587** | 0 | **246,587** |

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:-

  - £22m on pensions, being the remeasurements of the net defined benefit assets relating to pensions, in line with Gwynedd Pension Fund's Actuary's assessment (Note 23).

  - Following a revaluation of part of the Council's land and buildings portfolio (which is now carried out on a rolling programme basis), a net surplus of £6m on the revaluation of property, plant and equipment assets (Note 15 & 23).

- **Other Issues**

  - There have been unprecedented problems in the worldwide financial situation in recent years. Because of this general situation, it has been necessary for the Authority to take the circumstances into consideration in its financial plans, whilst maintaining a prudent level of reserves.

  - Since the referendum on the UK's membership of the European Union, there has been a degree of economic uncertainty. This is expected to last for some time and may affect some factors and financial decisions made by the Authority.

## Capital Expenditure in 2017/18

Capital expenditure for 2017/18 amounted to £23.4m. The following table gives an analysis of this expenditure and the way it was financed.

| SUMMARY OF CAPITAL EXPENDITURE AND FINANCING | | |
|---|---|---|
| **2016/17 £'000** | | **2017/18 £'000** |
| 15,033 | Education | 10,575 |
| 5,053 | Environment | 4,888 |
| 70 | Corporate Support | 28 |
| 609 | Finance | 389 |
| 1,951 | Economy and Community | 1,249 |
| 2,802 | Adults, Health and Wellbeing | 2,781 |
| 58 | Children and Family Support | 214 |
| 2,558 | Highways and Municipal | 3,095 |
| 1,175 | Gwynedd Consultancy | 179 |
| **29,309** | | **23,398** |
| | **FINANCED BY -** | |
| 11,106 | Borrowing | 7,785 |
| 11,460 | Grants and Contributions | 11,109 |
| 770 | Capital Receipts | 1,384 |
| 5,973 | Revenue and Other Funds | 3,120 |
| **29,309** | | **23,398** |

- Revenue Expenditure Funded from Capital Under Statute of £3.9m 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 £19.5m as shown in Note 15 and 20 on pages 38 to 40 and page 50.

- The Council's Loan Debt on 31 March 2018 was £118.7m – an increase of £7.2m (from £111.5m) during the year. Repayments of £2.7m were made in accordance with the terms of individual loans.

## Provisions and Reserves

In addition to the unearmarked element of General Balances of £5.9m, the Council had other provisions of £7.8m, earmarked reserves of £42.5m and school balances of £4.0m. In total, these amounted to £60.2m. 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 was thoroughly reviewed by the Head of Finance on closure of this year's accounts, in accordance with the policy. This review succeeded in harvesting £2.9m of resources, of which £2.7m is to be earmarked for the priorities of the Council Plan.

## 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 reduced by £8m to £227m in 2017/18. 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.

## 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 in Appendix C.

## 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

There were no changes to accounting policies during the 2017/18 financial year.

## 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 AUTHORITY'S RESPONSIBILITIES

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

**Chair Audit and Governance Committee**

**27 September 2018**

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### THE HEAD OF FINANCE'S RESPONSIBILITIES

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

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

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

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### RESPONSIBLE FINANCIAL OFFICER'S CERTIFICATE

I certify that the Statement of Accounts has been prepared in accordance with the arrangements set out above, and presents a true and fair view of the financial position of Gwynedd Council at 31 March 2018 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**

**18 September 2018**

# 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.

| 2016/17 | | | | 2017/18 | | |
|---|---|---|---|---|---|---|
| **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** |
| 82,153 | 0 | 82,153 | Education | 82,093 | 0 | 82,093 |
| 7,915 | 0 | 7,915 | Corporate Support | 7,843 | 0 | 7,843 |
| 5,745 | 0 | 5,745 | Finance | 5,855 | 0 | 5,855 |
| 6,554 | 0 | 6,554 | Economy and Community | 5,823 | 0 | 5,823 |
| 44,552 | 0 | 44,552 | Adults, Health and Wellbeing | 45,402 | 0 | 45,402 |
| 13,172 | 0 | 13,172 | Children and Family Support | 13,620 | 0 | 13,620 |
| 19,282 | 1,681 | 20,963 | Highways and Municipal (including Trunk Roads*) | 21,065 | 0 | 21,065 |
| 5,905 | 0 | 5,905 | Environment | 4,242 | 0 | 4,242 |
| 1,915 | 0 | 1,915 | Corporate Management Team and Legal | 1,879 | 0 | 1,879 |
| 224 | 0 | 224 | Gwynedd Consultancy | (168) | 0 | (168) |
| 15,706 | 21,865 | 37,571 | Corporate | 20,709 | 29,529 | 50,238 |
| **203,123** | **23,546** | **226,669** | **Cost of Services** | **208,363** | **29,529** | **237,892** |
| 20,466 | 694 | 21,160 | Other Operating Expenditure | 21,417 | 546 | 21,963 |
| 19,563 | (7,253) | 12,310 | Financing and Investment Income and Expenditure | 16,774 | (4,625) | 12,149 |
| (241,598) | (9,288) | (250,886) | Taxation and non-specific grant income | (245,564) | (11,039) | (256,603) |
| **1,554** | **7,699** | **9,253** | **(Surplus)/Deficit on Provision of Services** | **990** | **14,411** | **15,401** |
| (54,933) | | | Opening General Fund Balance | (53,379) | | |
| 1,554 | | | (Surplus)/Deficit on General Fund in year | 990 | | |
| **(53,379)** | | | Closing General Fund Balance | **(52,389)** | | |

* 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.

| 2016/17 | | | | | 2017/18 | | |
|---|---|---|---|---|---|---|---|
| Gross Expenditure | Gross Income | Net Expenditure | | Note | Gross Expenditure | Gross Income | Net Expenditure |
| £'000 | £'000 | £'000 | | | £'000 | £'000 | £'000 |
| 100,797 | (18,644) | 82,153 | Education | | 103,039 | (20,946) | 82,093 |
| 10,587 | (2,672) | 7,915 | Corporate Support | | 9,381 | (1,538) | 7,843 |
| 8,026 | (2,281) | 5,745 | Finance | | 8,172 | (2,317) | 5,855 |
| 15,158 | (8,604) | 6,554 | Economy and Community | | 14,310 | (8,487) | 5,823 |
| 69,566 | (25,014) | 44,552 | Adults, Health and Wellbeing | | 73,158 | (27,756) | 45,402 |
| 16,679 | (3,507) | 13,172 | Children and Family Support | | 19,794 | (6,174) | 13,620 |
| 36,453 | (15,490) | 20,963 | Highways and Municipal (including Trunk Roads*) | | 37,046 | (15,981) | 21,065 |
| 15,260 | (9,355) | 5,905 | Environment | | 12,999 | (8,757) | 4,242 |
| 2,657 | (742) | 1,915 | Corporate Management Team and Legal | | 2,643 | (764) | 1,879 |
| 2,520 | (2,296) | 224 | Gwynedd Consultancy | | 2,155 | (2,323) | (168) |
| 70,482 | (32,911) | 37,571 | Corporate | | 81,736 | (31,498) | 50,238 |
| **348,185** | **(121,516)** | **226,669** | **Cost of Services** | | **364,433** | **(126,541)** | **237,892** |
| 21,200 | (40) | 21,160 | Other Operating Expenditure | *11* | 21,963 | 0 | 21,963 |
| 12,623 | (313) | 12,310 | Financing and Investment Income and Expenditure | *12* | 12,360 | (211) | 12,149 |
| 0 | (250,886) | (250,886) | Taxation and Non-specific Grant Income | *13* | 0 | (256,603) | (256,603) |
| **382,008** | **(372,755)** | **9,253** | **(Surplus) / Deficit on Provision of Services** | | **398,756** | **383,355** | **15,401** |
| | | (7,282) | (Surplus) / Deficit on revaluation of Fixed Assets | *23.1* | | | (5,813) |
| | | 159 | (Surplus) / Deficit on revaluation of available-for-sale financial assets | *23.2* | | | 153 |
| | | 51,322 | Remeasurements of the net defined benefit liability/(asset) | *23.5* | | | (22,330) |
| | | **44,199** | **Other Comprehensive Income and Expenditure** | | | | **(27,990)** |
| | | **53,452** | **Total Comprehensive Income and Expenditure** | | | | **(12,589)** |

* 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.

| | | *Additional Information* | | | **Statement of Movement in Reserves** | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Note** | *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 2016 carried forward** | | *(5,517)* | *(46,079)* | *(3,337)* | (54,933) | (2,035) | (1,093) | **(58,061)** | **(71,668)** | **(129,729)** |
| Movement in reserves during 2016/17 | | | | | | | | | | |
| Total Comprehensive Income and Expenditure | | *9,253* | *0* | *0* | 9,253 | 0 | 0 | **9,253** | **44,199** | **53,452** |
| Adjustments between accounting basis and funding basis under regulations | *9* | *(7,699)* | *0* | *0* | (7,699) | (862) | 61 | **(8,500)** | **8,500** | **0** |
| **(Increase)/Decrease in 2016/17** | | *1,554* | *0* | *0* | 1,554 | (862) | 61 | **753** | **52,699** | **53,452** |
| *Transfers to/from Earmarked Reserves* | | *(2,947)* | *2,489* | *458* | 0 | 0 | 0 | **0** | **0** | **0** |
| *(Increase)/Decrease in 2016/17 (showing transfers to Earmarked Reserves)* | | *(1,393)* | *2,489* | *458* | 1,554 | (862) | 61 | **753** | **52,699** | **53,452** |
| **Balance 31 March 2017 carried forward** | *10* | *(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* | *10* | *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** | | *(5,895)* | *(42,476)* | *(4,018)* | (52,389) | (1,729) | (2,102) | **(56,220)** | **(32,646)** | **(88,866)** |

# 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 2017** | | ***Note*** | **31 March 2018** |
|---|---|---|---|
| **£'000** | | | **£'000** |
| 433,687 | Property, Plant and Equipment | *15* | 438,420 |
| 60 | Heritage Assets | | 60 |
| 197 | Investment Property | *16* | 116 |
| 2,039 | Surplus Assets | *15* | 2,259 |
| 2,171 | Long-Term Investments | *17* | 17 |
| 4,094 | Long-Term Debtors | *17* | 4,101 |
| **442,248** | **Long-Term Assets** | | **444,973** |
| 26,044 | Short-Term Investments | *17* | 35,028 |
| 148 | Assets Held for Sale | *20* | 73 |
| 1,286 | Inventories | | 1,065 |
| 54,889 | Short-Term Debtors | *18* | 57,074 |
| 1,384 | Cash and Cash Equivalents | *19* | 12,403 |
| **83,751** | **Current Assets** | | **105,643** |
| (30,035) | Bank Overdraft | *19* | (45,538) |
| (3,335) | Short-Term Borrowing | *17* | (10,865) |
| (56,972) | Short-Term Creditors | *21* | (56,573) |
| (357) | Short-Term Provisions | *22* | (257) |
| (2,196) | Capital and Revenue Grants Receipts in Advance | *32* | (1,787) |
| **(92,895)** | **Current Liabilities** | | **(115,020)** |
| (7,776) | Long-Term Provisions | *22* | (7,519) |
| (108,143) | Long-Term Borrowing | *17* | (107,810) |
| (235,413) | Net Pension Liability | *38* | (226,981) |
| (1,993) | Finance Leases Liability | *35* | (1,851) |
| (3,502) | Capital and Revenue Grants Receipts in Advance | *32* | (2,569) |
| **(356,827)** | **Long-Term Liabilities** | | **(346,730)** |
| **76,277** | **Net Assets** | | **88,866** |
| (57,308) | Usable Reserves | | (56,220) |
| (18,969) | Unusable Reserves | *23* | (32,646) |
| **(76,277)** | **Total Reserves** | | **(88,866)** |

# 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.

| **2016/17** | | ***Note*** | **2017/18** |
|---|---|---|---|
| **£'000** | | | **£'000** |
| 9,253 | Net (Surplus)/Deficit on Provision of Services | | 15,401 |
| (13,099) | Adjustments to net surplus or deficit on the provision of services for non-cash movements | *24a* | (35,198) |
| 1,603 | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | *24b* | 240 |
| (2,243) | Net cash flows from Operating Activities | | (19,557) |
| 3,574 | Investing Activities | *25* | 31,104 |
| 2,081 | Financing Activities | *26* | (7,063) |
| 3,412 | Net (increase)/decrease in cash and cash equivalents | | 4,484 |
| 25,239 | Cash and cash equivalents at the beginning of the reporting period | *19* | 28,651 |
| **28,651** | **Cash and cash equivalents at the end of the reporting period** | *19* | **33,135** |

# NOTES TO THE ACCOUNTS

## NOTE 1 – ACCOUNTING POLICIES

### 1.1 General Principles

The Statement of Accounts summarises the Authority's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. 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 2017/18* 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.

### 1.2 Accruals of Expenditure and Income

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

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

### 1.3 Cash and Cash Equivalents

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

### 1.4 Contingent 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.

Contingent assets and liabilities are not recognised in the Balance Sheet, but disclosed in the Contingent Liabilites 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 Economy and Community 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 for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 2.7% 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.

### 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

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

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

Financial liabilities

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

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

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

Financial assets

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

Financial assets are classified into two categories:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market

- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments including Covered Bonds

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

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

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

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

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

The Local Authorities (Capital Financing and Accounting) (Wales) (Amendment) Regulations 2018 allow the effect of the restatement of financial instruments to be adjusted through the Movement in Reserves Statement and the resulting adjustments are shown in the Financial Instrument Adjustment Account and the Available-for-sale Financial Instruments Reserve on the Balance Sheet. The adjustment allowed by statute means that the net effect on the Council's balances is equivalent to the transfer under this policy.

### 1.10 Government Grants and Other Contributions

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

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

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

### 1.11 Heritage Assets

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

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

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.

### 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 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.

## NOTE 1 – ACCOUNTING POLICIES (continued)

### 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).

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

**Depreciation**

The main element of IAS 16 is that buildings must be depreciated if they are not valued each year. In addition, each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. A de-minimis threshold, below which assets are disregarded for componentisation purposes, needs to be established, which is based on potential material impacts on the financial statements. For the 2017/18 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: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method
*NB This does not preclude other prudent methods.*

MRP in 2017/18: 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 2017/18 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.

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

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

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

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

## NOTE 1 – ACCOUNTING POLICIES (continued)

### 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.

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

### 1.24 Allocation of Interest Received

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

### 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
The Authority is subject to the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. Authorities participating in the scheme are required to purchase and surrender allowances, currently retrospectively, on the basis of emissions; i.e. carbon dioxide produced as energy is used. Gwynedd Council was below the relevant threshold in respect of 2017/18.

### 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 2017/18.

### 1.32 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.

### 1.33 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.

### 1.34 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.

### 1.35 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.

### 1.36 Other Policies

Gwynedd Council has policies in respect of the following, but they are not considered material for the 2017/18 financial year:

- Intangible Assets
- Foreign Currency Conversion.

## NOTE 2 – CHANGE IN ACCOUNTING POLICY

There were no changes to accounting policies during the 2017/18 financial year.

## NOTE 3 – PRIOR PERIOD ADJUSTMENTS

There are no prior period adjustments during 2017/18.

## 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 2018/19 Code:-

IFRS 9 *Financial Instruments.*

IFRS 15 *Revenue from Contracts with Customers* including amendments to IFRS 15 *Clarifications to IFRS 15 Revenue from Contracts with Customers.*

Amendments to IAS 12 *Income Taxes*: Recognition of Deferred Tax Assets for Unrealised Losses.

Amendments to IAS 7 *Statement of Cash Flows*: Disclosure Initiative.

The Code requires implementation from 1 April 2018 and there is therefore no impact on the 2017/18 Statement of Accounts, and none of the new or amended standards within the 2018/19 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.

All available and related information is sourced and applied in assessing and determining the position, which is particularly critical when considering such matters as the revaluation, depreciation and impairment of assets, actuarial valuation of pension fund assets and liabilities, earmarked reserves, provisions and contingent liability. However, because these issues cannot be determined with certainty, actual results may subsequently differ from those estimates. The estimates and underlying assumptions are continually reviewed.

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

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

The following items in the Authority's Balance Sheet at 31 March 2018 may be considered to be a significant risk (in terms of certainty in estimation of value), with the possibility of material adjustment in the forthcoming financial year:

- **Property, Plant and Equipment** – Assets are depreciated over their useful life in accordance with standard accounting and associated practices. Any difference between the depreciation applied and actual deterioration to assets will be naturally reflected in future spending patterns. The current economic climate brings with it uncertainties for councils in their ability to sustain the necessary spending on repair and maintenance. This obviously would have implications on asset life. Land and buildings are revalued at least every five years, and since 2015/16 a rolling programme of revaluation has been introduced. A number of judgements are required to be made as part of the revaluation and impairment assessment process. This brings with it uncertainties, and assumptions have to be made and responded to accordingly. Where necessary, any resultant long-term implications would be incorporated into our financial strategy. Information relating to Property, Plant and Equipment is contained in Note 15.

- **Provisions** – Various separate provisions, the basis of which have been individually assessed from the latest information available, are contained within these accounts as detailed in Note 22, and include provisions for items such as Waste Sites and certain insurance liability aspects. We are unable to confirm the accuracy of the provisions until such matters are concluded.

- **Pension Liability** – The Pension Liability position as contained within the accounts is based on a number of complex assessments and judgements and varying profiles such as discount rate used, projected salary levels, changes in retirement ages, mortality rates and expected returns on Pension Fund assets, as provided by Actuaries engaged by the Pension Fund. Further details are contained in Note 37 and 38.

- **Doubtful Debts Impairment** – A specific impairment level policy in respect of doubtful debts is contained within the accounts. The impairment level is reviewed regularly in order to respond to any changes in the economic climate, and necessary action taken as appropriate within the accounts to respond accordingly. Doubtful Debts impairments are contained within the figures for Short-Term Debtors contained in Note 18.

## NOTE 7 – MATERIAL ITEMS OF INCOME AND EXPENSE

Material items of income and expense include the following:

- £22m 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 23.5).
- 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 £6m on the revaluation of property, plant and equipment assets (Note 15 and 23.1).

## NOTE 8 – NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

| 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) | Net change for the Pensions Adjustments (ii) | Other Differences (iii) | Total Adjustments |
| | £'000 | £'000 | £'000 | £'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

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

| 2016/17 | 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) | Net change for the Pensions Adjustments (ii) | Other Differences (iii) | Total Adjustments |
| | £'000 | £'000 | £'000 | £'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*) | 1,681 | 0 | 0 | 1,681 |
| Environment | 0 | 0 | 0 | 0 |
| Corporate Management Team and Legal | 0 | 0 | 0 | 0 |
| Gwynedd Consultancy | 0 | 0 | 0 | 0 |
| Corporate | 21,842 | (484) | 507 | 21,865 |
| **Cost of Services** | **23,523** | **(484)** | **507** | **23,546** |
| Other Operating Expenditure | 694 | 0 | 0 | 694 |
| Financing and Investment Income and Expenditure | (13,428) | 6,243 | (68) | (7,253) |
| Taxation and non-specific grant income | (9,288) | 0 | 0 | (9,288) |
| **(Surplus)/Deficit on Provision of Services** | **1,501** | **5,759** | **439** | **7,699** |

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

### (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.

## 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.

| 2017-18<br>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** | | | | |
| *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* | | | | |
| 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** |

**2016-17**

## 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** | | | | |
| *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* | | | | |
| Pensions costs (transferred to (or from) the Pensions Reserve) | (5,759) | 0 | 0 | 5,759 |
| Financial instruments (transferred to the Financial Instruments Adjustments Account) | 75 | 0 | 0 | (75) |
| Holiday pay (transferred to (or from) the Accumulated Absences Reserve) | (543) | 0 | 0 | 543 |
| Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account) | (14,929) | 0 | 0 | 14,929 |
| **Total Adjustments to Revenue Resources** | **(21,156)** | **0** | **0** | **21,156** |
| **Adjustments between Revenue and Capital Resources** | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 29 | (1,632) | 0 | 1,603 |
| Revenue provision for the financing of supported capital investment | 5,593 | 0 | 0 | (5,593) |
| Revenue provision for the financing of unsupported capital investment | 1,863 | 0 | 0 | (1,863) |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | 5,972 | 0 | 0 | (5,972) |
| **Total Adjustments between Revenue and Capital Resources** | **13,457** | **(1,632)** | **0** | **(11,825)** |
| **Adjustments to Capital Resources** | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | 0 | 770 | 0 | (770) |
| Application of capital grants to finance capital expenditure | 0 | 0 | 61 | (61) |
| Cash payments in relation to deferred capital receipts | 0 | 0 | 0 | 0 |
| **Total Adjustments to Capital Resources** | **0** | **770** | **61** | **(831)** |
| **TOTAL ADJUSTMENTS** | **(7,699)** | **(862)** | **61** | **8,500** |

## NOTE 10 – TRANSFERS TO/FROM EARMARKED RESERVES

**School Balances**

This sum is represented by the element of balances released under the delegation of budgets directly to schools which remained unspent at the end of the financial year, and is a net increase of £1.1m as compared to the balance on 31 March 2017:

| 2017/18 | Balance 31 March 2017 £'000 | Transfers between reserves £'000 | Transfers in £'000 | Transfers out £'000 | Balance 31 March 2018 £'000 |
|---|---|---|---|---|---|
| School Balances | 2,879 | 0 | 1,595 | (456) | 4,018 |
| **Total** | **2,879** | **0** | **1,595** | **(456)** | **4,018** |

## 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 2017/18, with a net reduction of £1.1m since the 31 March 2017 position.

| Note | 2017-18 | Balance 31 March 2017 | Transfers between reserves | Transfers in | Transfers out | Balance 31 March 2018 |
|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 |
| *10.1* | Renewals Reserves | 2,793 | 597 | 2,293 | (426) | 5,257 |
| *10.2* | Capital Reserves | 9,821 | (926) | 1,879 | (1,050) | 9,724 |
| *10.3* | Insurance Reserves | 1,809 | 0 | 633 | (610) | 1,832 |
| *10.4* | Services Fund | 4,377 | (383) | 980 | (825) | 4,149 |
| *10.5* | Convergence Programme Fund | 133 | 0 | 13 | (132) | 14 |
| *10.6* | Redundancy Costs to Realise Savings Reserve | 3,801 | 0 | 0 | (95) | 3,706 |
| *10.7* | Central Training | 300 | (134) | 0 | (72) | 94 |
| *10.8* | Education Services Reserves | 925 | 0 | 484 | (576) | 833 |
| *10.9* | Economy and Community Reserves | 418 | 0 | 65 | (46) | 437 |
| *10.10* | Highways and Municipal Reserves | 1,002 | 166 | 25 | (525) | 668 |
| *10.11* | Waste Developments Reserve | 194 | (166) | 44 | (34) | 38 |
| *10.12* | Gwynedd Consultancy Reserves | 185 | 0 | 0 | 0 | 185 |
| *10.13* | Environment Reserves | 520 | 1,011 | 491 | (1,153) | 869 |
| *10.14* | Care Reserves | 1,461 | 0 | 809 | (1,375) | 895 |
| *10.15* | Ffordd Gwynedd Fund | 376 | 0 | 31 | (20) | 387 |
| *10.16* | Invest to Save Fund - Carbon Reduction Plan | 309 | 0 | 44 | (41) | 312 |
| *10.17* | Transformation / Invest to Save Fund | 8,543 | 2,202 | 107 | (1,593) | 9,259 |
| *10.18* | Committed Revenue Grants Fund | 486 | 0 | 363 | (51) | 798 |
| *10.19* | Contracts Tendering Fund | 217 | (53) | 0 | 0 | 164 |
| *10.20* | Housing Water and Sewerage Services Fund | 492 | 0 | 0 | (40) | 452 |
| *10.21* | Housing Environmental Warranty | 480 | 0 | 0 | 0 | 480 |
| *10.22* | Information Technology Reserve | 376 | 0 | 92 | (16) | 452 |
| *10.23* | Preparatory Work for European Grant Funding Schemes | 75 | 0 | 0 | (37) | 38 |
| *10.24* | Supporting the Financial Strategy Reserve | 1,760 | (2,215) | 3,968 | (65) | 3,448 |
| *10.25* | Welfare Fund | 222 | 0 | 0 | 0 | 222 |
| *10.26* | Partnering Arrangements | 522 | (24) | 15 | (99) | 414 |
| *10.27* | North Wales Economic Ambition Board Fund | 0 | 0 | 270 | 0 | 270 |
| *10.28* | Liabilities Related to the Pension Fund | 634 | 0 | 796 | (5,686) | (4,256) |
| *10.29* | Council Tax Property Transfers Reserve | 490 | 0 | 0 | 0 | 490 |
| *10.30* | Various Other Reserves | 869 | (75) | 332 | (281) | 845 |
| | **Total** | **43,590** | **0** | **13,734** | **(14,848)** | **42,476** |

Earmarked reserves closing balance as at 31 March 2018 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 Reserves is used by the various departments of the Council to replace vehicles and equipment.

10.2 The Capital Reserves represents resources already committed to finance part of the Council's Capital Programme.

10.3 Gwynedd Council does not insure all risks with external insurers but instead it has established an internal reserve to meet those uninsured risks. The balance on the Insurance Reserves 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 Services Reserves – includes sums set aside to respond to related financial problems with 'Integration' requirements, changeable demands in 'Out of County – Special Educational Needs', 'Supporting Schools' and the 'Schools Loans Scheme'.

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 Developments 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 in some work fields 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, 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 / Invest to Save Fund – 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.

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

10.18 Committed Revenue Grants Fund – includes revenue grants received and committed for future use.

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 funding sources and 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 Fund - 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.

10.29 Council Tax Property Transfers Reserve – provision relating to the implications of properties transferring from Council Tax to National Domestic Rates.

10.30 Various Other Reserves – includes amounts set aside to meet a variety of other commitments.

## NOTE 11 – OTHER OPERATING EXPENDITURE

| 2016/17 | | 2017/18 |
|---|---|---|
| £'000 | | £'000 |
| 1,829 | **Community Council's Precepts** | 1,994 |
| | **Levies** | |
| 11,990 | North Wales Police and Crime Commissioner | 12,518 |
| 5,598 | North Wales Fire Authority | 5,852 |
| 962 | Snowdonia National Park Authority | 962 |
| 87 | Local Drainage Boards | 91 |
| 18,637 | | 19,423 |
| 694 | (Gains)/losses on the disposal and de-recognition of non-current assets | 546 |
| **21,160** | **Total** | **21,963** |

## NOTE 12 – FINANCING AND INVESTMENT INCOME AND EXPENDITURE

| 2016/17 | | 2017/18 |
|---|---|---|
| £'000 | | £'000 |
| 6,380 | Interest payable and similar charges | 6,123 |
| 6,243 | Net interest on the net defined benefit liability/(asset) | 6,237 |
| (313) | Interest receivable and similar income | (211) |
| **12,310** | **Total** | **12,149** |

## NOTE 13 – TAXATION AND NON-SPECIFIC GRANT INCOME

| 2016/17 | | *Note* | 2017/18 |
|---|---|---|---|
| £'000 | | | £'000 |
| (74,640) | Council Tax Income | *13a* | (76,608) |
| (37,158) | Non-Domestic Rates | *13b* | (40,451) |
| (129,800) | Non-ring-fenced Government Grants | *32* | (128,505) |
| (9,288) | Capital Grants and Contributions | *32* | (11,039) |
| **(250,886)** | **Total** | | **(256,603)** |

## 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 2017/18 was calculated as follows:-

**CALCULATION OF THE COUNCIL TAX BASE FOR 2017/18**

| Valuation Bands | Number of Properties following discounts | Statutory Multiplier | Equivalent Band D Properties |
|---|---|---|---|
| A* | 6 | 5/9 | 3.19 |
| A | 7,403 | 6/9 | 4,935.40 |
| B | 13,400 | 7/9 | 10,421.97 |
| C | 10,641 | 8/9 | 9,458.57 |
| D | 9,192 | 1 | 9,192.04 |
| E | 7,402 | 11/9 | 9,046.54 |
| F | 3,649 | 13/9 | 5,270.06 |
| G | 1,165 | 15/9 | 1,942.08 |
| H | 168 | 18/9 | 335.50 |
| I | 56 | 21/9 | 130.67 |
| | **Total** | | 50,736.02 |
| **Council Tax base after allowing for losses on collection** | | | 50,228.66 |

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

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| (74,750) | Council Tax raised | (76,848) |
| 110 | **Less** Increase in the provision for bad debts | 240 |
| (74,640) | | (76,608) |

## 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 (49.9p in 2017/18) 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 2017/18 financial year there were 8,027 properties on the local valuation list in Gwynedd, representing a rateable value of £111,787,301.

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

| 2016/17<br>£'000 | | 2017/18<br>£'000 |
|---|---|---|
| (37,789) | National Non-Domestic Rate raised | (39,385) |
| 381 | Cost of Collection allowance | 394 |
| 331 | Provision for Bad Debts | 310 |
| 37,077 | Sum paid to the National Pool | 38,681 |
| 0 | | 0 |
| (37,158) | Receipts from the National Pool | (40,451) |
| (37,158) | **Net Income from Non-Domestic Rates** | (40,451) |

## 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 2017/18, but it can be seen that there is an accumulated surplus over the three-year period.

| 2017/18 | £'000 |
|---|---|
| Total charges income received (excluding VAT) | (413) |
| Total expenditure incurred | 433 |
| (Surplus)/Deficit for 2017/18 | 20 |
| (Surplus)/Deficit for 2016/17 | (20) |
| (Surplus)/Deficit for 2015/16 | (2) |
| **(Surplus)/Deficit for the last three years** | **(2)** |

## NOTE 15 – PROPERTY, PLANT AND EQUIPMENT

### Movements on Property, Plant and Equipment Balances

Movements in 2017/18:

| | Land and Buildings | Infrastructure | Vehicles, Plant and Equipment | Community Assets | Surplus Assets | Assets under construction | Total Property, Plant and Equipment |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Value** | | | | | | | |
| Balance at 01.04.17 | 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 01.04.17 | 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 01.04.17 | 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)

Comparative Movements in 2016/17:

| | Land and Buildings | Infrastructure | Vehicles, Plant and Equipment | Community Assets | Surplus Assets | Assets under construction | Total Property, Plant and Equipment |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Value** | | | | | | | |
| Balance at 01.04.16 | 272,021 | 193,750 | 38,395 | 1,073 | 2,581 | 10,351 | 518,171 |
| Additions | 5,487 | 4,422 | 3,006 | 17 | 3 | 11,414 | 24,349 |
| Sales | (1,798) | 0 | (800) | 0 | (407) | 0 | (3,005) |
| Transfers | 16,336 | 0 | 0 | 0 | (69) | (16,258) | 9 |
| Revaluation - to Revaluation Reserve | 1,855 | 0 | 0 | 0 | 0 | 0 | 1,855 |
| Revaluation - to Services | (2,461) | 0 | 0 | 0 | 0 | 0 | (2,461) |
| **Balance at 31.03.17** | **291,440** | **198,172** | **40,601** | **1,090** | **2,108** | **5,507** | **538,918** |
| **Depreciation** | | | | | | | |
| Balance at 01.04.16 | 4,055 | 33,992 | 20,736 | 9 | 1 | 0 | 58,793 |
| Depreciation in year | 4,685 | 5,223 | 3,555 | 1 | 2 | 0 | 13,466 |
| Sales | (102) | 0 | (780) | 0 | 0 | 0 | (882) |
| Transfers | 0 | 0 | 0 | 0 | (1) | 0 | (1) |
| Revaluation | (3,848) | 0 | 0 | 0 | 0 | 0 | (3,848) |
| **Balance at 31.03.17** | **4,790** | **39,215** | **23,511** | **10** | **2** | **0** | **67,528** |
| **Impairment** | | | | | | | |
| Balance at 01.04.16 | 32,132 | 63 | 68 | 230 | 63 | 0 | 32,556 |
| Impairment in year - to Revaluation Reserve | 2,374 | 0 | 0 | 0 | 0 | 0 | 2,374 |
| Impairment in year - to Services | 4,859 | 0 | 0 | 0 | 5 | 0 | 4,864 |
| Sales | (175) | 0 | 0 | 0 | 0 | 0 | (175) |
| Transfers | 0 | 0 | 0 | 0 | (1) | 0 | (1) |
| Revaluation | (3,954) | 0 | 0 | 0 | 0 | 0 | (3,954) |
| **Balance at 31.03.17** | **35,236** | **63** | **68** | **230** | **67** | **0** | **35,664** |
| **Net Book Value 31 March 2017** | **251,414** | **158,894** | **17,022** | **850** | **2,039** | **5,507** | **435,726** |
| **Net Book Value 31 March 2016** | **235,834** | **159,695** | **17,591** | **834** | **2,517** | **10,351** | **426,822** |

## 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 2018 were as follows:

| | Sum | Payments to date | Balance |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Caernarfon Town and Shores Regeneration Scheme | 679 | 446 | 233 |
| Ysgol Y Berwyn - extension and refurbishment | 8,897 | 8,136 | 761 |

## 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:

| | 2016/17<br>£'000 | 2017/18<br>£'000 |
|---|---|---|
| Rental income from investment property | 3 | 9 |
| **Net gain/(loss)** | **3** | **9** |

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:

| | 2016/17<br>£'000 | 2017/18<br>£'000 |
|---|---|---|
| **Balance 1 April** | **247** | **197** |
| Disposals | 0 | (81) |
| Net gains/(losses) from fair value adjustments | 0 | 0 |
| Transfers: | | |
| (to)/from Property, Plant and Equipment | (50) | 0 |
| **Balance 31 March** | **197** | **116** |

## NOTE 17 – FINANCIAL INSTRUMENTS

### (a) Financial Instruments - Classifications

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

### Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that 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 42
- 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 or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Council during the year are held under the following three classifications:

## NOTE 17 – FINANCIAL INSTRUMENTS (continued)

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

- cash
- bank 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

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

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

Assets held at fair value through profit and loss comprising:

- equity investment in a local waste company

### (b) Financial Instruments - Balances

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

| **Financial Liabilities** | **Long-Term** | | **Short-Term** | |
|---|---|---|---|---|
| | **31 March 2017 £'000** | **31 March 2018 £'000** | **31 March 2017 £'000** | **31 March 2018 £'000** |
| Loans at amortised cost: | | | | |
| Principal sum borrowed | 108,143 | 107,810 | 2,702 | 10,333 |
| Accrued interest | 0 | 0 | 633 | 532 |
| **Total Borrowing** | **108,143** | **107,810** | **3,335** | **10,865** |
| Loans at amortised cost: | | | | |
| Bank overdraft | 0 | 0 | 30,035 | 45,538 |
| **Total Cash Overdrawn** | **0** | **0** | **30,035** | **45,538** |
| Liabilities at amortised cost: | | | | |
| Trade Payables | 0 | 0 | 0 | 0 |
| Finance Leases | 1,993 | 1,851 | 0 | 0 |
| **Total other Long-Term Liabilities** | **1,993** | **1,851** | **0** | **0** |
| Liabilities at amortised cost: | | | | |
| Trade Payables | 0 | 0 | 54,912 | 55,494 |
| Finance Leases | 0 | 0 | 134 | 142 |
| **Included in Creditors*** | **0** | **0** | **55,046** | **55,636** |
| **Total Financial Liabilities** | **110,136** | **109,661** | **88,416** | **112,039** |

* The short-term creditors line on the Balance Sheet includes £937,000 (£1,927,000 at 31 March 2017) creditors (Note 21) that do not meet the definition of a financial liability.

## NOTE 17 – FINANCIAL INSTRUMENTS (continued)

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

| Financial Assets | Long-Term | | Short-Term | |
|---|---|---|---|---|
| | 31 March 2017 £'000 | 31 March 2018 £'000 | 31 March 2017 £'000 | 31 March 2018 £'000 |
| Loans and Receivables: | | | | |
| Principal at amortised cost | 17 | 17 | 26,000 | 33,000 |
| Accrued interest | 0 | 0 | 44 | 37 |
| Available-for-sale investments: | | | | |
| Principal at amortised cost | 2,154 | 0 | 0 | 1,991 |
| **Total Investments** | **2,171** | **17** | **26,044** | **35,028** |
| Loans and Receivables: | | | | |
| Cash | 0 | 0 | 59 | 58 |
| Cash equivalents at amortised cost | 0 | 0 | 1,325 | 12,345 |
| **Total Cash and Cash Equivalents** | **0** | **0** | **1,384** | **12,403** |
| Loans and Receivables: | | | | |
| Trade Receivables | 4,094 | 4,101 | 32,341 | 39,007 |
| **Included in Debtors*** | **4,094** | **4,101** | **32,341** | **39,007** |
| **Total Financial Assets** | **6,265** | **4,118** | **59,769** | **86,438** |

* The short-term debtors line on the Balance Sheet includes £18,067,000 (£22,548,000 at 31 March 2017) 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 2017/18 Code of Practice sets out specific accounting and disclosure requirements for soft loans. During 2017/18 Gwynedd Council identified the following "soft loans":

- Deferred Payments on charges due from people under care (amount outstanding at 31.03.18 £2,098,027)
- Car and Bike Loans to employees (amount outstanding at 31.03.18 £1,144,101)

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

**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.

| | 2016/17 | | | 2017/18 | | |
|---|---|---|---|---|---|---|
| | Gross assets (liabilities) | (Liabilities) assets set off | Net position on Balance Sheet | Gross assets (liabilities) | (Liabilities) assets set off | Net position on Balance Sheet |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Bank accounts in credit | 13,065 | (13,065) | 0 | 9,917 | (9,917) | 0 |
| **Total Financial Assets** | **13,065** | **(13,065)** | **0** | **9,917** | **(9,917)** | **0** |
| Bank overdraft | (43,100) | 13,065 | (30,035) | (55,455) | 9,917 | (45,538) |
| **Total Financial Liabilities** | **(43,100)** | **13,065** | **(30,035)** | **(55,455)** | **9,917** | **(45,538)** |

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

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

| | Financial Liabilities | Financial Assets | |
|---|---|---|---|
| | Liabilities measured at amortised cost | Loans and Receivables | Total 2017/18 |
| | £'000 | £'000 | £'000 |
| Interest expense | 6,122 | 0 | 6,122 |
| **Interest payable and similar charges** | **6,122** | **0** | **6,122** |
| Interest income | 0 | (211) | (211) |
| **Interest and investment income** | **0** | **(211)** | **(211)** |
| **Net (gain)/loss for the year** | **6,122** | **(211)** | **5,911** |

**(d) Financial Instruments - Fair Values**

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2018, using the following assumptions:

- PWLB loans have been discounted at the published interest rates for new PWLB certainty rate loans with an identical remaining term to maturity arranged on 31 March.
- Other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.

- No early repayment or impairment is recognised.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.
- In the case of deferred liabilities (such as finance leases) the Authority deems the carrying amount to be a reasonable approximation of the fair value.

| | Carrying Amount 31 March 2017 £'000 | Fair Value 31 March 2017 £'000 | Carrying Amount 31 March 2018 £'000 | Fair Value 31 March 2018 £'000 |
|---|---|---|---|---|
| **Financial Liabilities:** | | | | |
| Loans borrowed | (111,478) | (181,814) | (118,143) | (182,832) |
| Finance leases | (2,127) | (2,127) | (1,993) | (1,993) |
| Trade Payables | (54,912) | (54,912) | (53,865) | (53,865) |
| **Total Financial Liabilities** | **(168,517)** | **(238,853)** | **(174,001)** | **(238,690)** |
| **Financial Assets:** | | | | |
| Long-term investments | 2,171 | 2,171 | 17 | 17 |
| Short-term investments | 26,000 | 26,044 | 34,991 | 35,028 |
| Trade Receivables | 32,341 | 32,341 | 39,007 | 39,007 |
| **Total Financial Assets** | **60,512** | **60,556** | **74,015** | **74,052** |

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

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

**(e) Financial Instruments - Risks**

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities (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. During 2017/18 these include commercial entities with a minimum long-term credit rating of A-, the UK Government, and other local authorities without credit ratings upon which the Council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial organisations for investment.

During 2017/18 a limit of 5% of the total portfolio was placed on the amount that can be invested with a single counterparty (reduced to £1m for some building societies and 2.5% for the RBS Group). The Council also set a total group investment limit of 5% for institutions that are part of the same banking group (reduced to 2.5% for the RBS Group). No more than £40m in total could be invested for a period longer than one year.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £33m cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2018 that this was likely to crystallise.

During 2008/09 the Council made a deposit of £4m with Heritable Bank which was a UK registered bank under Scottish Law. The company was placed in administration on 7 October 2008. The Council has received a return of £3,938,407 equating to 98% from the administrators up to 31 March 2018. 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 credit quality of £1.991m of the Council's investments is enhanced as they are covered bonds which have a pool of assets that secures the bond if the issuer fails. This collateral significantly reduces the likelihood of the Council suffering a credit loss on these investments.

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

| **Credit Rating** | **Short-Term** | |
|---|---|---|
| | **31 March 2017** | **31 March 2018** |
| | **£'000** | **£'000** |
| AAA | 0 | 4,991 |
| AA+ | 0 | 0 |
| AA | 0 | 3,000 |
| AA- | 10,000 | 13,000 |
| A+ | 0 | 0 |
| A | 8,000 | 4,000 |
| A- | 1,000 | 0 |
| Unrated building societies | 4,000 | 1,000 |
| Unrated local authorities | 3,000 | 9,000 |
| **Total Investments** | **26,000** | **34,991** |

## NOTE 17 – FINANCIAL INSTRUMENTS (continued)

| Credit Rating | Long-Term | |
|---|---|---|
| | 31 March 2017 | 31 March 2018 |
| | £'000 | £'000 |
| AAA | 2,103 | 0 |
| AA+ | 0 | 0 |
| AA | 0 | 0 |
| AA- | 0 | 0 |
| A+ | 0 | 0 |
| A | 0 | 0 |
| A- | 0 | 0 |
| Unrated | 0 | 0 |
| **Total Investments** | **2,103** | **0** |

### Trade Receivables

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

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

### Liquidity Risk

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

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

| Time to maturity (years) | 31 March 2017 | 31 March 2018 |
|---|---|---|
| | £'000 | £'000 |
| Less than 1 year | 2,702 | 10,333 |
| Over 1 but not over 2 | 333 | 2,236 |
| Over 2 but not over 5 | 5,322 | 4,590 |
| Over 5 but not over 10 | 17,613 | 17,128 |
| Over 10 but not over 20 | 27,626 | 32,792 |
| Over 20 but not over 30 | 13,697 | 7,511 |
| Over 30 but not over 40 | 17,986 | 17,986 |
| Over 40 | 9,367 | 25,567 |
| Uncertain date* | 16,200 | 0 |
| **Total** | **110,846** | **118,143** |

* The Council had £16.2m of "Lender's option, borrower's option" (LOBO) loans where the lender had the option to propose an increase in the rate payable; the Council did then have the option to accept the new rate or repay the loan without penalty. The maturity date was therefore uncertain.

## NOTE 17 – FINANCIAL INSTRUMENTS (continued)

### Market Risk: Interest Rate Risk

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

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

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

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 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:

| | 1% higher £'000 | 1% lower £'000 |
|---|---|---|
| Change in interest payable on variable rate borrowings | 0 | 0 |
| Change in interest receivable on variable rate investments | 31 | 6 |
| **Impact on Surplus or Deficit on the Provision of Services** | **31** | **6** |
| Change in fair value of fixed rate investment assets | 0 | 0 |
| **Impact on Other Comprehensive Income and Expenditure** | **0** | **0** |
| Change in fair value of fixed rate borrowings / liabilities* | (25,393) | 25,393 |

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

### Market Risk: Price Risk

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

The Council does not invest in equity shares and therefore is not subject to any price risk. The Council did have shares in a Local Authority Waste Disposal Company (LAWDC). Gwynedd and Ynys Môn Councils decided to terminate the arrangement in 2007/08 and to undertake the work in-house, with the relevant operational assets, liabilities and staff transferred to the Council in January 2008. The company was wound up in 2017/18 and the Council received £43,784.25 in respect of its share of the assets.

### Market Risk: Foreign Exchange Risk

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

## NOTE 18 – SHORT-TERM DEBTORS

| | Debtors NET of impairment | |
|---|---|---|
| | 31 March 2017 | 31 March 2018 |
| | £'000 | £'000 |
| Welsh Government | 28,921 | 30,423 |
| Other Central Government Bodies | 7,187 | 6,159 |
| Other Local Authorities | 2,608 | 2,761 |
| National Health Service | 2,594 | 2,980 |
| Public Corporations and Trading Funds | 18 | 46 |
| Council Tax | 1,846 | 1,932 |
| Other Entities and Individuals | 11,715 | 12,773 |
| **Total** | **54,889** | **57,074** |

## NOTE 19 – CASH AND CASH EQUIVALENTS

| | 31 March 2017 | 31 March 2018 |
|---|---|---|
| | £'000 | £'000 |
| Cash in Hand | 13 | 13 |
| Bank Current Accounts | 46 | 45 |
| Call Accounts | 1,325 | 12,345 |
| **Cash and Cash Equivalents** | **1,384** | **12,403** |
| Bank Overdraft | (30,035) | (45,538) |
| **Total** | **(28,651)** | **(33,135)** |

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 £37m (£15.7m at 31 March 2017).

## NOTE 20 – ASSETS HELD FOR SALE

| | 2016/17 | 2017/18 |
|---|---|---|
| | £'000 | £'000 |
| **Balance 1 April** | **459** | **148** |
| Assets newly classified as held for sale: | | |
| Property, Plant and Equipment | 74 | 0 |
| Expenditure in year | 2 | 0 |
| Revaluation Losses | 0 | 0 |
| Impairment Losses | (2) | 0 |
| Assets declassified as held for sale: | | |
| Property, Plant and Equipment | (35) | 0 |
| Assets sold | (350) | (75) |
| **Balance 31 March** | **148** | **73** |

## NOTE 21 – SHORT-TERM CREDITORS

| | 31 March 2017 | 31 March 2018 |
|---|---|---|
| | £'000 | £'000 |
| Welsh Government | 2,774 | 1,505 |
| Other Central Government Bodies | 3,622 | 4,705 |
| Other Local Authorities | 7,333 | 12,325 |
| National Health Service | 358 | 438 |
| Public Corporations and Trading Funds | 250 | 1,996 |
| Council Tax | 1,310 | 1,008 |
| Other Entities and Individuals | 41,325 | 34,596 |
| **Total** | **56,972** | **56,573** |

## 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 2017 £'000 | (Addition) / Reduction / Transfer £'000 | Used during the year £'000 | Balance at 31 March 2018 £'000 |
|---|---|---|---|---|
| **Short-Term Provisions** | | | | |
| Waste Sites Provision | (257) | (244) | 244 | (257) |
| Third Party Claims Provision | (100) | 13 | 87 | 0 |
| | **(357)** | **(231)** | **331** | **(257)** |
| **Long-Term Provisions** | | | | |
| Waste Sites Provision | (7,592) | 257 | 0 | (7,335) |
| Third Party Claims Provision | (93) | 0 | 0 | (93) |
| MMI Insurance Provision | (91) | 0 | 0 | (91) |
| | **(7,776)** | **257** | **0** | **(7,519)** |
| **Total** | **(8,133)** | **26** | **331** | **(7,776)** |

**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 Adults and Consultancy areas.

**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 2017 | | 31 March 2018 |
|---|---|---|
| £'000 | | £'000 |
| 71,974 | Revaluation Reserve | 76,405 |
| (17) | Available-For-Sale Financial Instruments Reserve | (170) |
| 187,120 | Capital Adjustment Account | 187,522 |
| (760) | Financial Instruments Adjustment Account | (743) |
| (235,413) | Pensions Reserve | (226,981) |
| (3,935) | Accumulated Absences Account | (3,387) |
| **18,969** | **Total Unusable Reserves** | **32,646** |

### 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.

| 2016/17 | | 2017/18 |
|---|---|---|
| £'000 | | £'000 |
| **67,131** | **Balance 1 April** | **71,974** |
| 9,916 | Upward revaluation of assets | 10,889 |
| (2,634) | Downward revaluation of assets and impairment losses | (5,076) |
| **7,282** | **Surplus/(deficit) on revaluation of assets** | **5,813** |
| (1,219) | Difference between fair value depreciation and historical cost depreciation | (1,232) |
| (1,220) | Accumulated gains on assets sold | (150) |
| **(2,439)** | **Amount written off to the Capital Adjustment Account** | **(1,382)** |
| **71,974** | **Balance 31 March** | **76,405** |

### 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)**

| 2016/17 £000 | | 2017/18 £'000 |
|---|---|---|
| **142** | **Balance 1 April** | **(17)** |
| 0 | Upward revaluation of investments | 0 |
| (159) | Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services | (153) |
| 0 | Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income | 0 |
| **(17)** | **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.

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| **186,954** | **Balance 1 April** | **187,120** |
| | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | |
| (20,793) | Charges for depreciation and impairment of non-current assets | (19,721) |
| (4,987) | Revenue Expenditure funded from Capital under Statute | (3,892) |
| (1,077) | Adjustment to non-current balance on the sale of assets | (637) |
| 1,219 | Transfer from Capital Revaluation Reserve | 1,232 |
| | Capital financing applied in the year: | |
| 770 | Capital Receipts | 1,384 |
| 11,606 | Grants and contributions credited to Comprehensive Income and Expenditure Statement that have been applied to capital financing | 11,255 |
| 5,593 | Revenue provision for the financing of supported capital investment | 5,547 |
| 5,972 | Capital expenditure charged in year against the General Fund | 3,120 |
| 1,863 | Capital receipts set aside / Revenue provision for the financing of unsupported capital investment | 2,114 |
| **187,120** | **Balance 31 March** | **187,522** |

## NOTE 23 – UNUSABLE RESERVES (continued)

### 23.4 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:

| 2016/17<br>£'000 | | 2017/18<br>£'000 |
|---|---|---|
| **(835)** | **Balance 1 April** | **(760)** |
| 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 | (29) |
| **(760)** | **Balance 31 March** | **(743)** |

## NOTE 23 – UNUSABLE RESERVES (continued)

### 23.5 Pensions Reserve

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

| 2016/17<br>£000 | | 2017/18<br>£000 |
|---|---|---|
| **(178,332)** | **Balance 1 April** | **(235,413)** |
| (51,322) | Remeasurements of the net defined benefit (liabilities) / assets | 22,330 |
| (26,259) | 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 | (41,757) |
| 20,500 | Employer's pensions contributions and direct payments to pensioners payable in the year | 27,859 |
| **(235,413)** | **Balance 31 March** | **(226,981)** |

### 23.6 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.

| 2016/17<br>£'000 | | 2017/18<br>£'000 |
|---|---|---|
| **(3,392)** | **Balance 1 April** | **(3,935)** |
| (543) | 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 | 548 |
| **(3,935)** | **Balance 31 March** | **(3,387)** |

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

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| (13,466) | Depreciation | (14,221) |
| (7,327) | Impairment and downward valuations | (5,500) |
| (1,636) | (Increase)/Decrease in Creditors | 248 |
| 22,340 | Increase/(Decrease) in Debtors | 2,178 |
| (35) | Increase/(Decrease) in Stock | (221) |
| (5,759) | Pension Liability | (13,898) |
| (2,297) | Carrying amount of non-current assets sold or de-recognised | (786) |
| (4,919) | Other non-cash items charged to net surplus/deficit on the provision of services | (2,998) |
| **(13,099)** | | **(35,198)** |

## 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

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| 1,603 | Proceeds from sale of property, plant and equipment, investment property and intangible assets | 240 |
| **1,603** | | **240** |

## NOTE 24c – CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| (323) | Interest received | (218) |
| 5,616 | Interest paid | 5,410 |

## NOTE 25 – CASH FLOW STATEMENT – INVESTING ACTIVITIES

| 2016/17<br>£'000 | | 2017/18<br>£'000 |
|---|---|---|
| 24,438 | Purchase of property, plant and equipment, investment property and intangible assets | 20,431 |
| 332,978 | Purchase of short-term and long-term investments | 409,330 |
| 4,780 | Other payments for investing activities | 3,900 |
| (1,633) | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (216) |
| (356,989) | Proceeds from short-term and long-term investments | (402,341) |
| **3,574** | **Net cash flows from investing activities** | **31,104** |

## NOTE 26 – CASH FLOW STATEMENT – FINANCING ACTIVITIES

| 2016/17<br>£'000 | | 2017/18<br>£'000 |
|---|---|---|
| 126 | Cash payments for the reduction of the outstanding liability relating to Finance Leases | 134 |
| 1,955 | Repayments of short-term and long-term borrowing | (7,197) |
| **2,081** | **Net cash flows from financing activities** | **(7,063)** |

## NOTE 27 – EXPENDITURE AND INCOME ANALYSED BY NATURE

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

| 2016/17 £'000 | Expenditure / Income | 2017/18 £'000 |
|---|---|---|
| | **Expenditure** | |
| 167,044 | Employee benefits expenses | 178,611 |
| 135,913 | Other Services expenses | 159,266 |
| 21,725 | Support Services recharges | 2,922 |
| 23,503 | Depreciation, amortisation, impairment | 23,634 |
| 12,623 | Interest Payments | 12,360 |
| 20,466 | Precepts and Levies | 21,417 |
| 734 | Loss on the disposal of assets | 546 |
| **382,008** | **Total Expenditure** | **398,756** |
| | **Income** | |
| (55,838) | Fees, charges and other service income | (50,785) |
| (313) | Interest and investment income | (211) |
| (111,806) | Income from council tax and non-domestic rates | (117,059) |
| (204,758) | Government grants and contributions | (215,300) |
| (40) | (Gain) on the disposal of assets | 0 |
| **(372,755)** | **Total Income** | **(383,355)** |
| **9,253** | **(Surplus) / Deficit on the Provision of Services** | **15,401** |

## NOTE 28 – AGENCY SERVICES

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

- Houses into Homes – closing balance £521k (£372k in 2016/17)
- Houses into Homes 2 – closing balance £396k (£396k in 2016/17)
- Home Improvement Loans – closing balance £315k (£315k in 2016/17)
- Supporting Town Centre Regeneration in Caernarfon – closing balance £228k (£431k in 2016/17)
- Caernarfon and Bangor Town Centre Scheme – closing balance £800k (£850k in 2016/17)
- Bangor and Bethesda Town Centre Scheme – closing balance £500k (£0 in 2016/17).

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 2017/18 were £54.5m (£62.9m in 2016/17).

## NOTE 29 – MEMBERS' ALLOWANCES

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

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| 1,259 | Allowances | 1,255 |
| 61 | Expenses | 61 |
| **1,320** | | **1,316** |

## 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.

| 2016-17 Salary £ | 2016-17 Employer's Pension Contributions £ | 2016-17 Total £ | Chief Officers | 2017-18 Salary £ | 2017-18 Employer's Pension Contributions £ | 2017-18 Total £ |
|---|---|---|---|---|---|---|
| 106,787 | 23,920 | 130,707 | Chief Executive [1] | 109,811 | 24,598 | 134,409 |
| 91,125 | 20,412 | 111,537 | Corporate Director | 92,036 | 20,616 | 112,652 |
| 91,125 | 20,412 | 111,537 | Corporate Director | 92,036 | 20,616 | 112,652 |
| | | | Head of Education [2] | 71,950 | 16,117 | 88,067 |
| 91,589 | 20,516 | 112,105 | Head of Education (previous holder) [3] | 17,737 | 3,973 | 21,710 |
| 77,349 | 17,326 | 94,675 | Head of Finance | 78,122 | 17,499 | 95,621 |
| 75,395 | 16,888 | 92,283 | Head of Highways and Municipal | 73,485 | 16,461 | 89,946 |
| 77,009 | 17,350 | 94,359 | Head of Adults, Health and Wellbeing | 72,692 | 16,283 | 88,975 |
| 71,972 | 16,122 | 88,094 | Head of Economy & Community | 72,692 | 16,283 | 88,975 |
| 70,174 | 15,719 | 85,893 | Head of Children and Families | 72,692 | 16,283 | 88,975 |
| 65,338 | 14,836 | 80,174 | Head of Environment | 69,058 | 15,469 | 84,527 |
| 66,575 | 14,913 | 81,488 | Head of Corporate Support | 69,058 | 15,469 | 84,527 |
| 60,798 | 13,619 | 74,417 | Head of Gwynedd Consultancy | 61,406 | 13,755 | 75,161 |
| 42,979 | 9,627 | 52,606 | Specialised Programmes Leader[4] | 42,970 | 9,625 | 52,595 |
| 42,979 | 9,627 | 52,606 | Specialised Programmes Leader [4] | 42,970 | 9,625 | 52,595 |

1) The figures do not include any remuneration for the Chief Executive in his role as Returning Officer. £3,330 was paid in 2017/18, which is based on rates defined by the respective election bodies.

2) Holder in post since May 2017 on a temporary basis, and permanently since November 2017.

3) Holder in post until 31 May 2017. GwE repaid 80% of the costs.

4) Part time post

**30b.** The Accounts and Audit (Wales) (Amendment) Regulations 2018 require the Authority to include a ratio of remuneration. The ratio of the Chief Executive's remuneration to the median remuneration of all the Authority's employees for 2017/18 is 6.70 : 1 (5.39 : 1 in 2016/17).

## 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 2017/18 and eight cases in 2016/17. 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 2016/17 | | | | Number in 2017/18 | | |
|---|---|---|---|---|---|---|
| **Schools** | **Other** | **Total** | | **Schools** | **Other** | **Total** |
| 6 | 6 | 12 | £60,000 - 64,999 | 9 | 2 | 11 |
| 4 | 1 | 5 | £65,000 - 69,999 | 4 | 1 | 5 |
| 6 | 1 | 7 | £70,000 - 74,999 | 7 | 0 | 7 |
| 2 | 0 | 2 | £75,000 - 79,999 | 0 | 1 | 1 |
| 1 | 0 | 1 | £80,000 - 84,999 | 2 | 0 | 2 |
| 0 | 1 | 1 | £85,000 - 89,999 | 0 | 0 | 0 |
| 0 | 1 | 1 | £90,000 - 94,999 | 0 | 0 | 0 |
| 1 | 0 | 1 | £95,000 - 99,999 | 1 | 0 | 1 |
| 0 | 0 | 0 | £100,000 - 104,999 | 0 | 0 | 0 |
| 0 | 0 | 0 | £105,000 - 109,999 | 0 | 0 | 0 |
| 0 | 0 | 0 | £110,000 - 114,999 | 0 | 0 | 0 |
| 0 | 0 | 0 | £115,000 - 119,999 | 0 | 0 | 0 |
| 0 | 0 | 0 | £120,000 - 124,999 | 0 | 0 | 0 |
| 0 | 0 | 0 | £125,000 - 129,999 | 0 | 0 | 0 |
| 0 | 1 | 1 | £130,000 - 134,999 | 0 | 0 | 0 |

## NOTE 31 – EXTERNAL AUDIT COSTS

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

| **2016/17** | | **2017/18** |
|---|---|---|
| **£'000** | | **£'000** |
| 183 | Fees payable to the auditor appointed by the Auditor General for Wales with regard to external audit services | 182 |
| 99 | Fees payable to the auditor appointed by the Auditor General for Wales in respect of statutory inspections | 100 |
| 90 | Fees payable to the auditor appointed by the Auditor General for Wales for the certification of grant claims and returns for the year | 89 |
| **372** | | **371** |
| (2) | **Less:** Fees payable to the auditor appointed by the Auditor General for Wales in respect of Joint Committees and Harbour Accounts | (2) |
| 0 | **Less:** Adjustment for 2016/17 statutory audit fees | (9) |
| **370** | **Gwynedd Council Net Fees** | **360** |

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 | 2016/17 £'000 | | 2017/18 £'000 | |
|---|---|---|---|---|---|
| **Credited to Taxation and Non-Specific Grant Income** | | | | | |
| Revenue Support Grant (Non-ring-fenced Government Grants) | 13 | | 129,792 | | 128,505 |
| Government Revenue Grants and Contributions - Other | | | 8 | | 413 |
| Government Capital Grants and Contributions - | | | | | |
| 21st Century Schools | | 3,199 | | 1,629 | |
| General Capital Grant | | 2,516 | | 2,525 | |
| Other | | 3,449 | | 4,852 | |
| | 13 | | 9,164 | | 9,006 |
| Other Capital Grants and Contributions | 13 | | 124 | | 2,033 |
| **Total** | | | **139,088** | | **139,957** |
| **Grants and Contributions Credited to Services** | | | | | |
| Welsh Government - | | | | | |
| Supporting People Grant (SPG & SPRG) | | 5,044 | | 4,992 | |
| Improvement and Deprivation Grants (Education) | | 7,477 | | 7,533 | |
| Sustainable Waste Management Grant | | 3,516 | | 3,414 | |
| Post-16 Grant (Education) | | 3,257 | | 3,387 | |
| Other | | 13,420 | | 15,840 | |
| | | | 32,714 | | 35,166 |
| Other Government Grants and Contributions - | | | | | |
| Department for Work and Pensions | | 30,237 | | 29,790 | |
| Other | | 12,015 | | 12,833 | |
| | | | 42,252 | | 42,623 |
| Other Grants and Contributions | | | 3,736 | | 4,789 |
| **Total** | | | **78,702** | | **82,578** |

## 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:

| Grants Received in Advance | 31 March 2017 £'000 | 31 March 2018 £'000 |
|---|---|---|
| **Long-Term** | | |
| **Revenue Grants and Contributions** | | |
| Environment (Planning, Transport and Public Protection) Grants | 752 | 843 |
| | 752 | 843 |
| **Capital Grants and Contributions** | | |
| Highways and Municipal Capital Contributions | 1,519 | 1,373 |
| Environment (Planning, Transport and Public Protection) Grants | 1,231 | 353 |
| | 2,750 | 1,726 |
| **Total Long-Term** | **3,502** | **2,569** |
| **Short-Term** | | |
| **Revenue Grants and Contributions** | | |
| Economy and Community Grants | 376 | 287 |
| Environment (Planning, Transport and Public Protection) Grants | 420 | 446 |
| Adults, Health and Wellbeing Grants | 1,036 | 682 |
| Other Grants | 109 | 115 |
| | 1,941 | 1,530 |
| **Capital Grants and Contributions** | 255 | 257 |
| **Total Short-Term** | **2,196** | **1,787** |
| **Total** | **5,698** | **4,356** |

## NOTE 33 – RELATED PARTIES

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority. To conform to the requirements, this is done by Members and Senior Officers completing a personal declaration, as defined in the CIPFA Code of Practice. One member of the Council did not return a personal declaration.

**Welsh and Central Government**
Welsh Government has effective control over the general operations of the Authority. It is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has 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 total of members' allowances paid in 2017/18 is shown in Note 29.

The Authority 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 2017/18 and balances at 31 March 2018 is as follows:

| Payments made | Amounts owed by the Council | Amounts owed to the Council |
|---|---|---|
| £'000 | £'000 | £'000 |
| 15,668 | 743 | (4,744) |

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 2017/18 and balances at 31 March 2018 is as follows:

| Payments made | Amounts owed by the Council | Amounts owed to the Council |
|---|---|---|
| £'000 | £'000 | £'000 |
| 2,004 | 35 | (44) |

**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 2017/18 and balances at 31 March 2018 is as follows:

| Payments made | Amounts owed by the Council | Amounts owed to the Council |
|---|---|---|
| £'000 | £'000 | £'000 |
| 1,931 | 30 | (277) |

**Other Public Bodies**
The Authority is the administering authority for the Pension Fund. Details of transactions with the Pension Fund are shown in Note 38 on pages 69 to 73.

**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 Council | Amounts owed to the Council |
|---|---|---|
| £'000 | £'000 | £'000 |
| 642 | 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 2017/18 for services to schools and balances at 31 March 2018 are as follows:

| Payments made | Amounts owed by the Council | Amounts owed to the Council |
|---|---|---|
| £'000 | £'000 | £'000 |
| 1,039 | 46 | (4) |

Cwmni Gwastraff Môn-Arfon Cyf. was established in 1994 as a Local Authority Waste Disposal Company. Gwynedd and Ynys Môn Councils decided to terminate the arrangement in 2007/08 and to undertake the work in-house, with the relevant operational assets, liabilities and staff transferred to the Council in January 2008. The company was wound up in 2017/18 and the Council received £43,784.25 in respect of its share of the assets.

## NOTE 34 – CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

| 31 March 2017 | | 31 March 2018 |
|---|---|---|
| £'000 | | £'000 |
| 436,131 | Non-current Assets and Assets held for sale | 440,928 |
| (71,974) | Revaluation Reserve | (76,405) |
| (187,120) | Capital Adjustment Account | (187,522) |
| **177,037** | **Capital Financing Requirement** | **177,001** |

## NOTE 34 – CAPITAL EXPENDITURE AND CAPITAL FINANCING (continued)

The movement in the year is explained as follows:

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| **173,503** | **Capital Financing Requirement 1 April** | **177,037** |
| 5,487 | Land and Buildings | 7,020 |
| 4,422 | Infrastructure | 4,355 |
| 3,006 | Vehicles, Plant and Equipment | 2,591 |
| 17 | Community Assets | 0 |
| 3 | Surplus Assets | 3 |
| 11,414 | Assets under construction | 5,523 |
| 2 | Assets held for sale | 0 |
| 4,987 | Funded from capital under statute | 3,892 |
| (770) | Capital Receipts used | (1,384) |
| (11,606) | Government Grants and other contributions | (11,255) |
| (5,972) | Capital expenditure charged to revenue | (3,120) |
| (5,593) | Revenue provision for the financing of supported capital investment | (5,547) |
| | Additional voluntary set aside: | |
| (1,863) | Revenue provision for the financing of unsupported capital investment | (2,114) |
| **177,037** | **Capital Financing Requirement 31 March** | **177,001** |

## 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 42) at the following net amount:

| 31 March 2017 £'000 | | 31 March 2018 £'000 |
|---|---|---|
| 3,987 | Property, Plant and Equipment | 3,738 |
| **3,987** | | **3,738** |

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

**NOTE 35 – LEASES (continued)**

| 31 March 2017 £'000 | | 31 March 2018 £'000 |
|---|---|---|
| | **Finance Lease Liabilities** (net present value of minimum lease payments): | |
| 134 | current | 142 |
| 1,993 | non-current | 1,851 |
| **2,127** | Minimum lease payments | **1,993** |

The remaining asset shown above has been funded by a deferred credit (refer to Note 42).

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

| | Minimum Lease Payments | | Finance Lease Liabilities | |
|---|---|---|---|---|
| | 31 March 2017 £'000 | 31 March 2018 £'000 | 31 March 2017 £'000 | 31 March 2018 £'000 |
| No later than one year | 134 | 142 | 134 | 142 |
| Later than one year and not later than five years | 623 | 662 | 623 | 662 |
| Later than five years | 1,370 | 1,189 | 1,370 | 1,189 |
| | **2,127** | **1,993** | **2,127** | **1,993** |

In 2017/18, minimum lease payments were made by the Authority of £133,947 (£126,168 in 2016/17) in respect of those assets held as a finance lease.

**Operating Leases**

| | 31 March 2017 £'000 | 31 March 2018 £'000 |
|---|---|---|
| No later than one year | 457 | 402 |
| Later than one year and not later than five years | 587 | 449 |
| Later than five years | 142 | 115 |
| | **1,186** | **966** |

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

| | 2016/17 £'000 | 2017/18 £'000 |
|---|---|---|
| Minimum lease payments | 564 | 596 |
| | **564** | **596** |

**NOTE 35 – LEASES (continued)**

**Authority as Lessor**

**Finance Leases**

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

- The Sailing Academy in Pwllheli,
- Rhyd Ddu Centre

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

**Operating Leases**

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

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

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

| | 31 March 2017 £'000 | 31 March 2018 £'000 |
|---|---|---|
| No later than one year | 394 | 336 |
| Later than one year and not later than five years | 629 | 511 |
| Later than five years | 2,732 | 2,819 |
| | **3,755** | **3,666** |

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 2017/18 £930,904 minimum lease payments were receivable by the Authority (£908,227 in 2016/17).

## 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 2018 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 | |
|---|---|---|---|---|---|---|---|---|
| £ | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 £'000 | 2017/18 £'000 |
| 0 - 20,000 | 32 | 69 | 35 | 15 | **67** | **84** | 485 | 331 |
| 20,001 - 40,000 | 2 | 10 | 17 | 7 | **19** | **17** | 517 | 489 |
| 40,001 - 60,000 | 3 | 1 | 0 | 2 | **3** | **3** | 136 | 161 |
| 60,001 - 80,000 | 0 | 1 | 2 | 4 | **2** | **5** | 123 | 337 |
| 80,001 - 100,000 | 0 | 0 | 1 | 2 | **1** | **2** | 81 | 172 |
| 100,001 - 150,000 | 0 | 0 | 0 | 2 | **0** | **2** | 0 | 215 |
| Reflects adjustment to previous year estimates | | | | | | | 23 | 0 |
| **Total** | **37** | **81** | **55** | **32** | **92** | **113** | **1,365** | **1,705** |

## NOTE 37 – PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

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

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

In 2017/18 the Council paid £6.63m (£6.63m in 2016/17) in respect of teachers' pension costs, which represented 16.07% (15.74% in 2016/17) 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 2017/18 these amounted to £1.54m (£1.17m in 2016/17) representing 3.74% (2.79% in 2016/17) of teachers' pensionable pay. These costs are accounted for on a defined benefits basis and are included in Note 38.

## NOTE 38 – PENSION COSTS

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

Gwynedd Council participates in two post-employment schemes:

a) **The Local Government Pension Scheme** administered locally by Gwynedd Council. This is a funded defined benefit scheme based on final salary for service up to 31 March 2014, and based on a career average salary from 1 April 2014. The Authority and the employees pay contributions into the fund, calculated at a level intended to balance the pension liabilities with investment assets.

b) **Arrangements for the award of discretionary post-retirement benefits upon early retirement.** This is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

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

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

### Transactions Relating to Post-employment Benefits

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

## NOTE 38 – PENSION COSTS (continued)

| Change in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liability | Period ended 31 March 2017 | | | Period ended 31 March 2018 | | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Net (liability) /asset | Assets | Liabilities | Net (liability) /asset |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Fair Value of Plan Assets | 547,025 | 0 | 547,025 | 649,714 | 0 | 649,714 |
| Present Value of Funded Liabilities | 0 | (699,750) | (699,750) | 0 | (856,715) | (856,715) |
| Present Value of Unfunded Liabilities | 0 | (25,607) | (25,607) | 0 | (28,412) | (28,412) |
| **Opening Position at 1 April** | **547,025** | **(725,357)** | **(178,332)** | **649,714** | **(885,127)** | **(235,413)** |
| Service Cost | | | | | | |
| Current Service Cost* | 0 | (19,784) | (19,784) | 0 | (34,926) | (34,926) |
| Past Service Costs (including curtailments) | 0 | (232) | (232) | 0 | (594) | (594) |
| **Total Service Cost** | **0** | **(20,016)** | **(20,016)** | **0** | **(35,520)** | **(35,520)** |
| Net interest | | | | | | |
| Interest Income on Plan Assets | 19,183 | 0 | 19,183 | 17,021 | 0 | 17,021 |
| Interest Cost on Defined Benefit Obligation | 0 | (25,426) | (25,426) | 0 | (23,258) | (23,258) |
| **Total Net Interest** | **19,183** | **(25,426)** | **(6,243)** | **17,021** | **(23,258)** | **(6,237)** |
| **Total Defined Benefit Cost Recognised in Profit/(Loss)** | **19,183** | **(45,442)** | **(26,259)** | **17,021** | **(58,778)** | **(41,757)** |
| Cash flows | | | | | | |
| Plan participants' contributions | 4,992 | (4,992) | 0 | 5,269 | (5,269) | 0 |
| Employer contributions | 17,962 | 0 | 17,962 | 24,531 | 0 | 24,531 |
| Contributions in respect of unfunded benefits | 1,706 | 0 | 1,706 | 1,695 | 0 | 1,695 |
| Benefits Paid | (20,072) | 20,072 | 0 | (18,937) | 18,937 | 0 |
| Unfunded Benefits Paid | (1,706) | 1,706 | 0 | (1,695) | 1,695 | 0 |
| **Expected Closing Position** | **569,090** | **(754,013)** | **(184,923)** | **677,598** | **(928,542)** | **(250,944)** |
| Remeasurements | | | | | | |
| Change in demographic assumptions | 0 | 3,839 | 3,839 | 0 | 0 | 0 |
| Change in financial assumptions | 0 | (109,365) | (109,365) | 0 | 18,801 | 18,801 |
| Other experience | 0 | (25,588) | (25,588) | 0 | (116) | (116) |
| Return on Assets excluding amounts included in net interest | 80,624 | 0 | 80,624 | 5,278 | 0 | 5,278 |
| **Total remeasurements recognised in Other Comprehensive Income (OCI)** | **80,624** | **(131,114)** | **(50,490)** | **5,278** | **18,685** | **23,963** |
| Fair Value of Employer Assets | 649,714 | 0 | 649,714 | 682,876 | 0 | 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) |
| **Closing Position at 31 March** | **649,714** | **(885,127)** | **(235,413)** | **682,876** | **(909,857)** | **(226,981)** |

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

** This liability comprises approximately £10,388,000 in respect of LGPS unfunded pensions and £17,053,000 in respect of Teachers' unfunded pensions. For unfunded liabilities as at 31 March 2018, it is assumed that all unfunded pensions are payable for the remainder of the member's life. It is further assumed that 90% of pensioners are married (or cohabiting) at death and that their spouse (cohabitee) will receive a pension of 50% of the member's pension as at the date of the member's death.

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

The actuary has provided a detailed breakdown of Fund assets in accordance with the requirements of IAS19. This analysis distinguishes between the nature and risk of those assets, and to further break them down between those with a quoted price in an active market, and those that 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 2017. The split is shown in the table below. The actuary estimates the bid value of the Fund's assets as at 31 March 2018 to be £1.939m based on information provided by the Administering Authority and allowing for index returns where necessary.

## NOTE 38 – PENSION COSTS (continued)

### Fair Value of Employer Assets

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

| Asset Category | At 31 March 2017 | | | | At 31 March 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 22,276 | 0 | 22,276 | 3 | 20,282 | 0 | 20,282 | 3 |
| Manufacturing | 20,119 | 0 | 20,119 | 3 | 22,403 | 0 | 22,403 | 3 |
| Energy and Utilities | 3,618 | 0 | 3,618 | 1 | 2,139 | 0 | 2,139 | 0 |
| Financial Institutions | 12,461 | 0 | 12,461 | 2 | 12,080 | 0 | 12,080 | 2 |
| Health and Care | 32,068 | 0 | 32,068 | 5 | 34,675 | 0 | 34,675 | 5 |
| Information Technology | 26,123 | 0 | 26,123 | 4 | 25,962 | 0 | 25,962 | 4 |
| Other | 1,780 | 0 | 1,780 | 0 | 2,355 | 0 | 2,355 | 0 |
| **Private Equity** | | | | | | | | |
| All | 0 | 29,349 | 29,349 | 5 | 0 | 26,556 | 26,556 | 4 |
| **Debt Securities** | | | | | | | | |
| Other | 0 | 81,166 | 81,166 | 12 | 0 | 99,269 | 99,269 | 14 |
| **Real Estate** | | | | | | | | |
| UK Property | 14,275 | 35,476 | 49,751 | 8 | 15,953 | 36,155 | 52,108 | 8 |
| Overseas Property | 0 | 1,319 | 1,319 | 0 | 0 | 630 | 630 | 0 |
| **Investment Funds and Unit Trusts** | | | | | | | | |
| Equities | 138,871 | 197,659 | 336,530 | 52 | 138,639 | 208,134 | 346,773 | 51 |
| Bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Infrastructure | 0 | 8,711 | 8,711 | 1 | 0 | 11,927 | 11,927 | 2 |
| **Cash and Cash Equivalents** | | | | | | | | |
| All | 24,443 | 0 | 24,443 | 4 | 25,717 | 0 | 25,717 | 4 |
| **Total** | **296,034** | **353,680** | **649,714** | **100** | **300,205** | **382,671** | **682,876** | **100** |

### Basis for estimating assets and liabilities

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

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

**NOTE 38 – PENSION COSTS (continued)**

| | 31 March 2017 | 31 March 2018 |
|---|---|---|
| **Financial Assumptions** | **% p.a.** | **% p.a.** |
| Pensions Increase Rate | 2.4 | 2.4 |
| Salary Increase Rate* | 2.4 | 2.4 |
| Inflation Rate | 2.4 | 2.4 |
| Discount Rate | 2.6 | 2.7 |
| Long-term expected rate of return on all categories of assets | 2.6 | 2.7 |
| **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 | 24.0 | 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 2018, 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 2018 on varying bases. The approach taken is consistent with that adopted to derive the IAS19 figures provided in this note.

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

**Impact on the Defined Benefit Obligation in the Scheme**

| Change in assumption | Approximate increase to Defined Benefit Obligation 31 March 2018 % | Approximate monetary amount 31 March 2018 £'000 |
|---|---|---|
| 0.5% decrease in real discount rate | 11 | 98,365 |
| 0.5% increase in the salary increase rate | 2 | 18,323 |
| 0.5% increase in the pension increase rate | 9 | 78,549 |

## NOTE 38 – PENSION COSTS (continued)

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

### Impact on the Council's Cash Flows

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

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

### Information about the Defined Benefit Obligation

| | Liability Split 31 March 2018 | | Weighted Average Duration |
|---|---|---|---|
| | £'000 | % | |
| Active Members | 482,536 | 54.7 | 24.7 |
| Deferred Members | 135,175 | 15.3 | 25.3 |
| Pensioner Members | 264,705 | 30.0 | 12.0 |
| **Total** | **882,416** | **100.0** | **19.6** |

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

### Impact in Future Years

The total contributions expected to be made to the Local Government Pensions Scheme by the Council in the year to 31 March 2019 are £15.6m.

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 £1,632,772 has been made in 2017/18 (£831,890 in 201617) to bring the deficit in the Scheme based on the Actuarial figures in line with the liability related to the defined benefit pension schemes in the Balance Sheet. This variance has been treated as Actuarial Gains and Losses on Pension Assets and Liabilities and therefore has been included in the Liability related to the defined benefit pension schemes in the Balance Sheet.

## NOTE 39 – CONTINGENT LIABILITIES

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

## NOTE 39 – CONTINGENT LIABILITIES (continued)

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 – CONTINGENT ASSETS

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.

The Authority has one contingent asset. A recent ruling by the European Court of Justice has raised the possibility of leisure services avoiding the need to charge VAT on some activities. PricewaterhouseCoopers, who are acting on behalf of several councils including Gwynedd Council in reclaiming overpaid VAT, brought the test case. If Gwynedd Council is successful, the Authority will be able to reclaim an estimated £1.76m of VAT paid for the period September 2011 until March 2018. The success of such claims is dependent on whether qualifying conditions were met and evidenced, and whether HMRC will argue that 'unjust enrichment provisions' would apply.

## NOTE 41 – 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 use of the funds. 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 2018 was £875,560 (£679,691 on 31 March 2017). 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 42 – SERVICE CONCESSION ARRANGEMENTS

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

The assets used to provide the service are recognised on the Authority's Balance Sheet. The value of the related assets was £3.7m as at 31 March 2018 (£4.0m as at 31 March 2017). The Authority makes an agreed payment (gate fee) each year based on a minimum amount of tonnage which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year. The Authority has the right to increase the amount of tonnages over the agreed 7,500 tons to a maximum of 11,000 tons, and will pay a reduced gate fee for anything over 7,500 tons.

| | Payment for Services | Reimbursement of Capital Expenditure | Interest | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Paid in 2017/18 | 498 | 134 | 131 | 763 |
| Payable in 2018/19 | 498 | 142 | 123 | 763 |
| Payable within 2 to 5 years | 1,991 | 662 | 398 | 3,051 |
| Payable within 6 to 10 years | 2,489 | 1,085 | 241 | 3,815 |
| Payable within 11 to 15 years | 206 | 104 | 7 | 317 |
| **Total** | **5,682** | **2,127** | **900** | **8,709** |

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

The contractor receives income from energy that is generated from the waste which has enabled them to keep the unitary payment low for the Authority. If the income is higher than 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:

| | 2017/18 | |
|---|---|---|
| | Lease Liability | Deferred Income |
| | £'000 | £'000 |
| Balance outstanding at 1 April 2017 | (2,127) | (1,664) |
| Repayment of principal during the year | 134 | 0 |
| Release of deferred income | 0 | 146 |
| Balance outstanding at 31 March 2018 | (1,993) | (1,518) |

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

## NOTE 43 – JOINT OPERATIONS AND JOINT COMMITTEES

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

During the year 2017/18, Gwynedd Council participated in three joint committees, collaborating in particular areas between Local Authorities. Separate accounts are required for joint committees. The three joint committees relating to Gwynedd in 2017/18 are:

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

The Joint Committee accounts follow the same timetable in terms of the statutory dates for the completion of the accounts. In the circumstances, Gwynedd Council's 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 | Leading Council (for Finance) | Councils 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<br>Isle of Anglesey County Council | 50% | 311 |
| GwE | Gwynedd Council | Conwy County Borough Council<br>Denbighshire County Council<br>Flintshire County Council<br>Gwynedd Council<br>Isle of Anglesey County Council<br>Wrexham County Borough Council | 18% | 722 |
| North Wales Residual Waste Treatment Project | Flintshire County Council | Conwy County Borough Council<br>Denbighshire County Council<br>Flintshire County Council<br>Gwynedd Council<br>Isle of Anglesey County Council | 20% | 34 |

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

The Special Educational Needs Joint Committee between Gwynedd Council and Isle of Anglesey County Council came to an end on 31 August 2017. As there was no requirement to report separately in respect of the period, it has been included as part of Gwynedd's accounts in 2017/18.

## NOTE 44 – EVENTS AFTER THE BALANCE SHEET DATE

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

# THE WELSH CHURCH FUND

| 2016/17 £'000 | | 2017/18 £'000 | £'000 |
|---|---|---|---|
| 952 | **Amount of Fund at 1 April** | | 952 |
| | **Add -** Income during the year:- | | |
| 5 | Interest on Investments | | 4 |
| | **Less -** Expenditure during the year:- | | |
| 0 | Decrease in the land value | (22) | |
| (11) | Grants and expenses | (11) | |
| 6 | Transferring Gwynedd's (Under) / Overspend | 7 | |
| | | | (26) |
| 952 | **Amount of Fund at 31 March** | | 930 |
| | **Represented by the following Assets:-** | | |
| 365 | Land and Buildings | | 315 |
| 23 | Debtors | | 22 |
| 1,803 | Cash in Hand | | 1,804 |
| 2,191 | | | 2,141 |
| (1,232) | **Less -** Proportion owing to Anglesey and Conwy Councils | | (1,203) |
| 959 | | | 938 |
| (13) | **Less -** Creditors | | (13) |
| 6 | **Add -** Proportion owing from Anglesey and Conwy Councils | | 5 |
| 952 | **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.

# FMG MORGAN TRUST FUND

| 2016/17<br>£'000 | | 2017/18<br>£'000 |
|---|---|---|
| 167 | **Amount of Fund at 1 April** | 174 |
| | **Add -** Income during the year | |
| 10 | Interest on Assets | 11 |
| | **Less -** Expenditure during the year | |
| (3) | Grants | (3) |
| 174 | **Amount of Fund at 31 March** | 182 |
| | **Assets** | |
| 144 | Investments | 144 |
| 30 | Cash in Hand | 38 |
| 174 | | 182 |

## NOTES TO THE ACCOUNTS

1. This Fund was set up from the residuary estate of the late Mrs. Florence Merthyr Guest Morgan. The income from the Fund was to be applied to aid residents of certain areas of Llŷn for specified purposes.

2. The investments are shown in accounts at cost. The market value of the investments at 31 March 2018 was £347,947 (£351,416 at 31 March 2017).

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.

## ANNUAL GOVERNANCE STATEMENT

This statement meets with the requirement to produce an Internal Control Statement in accordance with Regulation 5 of the Accounts and Audit Regulations (Wales) 2014.

### Part 1: SCOPE OF RESPONSIBILITY

Gwynedd Council is responsible for ensuring that it conducts its business in accordance with the law and to proper standards and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. Gwynedd Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging these overall responsibilities, Gwynedd Council is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk and adequate and effective financial management.

Gwynedd Council has approved and adopted a Code of Corporate Governance which is consistent with the principles of the CIPFA/SOLACE Framework, *Delivering Good Governance in Local Government*. A copy of the code is available on our website, or may be obtained by writing to Gwynedd Council, County Offices, Shirehall Street, Caernarfon, Gwynedd LL55 1SH. This statement explains how the Authority has complied with the code and also meets the requirements of regulation 5(5) Accounts and Audit (Wales) Regulations 2014 in relation to publishing a statement on internal control.

### Part 2: THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with, and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost effective services.

The system of internal control is a significant part of that framework and is designed to enable the Council to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks that are relevant to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework described above has been in place at Gwynedd Council for the year ending 31 March 2018 and remains applicable up to the date of the approval of the statement of accounts.

**Part 3: GOVERNANCE ARRANGEMENTS AND THEIR EFFECTIVENESS**

3.1 The **Governance Arrangements Assessment Group** monitors matters of governance continuously in a disciplined manner, raising a wider awareness of these, and promoting a wider ownership of the Annual Governance Statement. The Group comprises the Chief Executive, the Monitoring Officer, Head of Corporate Support, two Senior Corporate Support Managers, the Senior Manager Revenue and Risk and the Risk and Insurance Manager.

3.2 As a result of the publication of a new version of the CIPFA/SOLACE Framework - *Delivering Good Governance in Local Government* in 2016, the Group has adapted the Council's arrangements for identifying and assessing its governance arrangements in order to reflect the new Framework. Consequently, the local framework was set out in the form of a Governance Risk Register that is part of the Corporate Risk Register, identifying 22 areas of governance risks.

3.3 An outline is given of the Governance Areas, the relevant risks and the Council's arrangements to deal with these, and the effectiveness of these arrangements, in the remainder of this section of the Annual Governance Statement.

3.4 For each Governance Risk, a current score is shown, which is the score following an objective assessment of the control arrangements that are currently in place. Consideration is given to two factors:

- The **Impact** of the risk in the event of it being realised
- The **Likelihood** that it will occur.

3.5 Impact scores vary from 1 (Visible impact) to 5 (Catastrophic impact), and the Likelihood scores from 1 (very unlikely) to 5 (occurring now). The risk score is calculated by multiplying the impact score and the likelihood score.

3.6 The comparative level of the risks is calculated as follows:

| | |
|---|---|
| **Score 20-25** | **Very High Risk** |
| **Score 12-16** | **High Risk** |
| **Score 6-10** | **Medium Risk** |
| **Score 1-5** | **Low Risk** |

## Culture

**Risk: Inappropriate culture within the Council can hinder our ability to do the right things in the correct manner**

Assessment:

An appropriate culture can promote all aspects of governance noted in the register and, in the same manner, an inappropriate culture can hinder all aspects of governance.

If the culture is correct, this can dominate everything else that affects our ability to achieve as the principles of good governance are an inevitable part of the day-to-day conduct of each individual within the establishment. The Ffordd Gwynedd Strategy notes that one of the Council's main aims is to place the people of Gwynedd at the heart of everything we do. In reality, this also describes the Council's values - namely anything that is in keeping with that objective.

The six-day training programme for Service Managers on the principles of Ffordd Gwynedd (including robust performance management principles) was introduced in the summer of 2017. The vast majority of Service Managers, as well as some other officers with a lead role to support and promote the culture, have already received training, whilst there is a specific plan in place to ensure that this training will be available continually for new managers in the future. This intensive training has not led to results thus far, but early indications are heartening with encouragement for managers and their teams to undertake reviews within their own services. Intensive reviews receive the support of two consultants who focus on this work.

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 4 | 3 | **12** |

## Conduct

**Risk: Lack of integrity, ethics and respect in the conduct of members and officers, undermining the public's confidence in the Council**

Assessment:

Appropriate behaviour is essential in order to ensure that the County's residents have confidence in those who make decisions on their behalf, and that they do so in a manner whereby they can be confident in them.

The Council has adopted codes of conduct for its members and officers, based on national regulations (codes such as the Member/Officer Relationship Code, Members' Code of Conduct, Officers' Code of Conduct, Anti-fraud and Anti-corruption Policy and the Whistle-blowing Code of Practice) and these together set the foundation to ensure integrity and ethics. There is evidence of action when it appears that these codes of conduct have been breached.

In the past, some evidence existed of tension between members as the new Cabinet arrangements were implemented within the Council and the change of roles linked to this, and there is no evidence to suggest that those tensions have completely disappeared. Nevertheless, there are signs that the tensions have started to diminish. Tensions are inevitable and are to be expected when there are any significant changes.

There is clear evidence that the Council gives valid consideration to the Ombudsman's reports as part of the work of the Standards Committee, which works effectively.

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 2 | 2 | **4** |

## Lawfulness

**Risk: Ignoring the rule of law, which means that the Council is open to challenges from the courts**

Assessment:

Everything the Council does has to be in compliance with the law.

Statutory Officers (the Monitoring Officer and the Head of Finance) have to offer comments on any formal decision, as part of a comprehensive constitution that is regularly reviewed. There are formal protocols in place in order to safeguard the rights of statutory officers.

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 3 | 1 | **3** |

## Being open

**Risk: A Council that is not open, meaning that it is not possible to hold it accountable for its decisions**

Assessment:

Being open is essential for accountability and a healthy democracy.

Whilst there is a law that allows reports to be considered exempt for publication, only the minimum of Committee reports are exempt, and in addition to publishing the minutes of full committees, publicity is given to the decision sheets of individual members, with procedures to ensure that this occurs. Background papers are published with committee reports in order to ensure that the decisions are made with full information. A number of committee meetings that make decisions are web-broadcast.

The Cabinet regularly considers performance reports as part of its meetings that are open and the Council publishes its Corporate Plan, Annual Performance Report and the Statement of Accounts to seek to give as much information as the residents need for us to be accountable.

Various other methods are also used such as the website, 'Newyddion Gwynedd' and social media to try to ensure that Gwynedd residents are aware of what is happening within the Council.

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 2 | 1 | **2** |

## Stakeholders

**Risk: Weak relationship with institutional stakeholders, ending with sub-optimal services**

Assessment:

The willingness of public sector bodies, including Gwynedd Council, other neighbouring unitary councils, the Police, the Health Board, the third sector and others to collaborate in order to deliver public services jointly may have a substantial and visible effect on the people of Gwynedd.

Work is currently proceeding to respond to the requirements of the Well-being of Future Generations (Wales) Act 2015 that facilitates such a principle. Amongst these requirements is the statutory need to establish a Public Services Board, which includes local authorities and several other bodies. Work has been undertaken to conduct an assessment of well-being; this is part of the initial work of the Public Services Board and has been published. It is now a Draft Plan published by the Board and has been consulted upon.

The Board's Plan is consistent with the Council's Plan.

The Council is committed to the Public Services Board, introduced as a result of the Well-being of Future Generations Act, as a means of maintaining a constructive relationship with other public sector stakeholders. The Partnerships Criteria has been established for several years so that Gwynedd Council only goes into partnership when this is for the benefit of the people of Gwynedd.

Collaboration also occurs at a regional level which is not always as effective as it could be due to the footprint size and the difficulty of building a relationship with such a large amount of people. There are some examples of success (e.g. Ambition Board) and one of the Council's responses to the recent White Paper was that collaboration should be sought according to the benefit that would stem from it rather than dogmatically adhering to one model. It was also noted that there was a need to ensure that collaboration does not hinder local accountability for services.

Collaboration also occurs at a county level with varied success.

There is work to review the system within Care; this includes close collaboration with Health and others, and the indications are promising. Work has been undertaken to identify plans to be commissioned for the future.

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 3 | 4 | **12** |

## Engagement

**Risk: Failure to engage with service users and individual citizens, leading to not doing things correctly**

Assessment:

Clear engagement with the People of Gwynedd to establish clear lines of communication, and to get a true understanding of their needs, is one of the principal elements of governance arrangements.

During 2015/16 the Gwynedd Challenge, a plan to discuss the financial position with Gwynedd residents; demonstrated that significant progress had been made in our Engagement arrangements.

The Gwynedd Challenge exercise was successful and attracted a response from over 2,000 Gwynedd residents, this enabled the Council to take logical decisions in terms of future priorities in light of the views of the people we serve. Whilst there is a need to ensure that this good practice permeates amongst all Council departments, the score now reflects the improvement seen in this area bearing the Gwynedd Challenge in mind and the work done specifically in the area of waste.

The purpose of the Council's Engagement Strategy is to ensure that the Council receives the views of the public and other stakeholders as appropriate, with the Communication and Engagement Unit supporting services to consult using a suitable method and to give support in analysing the results.

Furthermore, the Research and Information Team supports services to make better use of the information we have, in order to increase inclusivity. Guidelines issued in response to the Well-being of Future Generations Act require us to consider smaller units than the Council's footprint and the County has been split into eight well-being areas. The residents of those areas were consulted when drafting the well-being assessment. The well-being areas were used as a basis for early discussion on the Council's Plan in October 2017, and it is also possible to analyse the data of consultations based on these areas.

It was possible to achieve all the elements of the Engagement Strategy and a review will be conducted in 2018 on the Engagement Handbook in order to ensure that it complies with the new performance management arrangements. New arrangements have also been established to specifically engage with the young people of Gwynedd as a result of the work on the Youth Service review.

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 3 | 3 | **9** |

## Direction and vision

**Risk: Direction and vision that is not rooted in the outcomes for individuals and therefore does not realise the needs of the People of Gwynedd**

Assessment:

The Council's Plan 2018-23 was approved by the Full Council of Gwynedd on 8 March 2018. The new Plan this time includes our Well-being Statement, seven Improvement Priorities and every departmental plan. A great effort was made to ensure that it is clear and easy to read and understand.

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 3 | 3 | **9** |

## Sustainability

**Risk: A risk of creating unsustainable answers that do not comply with the five principles of the Well-being of Future Generations Act and do not therefore look at the long term**

Assessment:

The Council has acknowledged the importance of acting in accordance with the Well-being of Future Generations Act and, jointly with its partners on the Public Services Board, has done initial work to identify what needs to be done to operate in accordance with the five principles - Long term, Prevention, Integration, Collaboration and Involvement.

The Council is already complying with all the principles but to a different extent. We have submitted an explanation of the principles of the Act to the Management Group who have agreed that the best way for this to root is for the Departmental Management Teams to pay attention to the principles in forward planning. It is recognised that the success, or not, of this method will need to be assessed. Reports that come before the Cabinet are forwarded beforehand to the Corporate Support Department to be reviewed to keep an eye out for areas where perhaps those principles have not been followed as well as they could have been. Through this it is hoped that we will root the principles naturally rather than ticking boxes, but time will tell if we are successful. The principles mean that every group of society will be included and the Council already has appropriate arrangements to ensure that we improve our provisions for those with protected characteristics.

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 3 | 3 | **9** |

## Decisions

**Risk: Unwillingness to make decisions on action, which means a delay to achieve the outcomes for the people of Gwynedd**

Assessment:

There is a danger that decisions will not be made as they are too difficult or unpopular, but over the last few years there is evidence that this is not the case in Gwynedd with decisions taken to look at the area of schools, externalising Council houses and acting on the difficult results of the Gwynedd Challenge.

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 2 | 3 | **6** |

## Planning Operations

**Risk: Intervention without sufficient planning, that could mean either acting on impulse or excessive planning wasting time and resources**

Assessment:

The Council strives to maintain a suitable balance between Project Management procedures and working efficiently. In this respect, the Council is already supporting robust project management arrangements for the largest projects, using the 'less' comprehensive version but based on the same principles for other projects. In order to ensure that the right matters are measured the achievement measures for every service will be based on achieving the purpose by trying to ensure that any action will improve our ability to deliver this.

We will try to strike a balance between the need for order and the need to deliver as soon as possible by doing as little paperwork as is consistent with this, encouraging simple, brief reports that set out the main key points.

The Council has a Medium Term Financial Strategy, with annual budgets based on this. The Council's work on financial planning is regularly praised by the external auditors, and the Audit and Governance Committee takes a leading role with financial scrutiny. When reviewing our scrutiny arrangements we will include more forward scrutiny and it is hoped that this will assist the Cabinet to choose the appropriate measures to take in various areas.

However, if we wish to do this we have already recognised that getting the Scrutiny Committee to look at something immediately before it is adopted is not the way, but rather for Scrutiny members to be part of the assessment at the very start. This means that matters need to be known early on in the process and Scrutiny used early enough. Time will tell if the new arrangements will achieve this.

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 2 | 2 | **4** |

## Reviewing Outcomes

**Risk: Failure to review the outcomes of our actions, which means that we do not learn lessons by continuing to do the same things incorrectly**

Assessment:

The Council's arrangements for risk assessment, formulating a Corporate Plan and project management will ensure that the intended outcomes to be achieved are clear at the start of any project. The annual performance report will try to focus on assessing to what extent these outcomes have been achieved. There are good examples of where this has occurred and the situation is improving.

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 3 | 3 | **9** |

## Property Assets

**Risk: The Council's property assets not used to their full potential**

Assessment:

Physical assets, be they buildings, vehicles or structures, are essential to deliver for the people of Gwynedd but it is necessary to ensure that those assets meet the requirements of our residents whilst ensuring that we do not spend unnecessarily on assets where the cost of provision is higher than the benefit received.

The Council has an Assets Strategy in place for the period 2009-2018 that is regularly updated. The result is that a number of buildings that were not required any more have been disposed of. A new Assets Strategy is being prepared for 2019-2028.

In terms of vehicles, a plan has been implemented to try and make better use of the Council's fleet that has already presented some financial savings and is likely to achieve more.

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 2 | 2 | **4** |

## Information Technology Assets

**Risk: The Council's Information Technology assets not used to their full potential**

Assessment:

Using technology in an effective way is a crucial tool to ensure that services are provided in a manner that meets with the requirements of our residents, doing this in a cost effective way.

Over the years, Information Technology activities have focused on ensuring appropriate infrastructure to guarantee basic support for services. Whilst there are examples where we can use information technology more extensively to improve how we deliver services for the residents of Gwynedd, there is no evidence that this is consistent across the authority and that it is happening at the speed we would wish.

The Information Technology Strategy adopted for the coming period will try to extend the use made of technology in order to support the improvement aims in the Strategic Plan, by also improving the ability of services to take advantage of the opportunities available to use technology effectively.

There is an element of evidence that this is bearing fruit with self-service increasingly becoming part of using technology to make it easier for residents to get services.

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 3 | 3 | **9** |

## Planning the Workforce

**Risk: Council's workforce not being developed; this means that we cannot provide the best services for the people of Gwynedd**

Assessment:

To ensure that the Council is in a position to provide services that always place the residents of Gwynedd at the centre, we must ensure that we have the right staff in place with the correct skills. This means that we need to continuously train staff, evaluate their performance and foster and develop their talents. Staff training arrangements are an important way of promoting and dissipating the mind-set of Ffordd Gwynedd across the Council, and of course it is vitally important that the Council has officers with the skills to carry out their posts.

Difficulties in filling some senior posts within the Council suggest that there is a need to improve our ability to create progression, at least for senior posts. This has been identified as a basis to develop internal talent within the People Plan. Furthermore, there are recruiting difficulties for some posts in specific geographical areas within Gwynedd (e.g. care workers in Meirionnydd).

A 360° evaluation system has been established for heads of departments, senior managers and some managers; however, it needs to continue to be developed. If we wish to disseminate one culture of placing the people of Gwynedd at the heart of everything we do, we need a method of ensuring that this occurs consistently across the Council and it is essential that we give the appropriate tools to managers and staff to be able to do this.

The People Plan for 2016-18 was adopted by the Cabinet in November 2016; this will seek to improve our arrangements to foster talent within the Council, improve our workforce planning arrangements, and ensure that our learning and development arrangements focus on the essential matters.

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 3 | 3 | **9** |

## Leadership

**Risk: Deficiencies in the Council's leadership means that we are not doing the right things**

Assessment:

Leadership sets the expected standard that every Member and Council employee should follow. Therefore, its impact is great – good Leadership can overcome everything else, whilst poor Leadership can destroy what the Council is trying to achieve. It is this that facilitates embedding the Council's culture.

The roles of the Council, Cabinet, Individual Members and the Chief Officers, together with a clear delegation plan are set out in the Council's Constitution. Gwynedd Council has also prioritised the development of its Leadership Programme and this is part of the People Plan adopted by the Cabinet.

Whilst there is a clear commitment to try and continuously improve leadership, we have not always been clear regarding what this entails nor how to improve it. There is concern that we do not sufficiently differentiate between staff and Members when we think of this.

There is an element of evidence (via self-assessment) that leadership within the Council is improving with many examples of transformational leadership shown rather than transactional leadership. The increasing emphasis placed on "leading" rather than "managing" within the Ffordd Gwynedd culture is another strong indication of the strides made by Cabinet members in taking a leading role to promote good leadership by committing to their development as leaders. Furthermore, the definition of leadership within Gwynedd Council was agreed upon and is reflected in amended job descriptions for every manager within the Council. It is premature, however, to be able to state that these positive steps have come to fruition thus far, and we need to allow time for these leadership behaviours to take root.

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 4 | 3 | **12** |

## Risk Management

**Risk: Weaknesses in our risk management arrangements that increase the threat of something going wrong or failure to take an opportunity to improve**

Assessment:

Recent work to develop one Corporate Risk Register for the whole authority, and to do this in parallel with a system where business units record obstacles and go about trying to resolve those immediately, has started to show success.

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

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

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

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

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

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 5 | 2 | **10** |

## Performance

**Risk: Weaknesses in our performance management arrangements mean that we cannot take appropriate steps to achieve our purpose**

Assessment:

In the past, the perception was that the effectiveness of Performance Management was inconsistent across the Council. By now, officers and Members continually question if we are measuring the right things. Regular meetings take place with Cabinet Members and managers to assess the latest performance, with members of the relevant Scrutiny Committee also present to challenge. Regular performance reports are submitted by Cabinet members on their fields of responsibility to Cabinet meetings.

The Council's Performance Management system has evolved considerably over the last few years. More than anything we now focus on ensuring that business units achieve their purpose and this is done by continuously reviewing if we are measuring the right things. A Performance Handbook has been developed; it is not prescriptive, but sets out the general principles to be followed.

The General Auditor will also observe our performance in different areas by publishing various reports and the Audit and Governance Committee is responsible for ensuring that any recommendations receive attention. Whilst reports include constructive criticism, the Council will try to implement the matters raised, but sometimes there may be conflict between what the Council feels should be addressed and some matters raised in terms of the effort required to be given to them, and the level of risk they represent. However, these examples are not numerous; there were no recommendations in the most recent report and in general the messages are positive.

Complaints are also a key way of getting information for improvement. The new Corporate Complaints Procedure continues to develop well. The Services Improvement Officer ensures that we learn lessons from any complaints, and try to avoid repeating mistakes.

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 2 | 2 | **4** |

## Internal Control

**Risk: Unsuitable internal control arrangements which means that we either do not protect ourselves from risks, or waste resources on over-control**

Assessment:

Getting suitable levels of internal control is core to the aim of placing the people of Gwynedd at the heart of everything we do. That is, do the tasks undertaken by staff actually add value, or are they bureaucratic actions that are done without much thinking about their real purpose?

Getting rid of barriers is part of everyone's work, leading to a suitable level of internal control. On the other hand, the principles of public stewardship mean that it is not desirable to dispose of all internal controls (i.e. there are some risks that are not acceptable), and therefore a combination of risk management procedures and an Internal Audit service that meets with professional standards is a vital tool.

The efficiency of the Internal Audit system is under continuous review and self-assessment indicates that the service satisfies professional standards in accordance with expectation; however, there is a need to continue to consider whether it is reviewing the correct matters, and if it operates in a manner that is in keeping with Ffordd Gwynedd.

Gwynedd Council's Audit and Governance Committee has been established since 1999, and it has an agreed terms of reference.

There is evidence that the Audit and Governance Committee is very effective in delivering its functions. However, there may be a tendency here and there for the Committee to try and duplicate the work of others (e.g. scrutiny committees), rather than keeping an overview of the arrangements.

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 2 | 2 | **4** |

## Information

**Risk: Failure to control information leading to the failure of safeguarding the information we hold, or not to make the best use of it**

Assessment:

Having the correct information is essential if the Council wishes to provide the right services to the right people in the correct way. The information collected and retained needs to be current and relevant, not only in order to comply with the Data Protection Act but also to ensure that the services we provide do the right things. Good Information Governance is the foundation to good decisions.

Despite efforts to improve the arrangements of Information Governance, the Council continues to retain a great deal of information, and we need to continue to work to ensure that it does not maintain more data than is required.

It is expected that the project to introduce an EDRMS system will contribute to a significant improvement in this, and the Governance Arrangements Assessment Group has also commissioned further work on the arrangements within individual departments.

Whilst there are examples where information is used to make effective decisions, there is room to challenge if the practice is as good as it can be and as wide across all the Council's service units.

Research has shown that there is a continuous need to raise awareness about the principles of Data Protection and improving attitudes in the field. This work continues.

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 3 | 3 | **9** |

## Finance

**Risk: Weaknesses when controlling public finance which mean that the Council's finance is not used on its priorities**

Assessment:

It is the Financial Strategy that sets the key context for everything the Council wishes to do. The financial forecast for the Council suggests that substantial savings must be identified in the next few years. It is the Financial Strategy that sets out how we will achieve this and, therefore, it is a critical statement that outlines how the Council will deal with the situation.

Clear evidence exists that the Council's arrangements are strong, and the reviews by external auditors - not only of the Annual Statement of Accounts but also reviews of financial resilience - offer an independent opinion that confirms this.

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 3 | 1 | **3** |

## Accountability

**Risk: Poor reporting, without transparency and unsuitable for the audience, does not highlight to the public what the Council does for them, undermining the democratic position**

Assessment:

The Council has provided guidelines on preparing reports and on making good decisions, in order to ensure that the reports available to the public are clear. As well as formal reports for making decisions, the reports produced also include the Annual Performance Report, the Council's Plan (that includes departmental business plans) and the Annual Governance Statement produced in accordance with the CIPFA/Solace framework. The Council also produces regular reports on its financial position.

However, despite the Council's efforts, and apart from cases where there is a fairly fundamental change in question, it appears that there is no great aspiration amongst the public to hold the Council accountable. This may be because they are satisfied with what the Council is doing or that it is not their priority.

Even with the Gwynedd Challenge consultation where we prioritised (and considered ending) some fairly key services only 2,000 residents responded out of an 18+ population of nearly 100,000.

Monitoring of Cabinet reports will naturally continue with the Chief Executive taking a look at each one.

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 2 | 2 | **4** |

## Assurance

**Risk: Lack of assurance and accountability that raises suspicion amongst the public regarding what the Council is doing**

Assessment:

There are many ways available within the Council in order to provide independent assurance that the Council's governance arrangements are working as they should. Statutory officers ensure that matters comply with the law and the arrangements of the Constitution, whilst the Chief Executive and the Directors continually challenge if the departments are doing the right things. Cabinet members also meet often to challenge each other regarding developments.

The Audit and Governance Committee keeps an overview of the governance arrangements as well as the implementation of the external auditor's recommendations.

Supporting this is the Internal Audit Service that operates in accordance with the statutory professional standards, namely the Public Sector Internal Audit Standards.

However, formally it is the scrutiny procedure that should continue to hold the Cabinet to account. There is transparent and objective scrutiny and challenging of decisions and policies; however, there is uncertainty regarding how effective this is. This has received attention in the Scrutiny Review commissioned by the Audit Committee in 2016/17, but at its meeting on 3 March 2017 the Council resolved contrary to the Audit Committee's decision to adopt a different procedure in the future.

The new procedure was implemented following the May 2017 elections. It is premature now to reach a conclusion regarding the success of the new arrangements; however, it is proposed to undertake an evaluation of effectiveness of these arrangements, with the focus on assessing the value the new scrutiny arrangements have added.

Current Risk Score:

| Impact | Likelihood | Risk score |
|---|---|---|
| 2 | 3 | **6** |

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We have been advised on the implications of the result of **the review of the effectiveness of the governance framework** by the Audit and Governance Committee, and that the arrangements **continue to be regarded as fit for purpose in accordance with the governance framework**. The areas that have already been addressed and those which the Council will address specifically have new ongoing action plans and are outlined below.

**Part 4: SIGNIFICANT GOVERNANCE ISSUES**

4.1 The above scores indicate that it is not considered that any of the 22 areas of governance present a very high risk. However, there are 3 high risks and 10 medium risks.

4.2 Actions for the areas that are a high or medium priority are noted below. Where a specific project within the Council's Plan has been noted as a response, progress is reported regularly to the Cabinet in the Performance Report of the relevant Cabinet Member.

**HIGH RISKS**

| Governance Field | Response Arrangements | Department Responsible |
|---|---|---|
| The Council's Culture | We will continue to hold intensive reviews with a number of services to ensure that they place the people of Gwynedd at the centre of their work as well as continuing to hold training for managers and others. We will resurrect the Managers' College, where there will be an emphasis on supporting embedding the culture and its regular implementation across the Council. This will include supporting managers to ensure an awareness and full understanding of the principles and implementation of Ffordd Gwynedd amongst the members of each team. | Corporate Support |
| Stakeholders | By now, the Public Services Board has considered its Well-being Plan and the Council has played a leading role in the development of that Plan for Gwynedd and Anglesey. It is Council staff who provide the administrative support. The relationship between the various agencies has matured over the last few months and there is a sense of an 'Anglesey and Gwynedd Team' developing.<br><br>We will continue to try and ensure that the Public Services Board adds value for the residents of Gwynedd and try to simplify the relationship of that body with various other regional bodies being established.<br><br>It is fair to say that the relationship with the Part 9 Board is not as good, and Council officers and members have been trying to make sense of the confusing joint working environment that has developed. During the year the intention will be to try and further simplify this environment in order to ensure a smooth operation.<br><br>Our relationship with the Third Sector continues to evolve and we try to ensure that we use that relationship to maximise the benefit that may derive from this for the people of Gwynedd. This journey continues with the relevant departments continuing to develop the relationship. | Leadership Team and Legal |

| Governance Field | Response Arrangements | Department Responsible |
|---|---|---|
| Leadership | There is a project on Developing Leadership within the Council's Plan and the purpose of this project is to arm and sharpen leaders' skills across the Council in order to reach this aim. This will be achieved via a development programme that focuses on the behaviours of leaders and on the full understanding of the implementation principles that are part of establishing and maintaining the new culture. The project will continue to focus on this programme. | Corporate Support |

**MEDIUM RISKS**

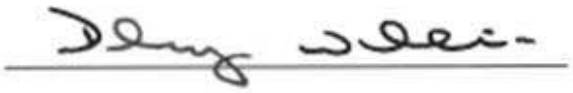
| Governance Field | Response Arrangements | Department Responsible |
|---|---|---|
| Engagement | Continue to strengthen the Engagement arrangements including reviewing internal arrangements, strengthening the central engagement resource and support. This work will include a definition of what is meant by 'engagement' in the context of the Ffordd Gwynedd culture. Ensure that the Gwynedd Council brand appears prominently on services and schemes funded by the Council. The Group looking at engagement arrangements for young people during 2018 will specifically look at the needs of looked-after-children. | Corporate Support |
| Direction and vision | It is proposed to review the Council Plan 2018-23 during Summer 2018 in order to deliver any improvements or inevitable changes in the financial climate in March 2019. | Corporate Support |
| Sustainability | We reviewed the original set of well-being objectives adopted for the Council in its Council Plan for 2017/18 as part of the process of creating the Council Plan for 2018-23. The new set of adopted well-being objectives reflect the main messages that were highlighted by the review. The Council's day-to-day work and the improvement priorities will both contribute to the aforementioned well-being objectives. When carrying out our work, we will seek to ensure that we act in accordance with the five sustainable development principles adopted nationally and a record of this will be expected in reports to the Cabinet. We will also review and then promote the impact of the Act on our day-to-day work. The Governance Group will conduct an assessment during the year in order to come to a conclusion regarding the best way to embed principles of the well-being of future generations across the Council. | Corporate Support |
| Decisions | The control measures that are in place have brought the risk down to an acceptable level. | Leadership Team and Legal |
| Reviewing Outcomes | The risk is accepted at its present level. | Leadership Team and Legal |

| Governance Field | Response Arrangements | Department Responsible |
|---|---|---|
| Information Technology Assets | Operate in accordance with the work programme included in the Information Technology Strategy. This includes:<br>• Extending the use of self-service in order that the people of Gwynedd can access a service at a time that is convenient for them.<br>• Ensure that we use the power of Information Technology to improve what we do for the people of Gwynedd.<br>• Electronic document and records management system (EDRMS) | Finance |
| Planning the Workforce | The Project Group has officer representation from front-line and central services and was established to lead on this important work. The priority focus during next year is the recruitment and retention of staff in the care field which will include setting up a register of key posts where there is a danger of not being able to ensure service continuation. Furthermore, the People Plan will be reviewed during 2018/19 to reflect the next measures to be taken to ensure workforce planning and the continuation of a service of the highest level in the future. | Corporate Support |
| Risk Management | Work in 2018/19 will build upon what has been achieved in previous years. This work will include maintaining a relationship between the Insurance and Risk Service and all departments that support and challenge the contents of the Corporate Risk Register in order to ensure that it is a fair reflection of the Council's main risks. The procedure of considering the contents of risk registers when monitoring the performance of departments will develop further. | Finance |
| Information | Based on the work undertaken under the Council Plan 2013-18, Council Departments are developing their use of information for everyday work and forward planning. There is also better information available about the Council on the website. A great deal of preparatory work has been done for the requirements of the new data protection legislation including creating data asset registers and improving our safeguarding arrangements as well as training staff and members. This is the focus of the work that will continue to receive attention during 2018/19. | Corporate Support |

| Governance Field | Response Arrangements | Department Responsible |
|---|---|---|
| Assurance | A review of the effectiveness of new scrutiny arrangements will take place during 2018/19. | Corporate Support |

**Part 5: OPINION**

We intend to take measures to deal with the above matters during next year in order to improve our governance arrangements. We are satisfied that these measures will deal with the need to improve as identified in the effectiveness review, and we will monitor their operation as part of the next annual review.



**DILWYN O. WILLIAMS**

**CHIEF EXECUTIVE, GWYNEDD COUNCIL**

**DATE** 15-08-18

**Cllr. DYFRIG SIENCYN**

**LEADER, GWYNEDD COUNCIL**

**DATE** 21/08/18

**The independent auditor's report of the Auditor General for Wales to the members of Gwynedd Council.**

**Report on the audit of the financial statements**

**Opinion**

I have audited the financial statements of Gwynedd Council for the year ended 31 March 2018 under the Public Audit (Wales) Act 2004.

Gwynedd Council's financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow 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 2017-18 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of Gwynedd Council as at 31 March 2018 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18.

**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 council 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 council'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.

**Other information**

The responsible financial officer is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

**Report on other requirements**

**Opinion on other matters**

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18;

- The information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual Governance Statement has been prepared in accordance with guidance.

**Matters on which I report by exception**
In the light of the knowledge and understanding of the council and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Annual Governance Statement.
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 Council 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 Statement of Accounts set out on page 7, the responsible financial officer is responsible for the preparation of the statement of accounts, 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 statements of accounts that are free from material misstatement, whether due to fraud or error.
In preparing the statement of accounts, the responsible financial officer is responsible for assessing the council'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 Barrett
For and on behalf of the Auditor General for Wales
28 September 2018

24 Cathedral Road
Cardiff
CF11 9LJ