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RHYBUDD O GYFARFOD	NOTICE OF MEETING
PWYLLGOR ARCHWILIO	**AUDIT COMMITTEE**
DYDD GWENER, 7 TACHWEDD, 2014 am 2 o'r gloch y prynhawn	**FRIDAY, 7 NOVEMBER 2014 at 2.00 pm**
SIAMBR Y CYNGOR, SWYDDFEYDD, Y CYNGOR, LLANGEFNI	**COUNCIL CHAMBER, COUNCIL OFFICES, LLANGEFNI**
Swyddog Pwyllgor **Ann Holmes 01248 752518**	**Committee Officer**

AELODAU / MEMBERS
Cynghorwyr / Councillors:-

Annibynnol / Independent

Jim Evans, Dafydd Rhys Thomas and Richard Owain Jones

Plaid Cymru / The Party of Wales

T Ll Hughes (Cadeirydd/Chair), John Griffith (Is-Gadeirydd/Vice-Chair) and Vaughan Hughes

Grwp Chwyldroad / Revolutionist Group

Jeff Evans

Heb Ymaelodi / Unaffiliated

R Ll Jones

AELODAU LLEYG / LAY MEMBERS

Mrs Sharon Warnes and Mr Richard Barker

A G E N D A

1 **DECLARATION OF INTEREST**

To receive any declaration of interest by any Member or Officer in respect of any item of business.

2 **MINUTES 23RD SEPTEMBER 2014 MEETING** (Pages 1 - 8)

To present the minutes of the previous meeting of the Audit Committee held on 23 September, 2014.

3 **GWYNEDD PENSION FUND ANNUAL REPORT 2013/14** (Pages 9 - 70)

To present the Gwynedd Pension Fund Annual Report for 2013/14.

4 **CERTIFICATION OF GRANTS AND RETURNS 2012/13** (Pages 71 - 102)

To receive the report of the Interim Head of Function (Resources) and Section 151 Officer in response to issues raised in the annual grant audit report.

5 **TREASURY MANAGEMENT MID-YEAR REVIEW** (Pages 103 - 114)

To present the Treasury Management mid-year review report.

6 **RECOMMENDATION TRACKING** (Pages 115 - 116)

To present an update report by the Internal Audit Manager.

7 **COUNTER FRAUD ARRANGEMENTS**

To receive a verbal update by the Internal Audit Manager.

AUDIT COMMITTEE

Minutes of the meeting held on 23 September, 2014

PRESENT:	Councillor Trefor Lloyd Hughes (Chair) Councillor John Griffith (Vice-Chair) Councillors Jeff Evans, Jim Evans, Richard Owain Jones, R.Llewelyn Jones, Dafydd Rhys Thomas Lay Members: Mr Richard Barker and Mrs Sharon Warnes
IN ATTENDANCE:	Deputy Chief Executive Interim Head of Function (Resources) & Section 151 Officer Director of Sustainability (for item 9) Head of Function (Council Business) (for items 10 &11) Internal Audit Manager (JF) Corporate Transformation & Governance Business Manager (ET) Revenue & Benefits Manager (GJ) Acting Accountancy Services Manager (BO) Interim Accountant (RGJ) (for item 3) Corporate Health & Safety Team Leader (SN) (for item 9) Committee Officer (ATH)
APOLOGIES:	Councillor Vaughan Hughes
ALSO PRESENT:	Councillor H.Eifion Jones (Portfolio Member for Finance), Mr Andy Bruce (WAO), Mrs Lynn Pamment (PwC), Mr Joe Hargreaves (PwC)

The Chair welcomed all those present to this meeting of the Audit Committee and he extended a particular welcome to Councillor Dafydd Rhys Thomas who was present following a period of ill health.

1 DECLARATION OF INTEREST

No declaration of interest was received.

2 MINUTES

The minutes of the previous meeting of the Audit Committee held on 22 July, 2014 were presented and confirmed as correct.

3 STATEMENT OF ACCOUNTS 2013/14 AND ISA 260 REPORT

3.1 The report of the Interim Head of Function (Resources) and Section 151 Officer incorporating the final accounts for the 2013/14 financial year was presented for the Committee's consideration.

The Head of Function (Resources) & Section 151 Officer confirmed that the detailed audit of the accounts is now substantially complete and the Auditor's report has been issued. A number of amendments to the draft accounts for 2013/14 which were presented to the Committee's July meeting have been incorporated into the final version. The Officer said that issues arising from the audit have been, and will be implemented, and that it is considered good practice for the Audit Committee to be assured that any subsequent adjustments to practice and procedure are taken forwards successfully. As such he would report back to the Committee's December meeting outlining any improvements made to processes and systems to ensure that the closure of accounts process for 2014/15 proceeds even more fluently.

3.2 The report of the External Auditor on the outcome of the audit of the Financial Statements (Report under International Standard on Auditing 260) was presented for the Committee's consideration.

Mrs Lynn Pamment, Financial Audit Engagement Lead confirmed that it is the Appointed Auditor's intention to issue an unqualified audit report (as per Appendix 2) in the financial statements on receipt of the Letter of representation (based on that set out in Appendix 1) and that in the Auditor's opinion, the accounting statements and related notes give a fair and true view of the financial position of the Isle of Anglesey County Council as at 31 March, 2014 and of its income and expenditure for the year than ended. She proceeded to expand on the main considerations arising from the audit as set out in paragraphs 10 to 41 of the report and drew the Committee's attention to the following issues:

- Whilst there were no concerns about the qualitative aspects of the Authority's accounting practices and financial reporting, the Auditor does draw attention to the continued reliance on temporary staff for a number of key positions within the Council's Finance Service thus producing pressure on the finance team to produce a CIPFA Code compliant final draft of the Statement of Accounts in time for the Audit Committee. It is essential that arrangements are put in place as soon as possible to ensure that the finance team has adequate and appropriately skilled resources going forwards.
- Certain material weaknesses in internal controls were identified in the year in relation to the implementation of the Civica Ledger system and in relation to payments where external audit fieldwork noted that a fraudulent request to change bank details for one of the Council's suppliers was received and actioned during the year.

The Committee raised the following matters on the information presented –

- The volume and complexity of the material presented in respect of the Statement of Accounts. Given the importance of the Committee's being assured regarding the accuracy and robustness of the financial statements, it was suggested that a prior briefing session be arranged to enable Members to familiarise themselves with the details behind the Statement, and to focus on any areas of concern. The Interim Section 151 Officer said that the closure of accounts process in lengthy but that Officers could endeavour to incorporate a familiarisation session for Members within that process.
- The arrangements for reporting back to the Committee on the performance of the Gwynedd Pension Fund which it was noted in a previous meeting would occur on an annual basis. The Committee deemed it an area of sufficient significance for Members to be monitoring. The Portfolio Member for Finance informed the Committee that the Gwynedd Pension Fund Annual Meeting had been held the previous month and the 2013/14 Annual Report had been published.
- Reference was made to the issue highlighted by the External Auditor as significant to the oversight of the financial reporting process in relation to the reliance on temporary staff and the risk this poses to the accounts preparation and closure process as a key area of activity. It was suggested that a more collaborative approach to filling key positions within the Finance Service might be more productive in terms of identifying and attracting suitably skilled staff and that the discussion should be extended beyond Anglesey to institutions and bodies regionally who may also be experiencing similar problems. The Interim Section 151 Officer acknowledged the point and said that a process is in place to develop the skills of permanent staff so that they undertake more of the accounts preparation work in respect of the 2014/15 accounts. There will still be a need for temporary staff during that process but increasingly in an advisory capacity. It is envisaged that for 2015/16, the accounts preparation process should be undertaken without input by temporary staff. Additionally a process has been put in place to develop accountancy professionals within the Council's own Finance Service and an advertisement placed for trainee accountants. The response locally to that advertisement has been very positive.
- Concern was expressed regarding the failure of internal controls in relation to the attempted fraud on the Council described in paragraph 42 of the Auditor's report which was identified by a source outside the Council. The Committee noted that no monies had been lost to the fraud but sought assurance that remedial action had been taken and measures implemented to prevent a reoccurrence. The Interim Section 151 Officer said that the situation had been reviewed and controls tightened accordingly. He said that he was as satisfied as he could be

that such an incident would not be repeated. The Authority however was not targeted in isolation and the attempted deception was part of a wider fraud aimed at a number of local authorities some of which did lose monies to the scam which is now the subject of a police investigation.

It was resolved –

- **To recommend to the County Council that it accepts and approves the 2013/14 Statement of Accounts.**
- **To accept the Audit of Financial Statement Report and to note its contents.**

ACTIONS ARISING:

- **Interim Head of Function (Resources) and Section 151 Officer to report back to the Committee's December meeting on any improvements made to practice and process as a result of the audit of the Statement of Accounts 2013/14.**
- **Interim Head of Function (Resources) and Section 151 Officer to look at the feasibility of incorporating within the accounts preparation and completion schedule, a familiarisation session for the Committee's Members to assist them in identifying key issues arising from the Statement of Accounts.**
- **Interim Head of Function (Resources) and Section 151 Officer to arrange for the Gwynedd Pension Fund Annual Report 2013/14 to be made available to the Audit Committee's members.**
- **Internal Audit Manager to report back to the Audit Committee on the conclusion of the internal audit investigation into the incident of attempted fraud on the Council and its implications in terms of the control environment.**

4 ANNUAL GOVERNANCE STATEMENT 2013/14

The updated draft of the 2013/14 Annual Governance Statement incorporating amendments made during the consultation process was presented for the Committee's consideration and approval. It was noted that the detailed action plan is being prepared in consultation with the officer corporate assessment group and will be brought back to the Audit Committee at its next meeting.

It was resolved to approve the Annual Governance Statement for 2013/14 and to refer the Statement to the Leader of the Council and the Chief Executive for signature.

NO FURTHER ACTION ARISING.

5 EXTERNAL AUDIT – CERTIFICATION OF GRANTS AND RETURNS 2012/13

The report of External Audit summarising the results of work undertaken on the certification of the Authority's 2012/13 grant claims and returns was presented for the Committee's consideration. The report showed where audit amendments were made as a result of the certification work or where the audit certificate had to be qualified, and detailed the key issues behind each of the adjustments and/or qualifications that were made with regard to the relevant grant claims and related recommendations.

The Committee considered the report and highlighted the following issues –

- Given that the Authority's performance is below that of the Welsh average with only 11 out of 39 grants and returns unqualified with no amendments, what action is being taken to improve the situation. The Interim Section 151 Officer said that the Authority will be implementing the recommendations/actions for improvement as set out by the Auditors' report and will report back on progress to the Audit Committee at its December meeting.
- Now that the preliminary certification work had commenced for 2013/14 grant claims, whether the Auditors are seeing any indication of an improving situation. Mrs Lynn Pamment said that insufficient certification work had been undertaken hitherto to be able to assess whether or not the grants management situation for that year's claims is improving, but the Auditors could give the Committee an informal indication of progress at its next meeting.
- Assurance was sought that where discrepancies and anomalies have been identified e.g where payments have been made for services not delivered (Strategic Infrastructure on Anglesey Sites and Premises grant claim 11/12) or where the Council is not able to provide

evidence to validate expenditure (School Effectiveness Grant 2012/13) these are being addressed and will be resolved. It was emphasised that the Committee needs to be satisfied that grants are being spent to plan and are delivering to the purpose for which they have been given. The Committee noted that there were two key issues arising - the effectiveness of the financial systems to track and account for expenditure and oversight of the use of grants. The Interim Section 151 Officer said that he would clarify the situation with regard to the Strategic Infrastructure on Anglesey Sites and Premises Grant with the Committee's Members by letter. He confirmed that financial management processes are being reviewed for the future and that he would bring an itemised report to the Committee's next meeting detailing the response to each grant claim where the Auditors have identified issues.

- That there is insufficient Elected Member involvement in the grants management and tendering process. Members need to be better informed about the award of grants, the sourcing body and qualifying criteria along with the process of delivery. It was noted that whilst improvements have been made as regards the Authority's processes for managing grants, there needs to be a step change so that the Authority is assessed as one of the highest performing Welsh authorities in this respect.

It was resolved to accept the report and to note its contents.

ACTIONS ARISING:

- **Interim Head of Function (Resources) and Section 151 Officer to provide the Committee at its next meeting with an itemised report setting out progress on action in response to each grant claim where the Auditors have identified issues.**
- **Interim Head of Function to provide the Committee's Members with clarification of the situation with regard to the Strategic Infrastructure on Anglesey Sites and Premises 11/12 grant claim.**
- **External Audit to provide the Committee at its next meeting with a broad indication of progress in relation to the 2013/14 certification of grant claims.**

6 EXTERNAL AUDIT PERFORMANCE WORK PROGRAMME UPDATE

Mr Andy Bruce, WAO updated the Committee on the status and timing of current External Audit items of performance work in terms of both national and local reviews. He confirmed that the study in respect of Whistleblowing has been completed and might be incorporated as part of the Improvement Study in relation to Safeguarding.

It was resolved to note the information.

NO FURTHER ACTION ARISING

7 PROGRESS ON THE COLLECTION OF DEBTS

The report of the Interim Head of Function (Resources) and Section 151 Officer on progress on the collection of debts was presented for the Committee's consideration. The report set out the key areas wherein efforts have been focussed on reducing the debtor balance and outcomes to date, the additional resources deployed where that was deemed necessary and proposed future action. Appendices A,B, and C to the report set out the overall collection rate per year for each debt type targeted.

In response to a request for clarification, the Interim Head of Function (Resources) and Section 151 Officer said that £11k had been spent on additional resources recouping £1m hitherto.

It was resolved to accept the report and to note the information.

NO FURTHER ACTION ARISING

8 COUNCIL RESERVES AND BALANCES

The report of the Interim Head of Function (Resources) and Section 151 Officer regarding the current position on both Revenue Reserves and Capital Reserves was presented for the Committee's consideration.

It was resolved to accept the report and to note the information.

NO FURTHER ACTION ARISING

9 CORPORATE HEALTH AND SAFETY ANNUAL REPORT 2013/14

The Corporate Health and Safety Annual Report for 2013/14 was presented for the Committee's consideration. The report provided an analysis of accidents and incidents reported during the year along with a Corporate Health and Safety Strategy and Corporate Health and Safety Responsibilities Document as at Appendix 1 of the report.

The Corporate Health and Safety Team Leader highlighted the following key points –

- The focus on delivering on the transformation agenda and on Job Evaluation over the past twelve months may mean that some day to day issues and progress with improving health and safety standards have fallen.
- Due to restructuring, Heads of Service have inherited hazards which are new to them which might result in insufficient controls and management systems being in place.
- Health and safety considerations need to be incorporated within Service Business Plans. Pre-planning would mean that adequate resources are in place allowing for the work to be more efficient.
- The importance of Health and Safety training as a major control. The establishment of a central register of health and safety qualified personnel and their level of competence would be useful.
- The need to clarify the service delivery expectations of the Corporate Health and Safety Team and whether its role is seen in terms of implementation or oversight only.

The Committee considered the report and raised the following matters on the information presented :

- The need to have in place an adequately resourced Health and Safety Team as a key area of activity within the Council.
- The need for a more detailed analysis of the basic data in order to be clear about the occurrence of incidents of actual physical assault on Council staff.
- The need to ensure that there is in place a robust accident and incident reporting system and a process for recording near misses as part of a preventative/pre-emptive approach to managing corporate health and safety. The need to develop a strong reporting culture throughout the Authority at all levels was emphasised.
- The need to reinstate the register of potentially dangerous individuals as a matter of priority as an essential control in relation to mitigating the risk of violence and aggression in the workplace and for lone workers.
- The need to ensure that all Heads of Service are fully informed of their Health and Safety responsibilities and what those entail.

It was resolved –

- **To accept the report and to note its contents.**
- **That the register of potentially dangerous individuals be reinstated as a control for mitigating the risk of violence and aggression in the workplace and for lone workers.**

ACTION ARISING: Director of Sustainability to take steps to reinstate the register of potentially dangerous individuals.

10 PUBLIC SERVICE OMBUDSMAN FOR WALES SUMMARY OF PERFORMANCE

The report of the Head of Council Business/Monitoring Officer in respect of the conclusions of the work undertaken by the Office of the Public Services Ombudsman for Wales (PSOW) during 2013/14 was presented for the Committee's consideration. The PSOW's summary report of performance was presented under Appendix 1 to the report.

The Head of Council Business said that the PSOW's report shows that the Isle of Anglesey County Council is improving against its own historical performance and against the Welsh average.

It was resolved to accept the report and supporting documentation without further comment.

NO FURTHER ACTION ARISING

11 DATA PROTECTION AND INFORMATION GOVERNANCE

The report of the Head of Council Business on the latest position with regard to addressing data protection and information governance issues was presented for the Committee's consideration. a

The Head of Council Business informed the Committee that the work of the Information Governance Project Board established to deliver the Action Plan formulated in response to the recommendations made by the Information Commissioner following his Office's audit of the Council in 2013 ended on 4th September, 2014.The attached Highlight Report details all the activities achieved during the project's lifetime. A new group – the Information Governance Board will now take over responsibility for any loose ends remaining from the Project Board and will ensure that the Council continues to monitor and improve the standard of its information governance.

The Committee noted the progress made and accepted the update without further comment.

It was resolved to accept the report and to note the information.

NO FURTHER ACTION ARISING

12 CORPORATE ASSESSMENT

The Deputy Chief Executive informed the Committee that the main field work in relation to the Corporate Assessment of the Council will be undertaken in February 2015.The Authority is being supported in its preparations in targeted areas by the WLGA specifically in undertaking briefing sessions. Four sessions have been arranged for this week one of which is with the Scrutiny Committees to consider value added scrutiny. A briefing session for the Audit Committee specifically is planned with regard to the corporate assessment. Work has also been commissioned on risk management and a session is to be arranged with the Audit Committee and Scrutiny Committees jointly to clarify responsibilities with regard to risk management.

It was resolved to note the information.

ACTION ARISING: Deputy Chief Executive to provide a further update on preparations for the Corporate Assessment to the Committee's next meeting.

13 AREAS OF OUTSTANDING INTERNAL AUDIT CONCERNS

The report of the Deputy Chief Executive outlining the management actions taken and progress made with regard to each area of outstanding Internal Audit concern as documented in the Internal Audit progress report to the Committee's previous meeting was presented for the Committee's consideration.

The Committee took assurance from the actions implemented and progress made hitherto. The Committee noted that whilst further work remains to be undertaken in certain areas, a timescale for completion has been specified for each area which it welcomed.

It was resolved to accept the report and to note the contents.

NO FURTHER ACTION ARISING

14 INTERNAL AUDIT PROGRESS REPORT

The report of the Internal Audit Manager on the work of the Internal Audit Section during the period from April to the end of August, 2014 was presented for the Committee's consideration.

It was resolved to accept the report and to note its contents.

NO FURTHER ACTION ARISING

Councillor Trefor Lloyd Hughes
Chair

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Cronfa Bensiwn Gwynedd Pension Fund

Contents

1. Foreword

It has been a better year for the Gwynedd Pension Fund, largely as a result of improved performance by our equity managers and the position taken by the Fund in relation to its bond investments. In terms of our investment expectations, the overall Fund return of 8.2% is above the benchmark for the year of 6.3%. This reflects the improved performance from the active equity managers who outperformed their benchmarks, as did the absolute bond mandate which is now beginning to serve its purpose.

In comparative terms, the performance for 2013/14 was significantly better than the previous year, with the Gwynedd Fund ranked 19th out of 85 in terms of investment performance compared with other local authority funds.

Markets generally produced better performance than the previous year, with equities and property performing well. Our bond mandate is absolute return and now that bond yields are negative our returns remained positive, returning 3.3% for the year (see pages 18 to 20 for details).

The fund assets stood at £1,310m at 31 March 2014, an increase of £117m during the year, as shown in the accounts on page 24.

During 2013/14 the triennial actuarial valuation as at 31 March 2013 was completed. It was good to see that the funding level increased to 85%, which is ahead of the average of 79% in England and Wales. However, the deficit increased, which was generally the case across all funds. This is primarily due to increases in life expectancy and the low level of gilt yields at the time of valuation.

The results for individual employers can be very different from those for the whole fund, and this has been taken into consideration in setting the contribution levels. For this valuation, pooling of smaller employers for contribution purposes was discontinued, and insurance was introduced to protect them from the risk of costs from early retirements due to ill-health.

In order to protect the Pension Fund from decreases in total employer contributions, from April 2014 the deficit element of each employer's contributions is paid as a monthly cash sum, rather than as a percentage of pay.

The decisions made during the valuation process were formalised in the new Funding Strategy Statement, which was circulated to all interested parties prior to formal approval by the Pensions Committee in March 2014.

The administrative unit continued their effective performance as measured against their targets (see page 6). The communications activity has been critical in helping employers to introduce the new Local Government Pensions Scheme from 1st April 2014. A significant amount of work was involved in implementing the new systems to ensure that a smooth transfer was possible.

It has been a busy year for the Pension Fund, with a number of changes and consultations taking place. The collaboration project developed by the eight pension funds in Wales has been overtaken by the Westminster Government's consultation on opportunities for collaboration, cost savings and efficiencies. Whilst there was a possibility that mergers of pension funds would be an option, this has not been proposed with the Government recognising it should be possible to achieve efficiencies and savings through collaboration. The proposal that all equity investment should be passive, rather than active, in order to save costs was more unexpected. That would have been to this Fund's detriment last year. Our response supported the view that funds should be given the choice to comply with this proposal or explain why a decision has been made to pursue active management.

A further consultation on changes in governance arrangements is underway. The draft regulations require a Pensions Board to be established, with equal representation for employers and employees. Elected councillors can also be members of the Board, but cannot outnumber the other representatives. The current arrangement for Gwynedd Pension Fund is a Pensions Committee under Gwynedd Council's constitution. The consultation period closes in the middle of August and the Fund will be responding to the proposals.

This is my last report as Corporate Director responsible for strategic investment of the Pension Fund, as I will be taking up my new post as Gwynedd Council's Chief Executive in the Autumn. I have enjoyed my work for the Fund and I look forward to seeing it grow in the future.

Dilwyn O. Williams
Corporate Director

2. Review of the Year

2.1 Pensions Administration

General and Introduction
Completing the Welsh and English Pension fund valuations, taxation on individual pension accrual, and ongoing consultation on the carrying over of the 85 year rule protections into the new CARE arrangement were the leading issues and topics during the year. The results of the funds' valuations would, for the first time, measure liabilities on a combination of final salary accruals to March 2014 and assumptions based on the new CARE arrangement. All other things being equal, it is hoped that the introduction of the CARE scheme would see Local Government Pension Scheme (LGPS) prove more sustainable in the longer term.

Gwynedd Pension Fund Valuation 2013
Scheme deficits have been a concern for a number of years, especially in light of continual increases in longevity, low gilt yields and lower than expected investment returns. Historically, smaller employers in the Gwynedd Fund had been pooled to determine common contribution rates and to share the high risk associated with fluctuations in membership, in particular the cost impact of ill health retirements.

A series of video conferences took place between Fund officers and the Actuary during the summer of 2013 to determine, agree and set assumptions for the valuation. Employers were consulted on a number of issues, with the smaller employers in particular asked to attend valuation meetings to discuss the consequences of de-pooling and the introduction of ill health insurance cover.

Ill health insurance cover
The main drawback of small employer pooling is cross subsidization of employer liabilities. In order to mitigate this, the Fund looked at alternative ways of covering the risk associated with ill health retirements, the principle reason behind pooling. Hymans Robertson recommended an insurance policy, where the premium costs would be broadly equivalent to reductions in employer contributions by not covering the previous pooled risk. Cover started from the 1 April 2014, allowing individual employers their own contribution rates based on membership profile and historical experience.

Deficit Recovery
Shifts in individual employers' active membership raised further concerns. Historically, recovery of deficits was made by means of adding a percentage of payroll on the future accrual rate based on assumtions of consistent levels of membership. However, with membership levels under threat from the current financial climate, there was a real risk that the recovery of deficit would not reach the expected level. Therefore, for the 2013 valuation the Actuary was asked to identify deficits in cash terms, rather than percentage of payroll. As a result, from 1 April 2014 employer contributions towards deficit were based on equal monthly cash amounts for the recovery of deficits, and percentage of payroll to account for future benefit accrual. This way the amount recovered would remain constant, irrespective of future membership levels.

The valuation timetable ran relatively smoothly, with data being sent to the Actuary on time. Preliminary results were available mid-autumn and a valuation employer meeting was arranged at Siambr Dafydd Orwig for the 7th November 2013. Individual results were distributed and employers invited to question any aspect of valuation, in terms of assumptions and results, with senior officers of Gwynedd Pension Fund and Mr Richard Warden from Hymans Robertson present to answer accordingly.

LGPS 2014 (the CARE scheme)

With the Local Government Pension Scheme Regulations 2013 being laid before parliament on 19th September 2013, there was concern over the issuing of Transitional Regulations. These regulations were, amongst other things, to set out how the "85 year rule" protections, the most complex area of the scheme, were to carry over into the new arrangement.

Draft Transitional Regulations were issued in December 2013, but the final, and much changed, regulations were only laid before Parliament on 10th March 2014 and received at Gwynedd Council on the afternoon of 12th March 2014, only nineteen days before they came into force. These were followed on 31 March by the first of eight sets of actuarial guidance, with yet more to follow.

The lateness of the transitional regulations meant that our software was not able to calculate retirement estimates accurately, resulting in manual intervention whilst upgrades were installed. Transfer and divorce calculations had to be put on hold pending further actuarial guidance, and other normally routine calculations had to be double checked manually, causing some delay. We apologise for any problems this may have caused for employers.

A presentation on LGPS 2014 was given as part of the Fund's Annual General Meeting on 25th July 2013, and followed by updated presentations during the employers' valuation meeting in November. The Fund's Communication Team organised and attended over 150 bilingual employee presentations between January and May 2014, ranging in area from Wrexham in the east to Pwllheli in the west and Holyhead in the north to Dolgellau in the south. It is estimated that approximately 2,500 have attended these presentations. The Fund's website was updated in the period leading up to 1st April to provide extensive information to both employers and members. This included new forms, documents, leaflets and booklets, most of which were also distributed in hard copy versions. I would like to offer my thanks to the Unit staff for their hard work and conscientious efforts during the valuation year, and in particular in preparing for LGPS 2014.

Taxation on Individual pension

The continuing reduction in allowances for annual and lifetime pension accrual has seen an increase in enquiries and requests for information. In the year 2014/15 these allowances will reduce further to £40,000 and £1.25m respectively, and it is expected that more members will become subject to tax charges, and consequently further enquiries.

Analysis of Scheme Demographics

In the 18 years since reorganisation in Wales (1 April 1996), the number of pensions in payment has grown from 5,043 to 8,323, an increase of 65.04%. The pension payroll now has more monthly payments than all the other Gwynedd Council payrolls combined. It includes 192 pensioners in the 90 to 100 age group with a further six over the age of 100.

The number of actives and deferreds has also grown significantly over the years. A comparison between the 1995 valuation report (the nearest year to reorganisation) and the 2013 report (the latest valuation) are shown in the table below:

	31/03/1995	31/03/2013	% increase
Actives	5,428	14,344	64%
*Pensioners	4,033	7,264	80%
Deferred Members	1,198	11,000	818%
Total	10,659	32,608	206%

this time the number of pensioners in the above table does not include former teachers receiving compensation

Whilst accepting that members with multi posts are now treated with separate records, the increase in general membership remains substantial, in particular the increase in deferred members. The number of early retirements during reorganisation resulted in the age profile of the fund getting younger. Now those 'younger' members are approaching or have already reached retirement age. The following table shows the number of active and deferred members in the age groups 50-55 and over 55 in the fund in March 2014.

	Actives	Deferreds	Total
Age between 50 – 55	2,230	1,385	3,615
Age 55 and over	2,929	1,569	4,498
Total	5,199	2,954	8,113

These statistics point to further growth in pensioner numbers in the short to mid term. The 4,498 in the over 55 age group can, from 1 April 2014, terminate their employment and voluntarily claim immediate, if reduced, benefits.

All Wales Partnership

Discussions continue on the future of scheme administration, both in England and Wales, with pressure rising for a wholesale review of governance arrangements. As far as administration in Wales is concerned, a report produced in 2011 concluded that a greater effort on collaboration would be undertaken. So far the fruits of this collaboration have been more on producing consistent documentation, such as scheme leaflets, booklets and annual benefit statements. The next logical step to be undertaken is to look at standarising working practices and targets, so that Wales will have a more flexible pensions specialist workforce able to share work during peaks and troughs.

Budget 2014

Some significant proposals to reform defined contribution (DC) pensions were announced as part of Budget 2014, including plans to make fundamental reforms to the tax treatment of such schemes and in particular flexibility around the ability to take lump sums as an alternative to purchasing an annuity. Whilst these changes may not directly apply to the LGPS there are some changes that will apply, including increases to the trivial commutation amount, and the possibility of stopping transfers from public service pension scheme to DC schemes except in certain limited circumstances. With regard to the latter, HM Treasury has launched a consultation entitled 'Freedom and choice in pensions'.

Performance Monitoring

A certain number of the section's core activities are measured as part of the Council's Performance Monitoring. From 2010/11 targets CD9.05 and CD9.06 were reduced from a target of an average of twelve working days to ten. Both of these involve the administrative work required to process death and dependant benefits.

			2012/2013		2013/2014	
REF	CORE ACTIVITIES	TARGET	NO OF CASES	AVERAGE DAYS TAKEN	NO OF CASES	AVERAGE DAYS TAKEN
CD9.01	Average number of work days taken to send a quotation letter offering a transfer in	40 days	122	20.55	132	28.6
CD9.02	Average number of work days taken to send a quotation letter detailing a transfer out	40 days	67	10	70	5.9
CD9.03	Average number of work days taken to send a letter informing value of benefits – estimate	10 days	1,255	5.9	1,109	7.6
CD9.04	Average number of work days taken to send a letter informing value of benefits – actual	10 days	638	38	471	5.1
CD9.05	Average no of days taken to acknowledge death of active / preserved / pensioner member	10 days	9	6.8	23	6.4
CD9.06	Average number of work days taken to notify dependents benefits	10 days	192	9.3	162	7.7
CD9.07	Monthly pension payments processed and paid on time	100%	*Approx. Average 7877 pr mth	Reached 100% target	* Approx. Average 8193 pr mth	Reached 100% target
CD9.08	Number of cases where amended payments were necessary as a result an error in the section	Not to exceed 8 cases for the year	3	N/A	2	N/A

The number of monthly pension payments shown includes approximately 940 former teachers in receipt of compensatory pension

Gareth Jones
Pensions Manager

2.2 Actuarial Valuation

During 2013/14 the triennial formal actuarial valuation as at March 2013 was completed. The Gwynedd Fund's funding level increased from 84% to 85%, which is better than the England and Wales pension funds' average funding level of 79%. However, the deficit increased from £183m at 31 March 2010 to £210m at 31 March 2103. The deterioration in the deficit reflects the adverse conditions that the Fund has had to contend with since the previous valuation. In particular, the decrease in the real gilt yield has increased the value placed on the Fund's liabilities. The impact of the lower gilt yield has been reduced slightly by the Administering Authority's decision to increase the asset outperformance assumption from 1.4% used at the 2010 valuation to 1.7% at the 2013 valuation.

As with any set of pension scheme valuation results, this triennial valuation is just a snapshot at a particular point in time. Whilst adhering to prudent actuarial assumptions, the Gwynedd fund has managed to restrict the impact on future employer contribution rates to a reasonable increase, helping to keep the LGPS affordable, viable and fair to taxpayers.

Following advice from the actuary the employer pension contributions have been calculated as a percentage of pay for future service liabilities, and an annual cash sum paid in monthly instalments from 1st April 2014. This is to protect the pension fund from significant decreases in contributions if the numbers of employees decline due to budget reductions in the challenging current economic climate.

Further details are shown in section 4.2 below.

2.3 Funding Strategy Statement

The Funding Strategy Statement was reviewed during 2013/14, to reflect the Actuarial Valuation at 31 March 2013, and the employers participating in the Fund were consulted during this process. The Funding Strategy Statement sets out the fund-specific strategy which will identify how employers' pension liabilities are best met going forward. It includes the employer contribution rates from 1 April 2014 onwards.

Further details are included in section 4.8 below and a copy of the Funding Strategy is available at http://www.gwyneddpensionfund.org.uk/upload/public/attachments/1222/Funding_Strategy_Statement_2014.pdf on the Pension Fund website.

2.4 International Accounting Standard 19 (IAS19) and Financial Reporting Standard 17 (FRS17)

Definition of IAS19

IAS19 effectively defines how pension scheme assets and liabilities are to be measured for financial reporting purposes and notes that any deficit or surplus should be recognised in full as a balance sheet item, with any movements being recognised in the annual profit and loss account. IAS19 is relevant to bodies required to report under IFRS. This affected the scheduled bodies in the Pension Fund, which are part of Government accounting, namely Gwynedd Council, Isle of Anglesey County Council, Conwy County Borough Council and their foundation schools, Snowdonia

National Park Authority and the Police and Crime Commissioner for North Wales. All other employers are still subject to FRS17 reporting requirements.

Accounting for IAS19 and FRS17

Adoption of IAS19 or FRS17 means that employers have to recognise the net asset or liability, and a pensions reserve, in the balance sheet. They also have to make entries in the Consolidated Revenue Account for movements in the asset or liability relating to defined benefit schemes. For those reporting under IAS19 there were new reporting requirements and a seminar was held with employers to explain the changes prior to production of the year end reports.

IAS19 and FRS17 Reports as at 31/03/2014

In January 2014, work was undertaken to collect all the necessary data required by the Actuary to calculate the individual IAS19 or FRS17 information for each of the Fund's employers. The majority of the reports were sent to the employers between 6th May and 12th May 2014.

IAS19 and FRS17 Results as at 31/03/2014

The significant changes that have taken place during the year for a typical employer in the Fund are that:

- the deficit has increased due to falling real bond yields;
- this has been partially offset by strong asset returns;
- the projected pension expense for next year has also risen, due to falling bond yields.

2.5 Consultation on Collaboration

The project to examine the opportunities for improvement through collaboration across the eight local government pension funds in Wales continued during the year, with the decision to commission a business case for a collective investment vehicle in Wales. This work is currently on hold due to the relevant consultation by the Department of Communities and Local Government regarding 'Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiences' regarding the way forward for pension funds in England and Wales.

The Westminster Government's proposals include:

- Establishing common investment vehicles to provide funds with a mechanism to access economies of scale.
- Reducing investment fees and other costs of investment by using passive management for listed assets.
- Leaving discretion regarding asset allocation with the local fund authorities.
- Not to pursue fund mergers at this time.

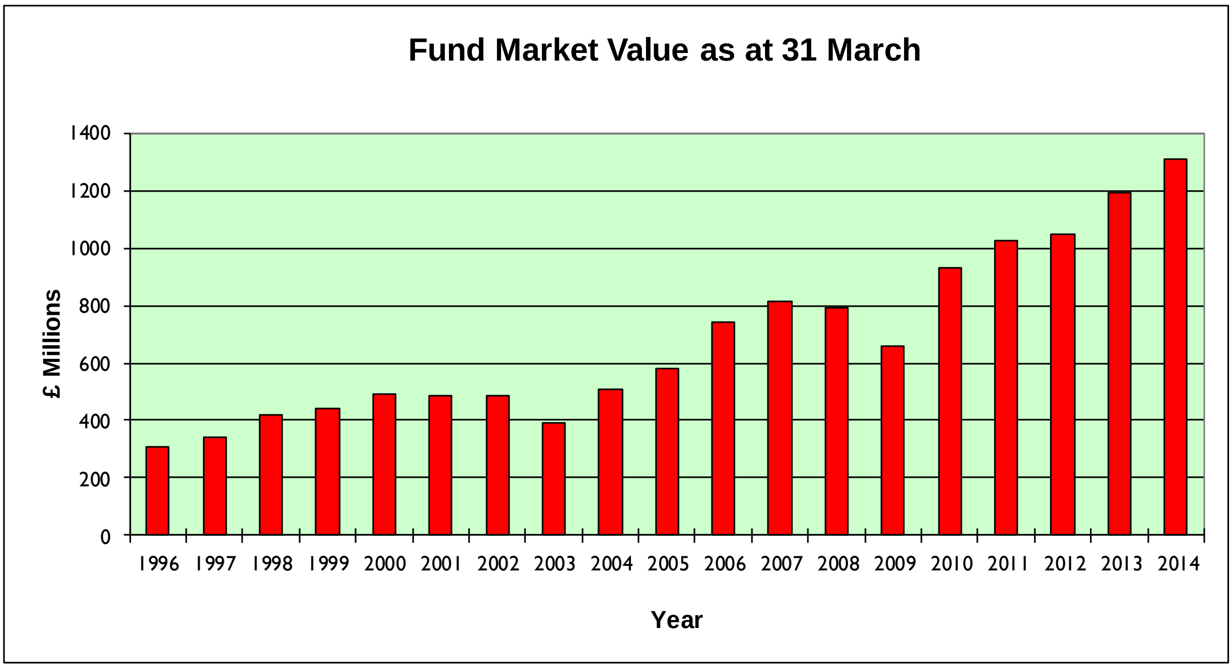
The consultation period lasted 10 weeks to 11 July 2014. Gwynedd Council responded as administering authority for the Pension Fund. A joint response from the eight Welsh pension funds was also submitted.

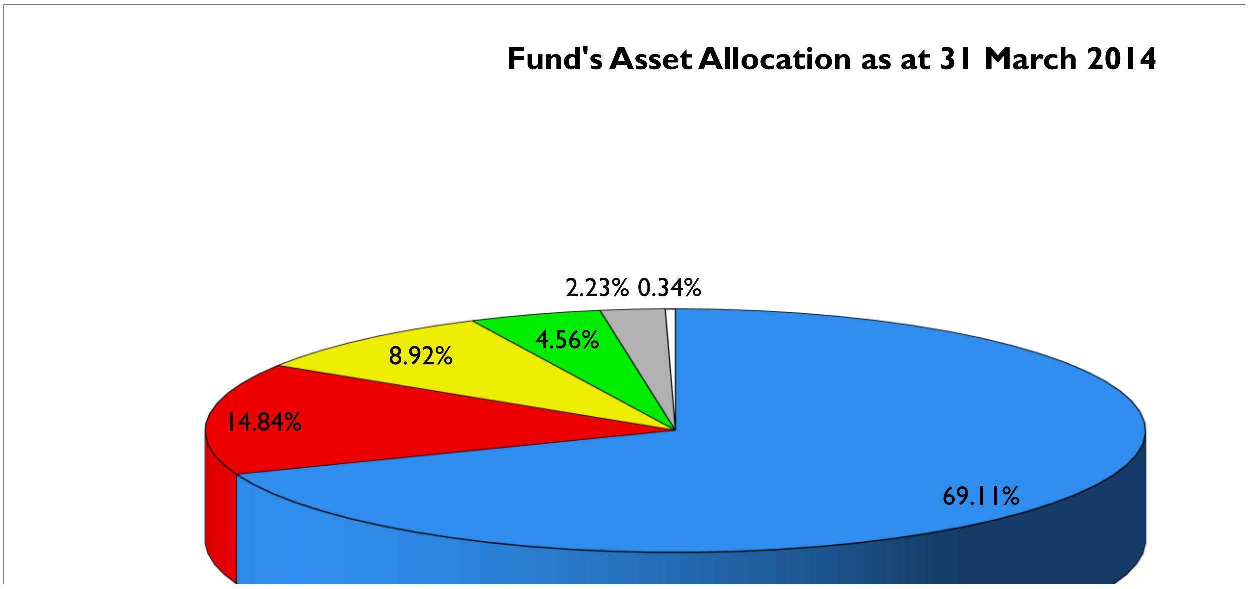
The Pension Fund's response welcomed the intention not to pursue fund mergers and to concentrate of the option of collaboration in investments in order to achieve savings and efficiencies. It also stressed the need for good governance, which allows local participation and influence on the proposed collective investment vehicles.

Following the consultation above, draft regulations have been issued on scheme governance, to establish a standard structure for all LGPA funds in England and Wales. The Westminster Government's intention is to enact provisions set out in the Public Service Pensions Act 2013 requiring funds to establish local pension boards to govern each fund by 1st April 2015.

Dafydd L. Edwards
Head of Finance

3. Recent Trends





4. Management Report

4.1 Scheme Administration

General
The basis for the Local Government Pension Scheme (LGPS) is contained in the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).

Gwynedd Council administers the Gwynedd Pension Fund for its own employees and those of 22 other scheduled bodies (including 2 Local Authorities) and 17 admitted bodies. The Fund does not cover teachers, for whom separate arrangements exist. The Fund is financed by contributions from employees and employers, together with income earned from investments. Up to March 2008 employees contributed to the Fund at the statutory rate of 6%, with manual workers who were paying at 5% prior to 31st March 1998 contributing at this protected rate. The employer's contribution rate is assessed periodically by the Fund's Actuary.

Since April 2008 employees' contribution rates have been determined in bands according to their full time equivalent pay indexed annually in line with inflation. The bandings from 1 April 2013 are shown in the table below:

Band	Salary Range	Contribution rate
1	£0 - £13,700	5.5%
2	£13,701 - £16,100	5.8%
3	£16,101 - £20,800	5.9%
4	£20,801 - £34,700	6.5%
5	£34,701 - £46,500	6.8%
6	£46,501 - £87,100	7.2%
7	More than £87,100	7.5%

Benefits
The LGPS provides significant benefits to members. Listed below are brief details of some of the principal benefits available to members.

Benefits will normally be based on two factors: length of service during which contributions have been paid to the scheme, known as "Total Membership", and the wage or salary on which those contributions were paid (normally the last 12 months of service), known as "Final Pay".

- **Annual Pension**
  The Calculation of the annual standard pension is based on the following formula:

  Final Pay x 1/80 x Total Membership to 31 March 2008, plus
  Final Pay x 1/60 x Total Membership from 1 April 2008 to 31 March 2014

Once the pension is in payment it will rise each April in line with the increase in the Consumer Price Index. Details of the changes to scheme regulations from 1 April 2014 will be included in the 2014/15 report.

- **Lump Sum**
  There is also an entitlement to a standard tax-free lump sum on membership to 31 March 2008, based on the following formula:

  Final Pay x 3/80 x Total Membership to 31 March 2008 only

- **Conversion of Benefits**
  There is an option to convert part of the pension into an additional lump sum in excess of the formula shown above, but subject to HMRC limits.

Councillor Pensions
The scheme also provides access to Councillors. The benefit package is based on the pre April 2008 formula for pension and lump sum shown above but using Career Average Salary instead of Final Pay.

Ill-Health Retirement
If the membership period is 3 months or more, and an administering authority approved independent registered medical practitioner certifies that the member has become permanently unable to do their job or any comparable job with their employer, they will receive a pension and tax free lump sum immediately.

Benefits are calculated in the same way as for normal retirement except that if the membership period is 5 years or more, it is increased by adding extra years to compensate for premature retirement.

Early Retirement
If the membership period is 3 months or more, a member can elect to retire and receive their LGPS benefits at any time from age 60 onwards.

Between and including the ages of 55 and 59 members can elect to retire and receive their LGPS benefits, but only if their employer gives their consent.

If a member retires before the age of 65 and has not reached their normal retirement date, their pension and lump sum, may be reduced, and if retiring after age 65 benefits would be increased.

Preserved Benefits
Leavers with 3 or more months of membership are awarded preserved benefits, calculated in the same way as described in the paragraph 'Benefits', but with payment being deferred and index linked until Normal Retirement Date. Alternatively, it may be possible to transfer the equivalent value of benefits to another pension scheme.

Leavers with less than 3 months membership and no transfer of benefits in to the scheme are to be treated as if they had never been in the scheme and should have their contributions refunded directly through their pay.

Death in Service
A death grant of 3 times Final Pay is payable, regardless of the length of membership. For part-time employees, the Final Pay is not increased to its whole-time equivalent rate.

In addition, pensions are payable to surviving spouses for life, and dependent children while still in full-time education, based on the former employee's Membership and Final Pay.

Death after Retirement

Spouses and partners' pensions are payable for life whilst dependant eligible children's' pensions are payable up to a maximum age of 23 and are all based on the former employee's membership in the scheme. If death of a pensioner occurs before the pension has been paid for ten years (five years if retired before 1 April 2008), the balance will be paid as a lump sum.

4.2 Actuarial Position

General

The most recent actuarial valuation of the Fund was undertaken as at 31st March 2013 (previously 31st March 2010), and it requires full solvency of the Fund.

Method and Assumptions Used

The actuarial methods used in the valuation were the "Projected Unit Method" for the fund as a whole and employers who will continue to admit new entrants to the fund and the "Attained Age Method for employers who no longer admit new entrants to the fund. The main financial assumptions were as follows:

	% per annum
Discount Rate	4.7%
Pay Increases *	4.3%**
Price Inflation / Pension Increases	2.5%

* Plus an allowance for promotional pay increases

** 1% per annum for 2013/14, 2014/15 and 2015/16, reverting to 4.3% thereafter.

The Results

The key funding objective of the Fund is to build up sufficient assets to provide adequate security for members' benefits as they accrue. When the value of the Fund's assets match the value of its liabilities the Fund is said to be 100% funded. In the valuation report for 31 March 2013, published on the 31 March 2014 by Hymans Robertson the Funding level was 85% (compared to 84% at 31 March 2010) and there was a funding shortfall of £210m. The market value of assets at the valuation date was £1,195m and liabilities were assessed to be £1,405m.

The following table sets out the valuation results for the Fund as a whole:

	£m
Net Liabilities :-	
Active Members	699
Deferred Pensioners	185
Pensioners	521
Total Net Liabilities	**1,405**
Total Value of Assets	**1,195**
Surplus (Deficit)	**(210)**
Funding Level	**85%**

Common Rate of Contribution (CRC)
The CRC payable is the cost of future benefit accrual increased by an amount to bring the funding level back to 100% over a period of up to 20 years as set out in the Funding Strategy Statement. Based on the Fund's funding level at 31 March 2013, the future service contribution rate was set at 18.3% with a further 5.6% required to fund the past service deficit. The contribution from each employer is the CRC plus an individual adjustment, if appropriate, to reflect the individual circumstances of each employer.

4.3 Administrative and Custodial Arrangements

Governance
The Fund is administered within the framework established by statute, which stipulates that Gwynedd Council is the Administering Authority.

Governance Policies
The Governance Policy Statement (GPS) and the Governance Compliance Statement (GCS) states the governance practices of the Pension Fund.

Copies can be seen on the Pension Fund website.

Specialist Advice
The Local Government Pension Scheme Regulations oblige the Council to take specialist advice on investment. This advice is provided by an independent advisor from Hymans Robertson (the Fund's advisers), who joins the Pensions Committee in monitoring the Investment Managers. An advisor from Hymans is always present at the Pensions Committee's quarterly meetings with the Investment Managers.

Investment Managers
Over the period of this report, there were 5 Investment Managers, as follows: BlackRock, Fidelity International (Fidelity), Insight Investment (Insight), Veritas and Partners Group. We have also invested directly in Lothbury Investment Management's (Lothbury) Property Fund, Threadneedle's Pensions Property Fund, UBS Life Triton Property Fund and UBS Central London Office Value Added Fund.

The target distribution of Fund assets for the year is shown in the table below. The investment in infrastructure will be built up over a period of time and therefore the actual allocation has not reached the target during the year.

The target distribution of Fund assets is as follows:

Manager	**%**
BlackRock	29.5
Veritas	19.0
Fidelity	19.0
Insight	15.0
UBS / Lothbury / Threadneedle / BlackRock (Property Only)	10.0
Partners – Private equity	5.0
Partners – Infrastructure	2.5
Total	100.0

Custodians

Some of our investment mangers have an associated custodian who holds the assets of their part of the portfolio. The managers and their associated custodians are as follows:

- BlackRock's custodian is JP Morgan Chase Bank;
- Fidelity's custodian is also JP Morgan Chase Bank;
- Insight's custodian is The Northern Trust Company;

As one of our investment managers does not have an associated custodian, the Pensions Committee has chosen to appoint:

- The Northern Trust Company as custodian of those assets managed by Veritas.

Lothbury, Threadneedle and UBS, with whom we have direct investments, have the Northern Trust Company as their custodians.

Partners Group is not included in the Fund's custody arrangements.

Administrative Procedures

Administrative procedures ensure that those transfers which do take place, between the Council and the Investment Managers, must be authorised by the signatories of two of the named officers who are on the Pension Fund's authorised signature list.

Asset Allocation

One of the key determinants of the Fund's long-term overall performance is its strategic asset allocation. The Fund's strategic asset allocation is 72.5% equities, 15% UK bonds, 10% property and 2.5% infrastructure.

The following table shows the Fund's benchmark allocation for 2013/14.

	BlackRock %	Veritas %	Fidelity %	Insight %	UBS/Threadneedle/ Lothbury/ BlackRock Property %	Partners Group %	Total %
Percentage of Fund	**29.5**	**19.0**	**19.0**	**15.0**	**10.0**	**7.5**	**100.0**
UK Equities	**56.0**	**8.3**	**8.3**	**-**	**-**	**-**	**19.5**
Overseas Equities	**44.0**	**91.7**	**91.7**	**-**	**-**	**-**	**48.0**
North America	7.4	51.8	51.8	-	-	-	21.4
Europe ex-UK	14.1	14.5	14.5	-	-	-	10.1
Japan	6.0	7.8	7.8	-	-	-	4.8
Pacific Basin	9.0	4.9	4.9	-	-	-	4.5
Emerging Markets	7.5	12.7	12.7	-	-	-	7.2
Private Equity	**-**	**-**	**-**	**-**	**-**	**66.7**	**5.0**
Total Equities	**100.0**	**100.0**	**100.0**	**-**	**-**	**66.7**	**72.5**
UK Bonds	-	-	-	100.0	-	-	15.0
Total Bonds	**-**	**-**	**-**	**100.0**	**-**	**-**	**15.0**
Property	**-**	**-**	**-**	**-**	**100.0**	**-**	**10.0**
Infrastructure						**33.3**	**2.5**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

4.4 Investment Powers

Investment Powers

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as amended. These permit a wide range of investment for Fund monies which are not immediately required to pay pensions and other benefits.

Investment Restrictions

Gwynedd's current restrictions are noted in Column (A) below. However, the regulations allow administering authorities to set limits up to those to those noted in Column (B) below:

	The Fund's Current Restrictions (A)	Regulations: Increase the Limits to (B)
1. Any single sub-underwriting contract.	1%	5%
2. All contributions to any single partnership.	5%	5%
3. All contributions to partnerships.	15%	30%
4. The sum of all loans and any deposits with any local authority, or any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the Financial Services and Markets Act 2000 [4]) in respect of accepting deposits as a result of an order made under section 38(1) of that Act.	10%	10%
5. All investments in unlisted securities of companies.	10%	15%
6. Any single holding.	10%	10%
7. All deposits with any single bank, institution or person (other than the National Savings Bank).	10%	10%
8. All sub-underwriting contracts	15%	15%
9. All investments in units or shares of the investments subject to the trusts of unit trust schemes managed by any one body.	25%	35%
10. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body	25%	35%
11. All investments in units or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body.	25%	35%
12. Any single insurance contract.	35%	35%
13. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%	35%

4.5 Investment Management

General

The main objective of investment policy is to maximise the return on the money entrusted to the Council, consistent with acceptable levels of risk and for the annual return in the longer run to exceed the level of wage inflation. It must be borne in mind that the Fund's liabilities (pensions) are very long-term, extending to the middle of the century. These liabilities will increase with inflation, both because of the index-linking of pensions and also due to the rising level of employees' salaries and wages to the time of retirement. There is a relationship between the level of returns achieved and the contribution rate which employers are expected to pay. The Pensions Committee considers that in the long run equity returns will exceed bond returns and it is for this reason that the majority of the Fund is invested in Equities.

Investment Manager Briefs

As a result of a deliberate policy to diversify assets and investment styles, the Fund has 5 Investment Managers with varying briefs:

Investment Manager	Brief
BlackRock	Passive
Fidelity	Active
Insight	Active
Veritas	Active
Partners	Active

BlackRock is briefed to be a “passive” manager. The manager will allocate their mandate’s asset allocation in line with that of the benchmark and in each market they aim to track stock exchange indices. As a result, their mandates’ performance should be in line with their respective benchmarks. Appointing a passive manager reduces the risk of underperformance, relative to benchmark; however, it also reduces the possibility of out performance, relative to the benchmark.

All the others are “active” managers. They are given the discretion to invest in their best investment ideas. Whilst they have a great deal of flexibility, in terms of which stocks, regions and sectors they can invest in, there are a number of restrictions in place which prevents the managers deviating too far from the benchmark and taking excessive risk. Appointing active managers increases the possibility of out performance, relative to the benchmark; however it also increases the risk of underperformance, relative to benchmark.

Veritas and Fidelity have an “active” equity brief while Insight has an “active” bond brief. Partners Group has been given “active” private equity and infrastructure briefs.

4.6 Investment Performance

Quarterly Meetings

The performance of the Investment Managers is monitored on a quarterly basis. Investment Managers submit quarterly reports and valuations to the Pensions Committee, the relevant officers at Gwynedd Council and the Fund's adviser. Every quarter a meeting is held between Investment Managers, the Committee, officers and the adviser to monitor their performance during the quarter.

Performance Monitoring

Gwynedd subscribes to a service provided by the State Street Global Services which calculates the rate of return for Gwynedd and for other Pension Funds and provides comparisons.

Targets

Individual performance benchmarks for the Investment Managers are shown in the table below.

Manager	Benchmark	Target
BlackRock	FTSE All-Share and FTSE All-World Indices	Benchmark Return
Veritas	MSCI All Countries World Index	Benchmark + 2% p.a. (gross of fees)
Fidelity	MSCI All Countries World Index	Benchmark + 2%-3% p.a. (gross of fees)
Insight	Cash (Libor)	Benchmark +2% p.a.
Partners	MSCI World	Benchmark + 5% p.a.*

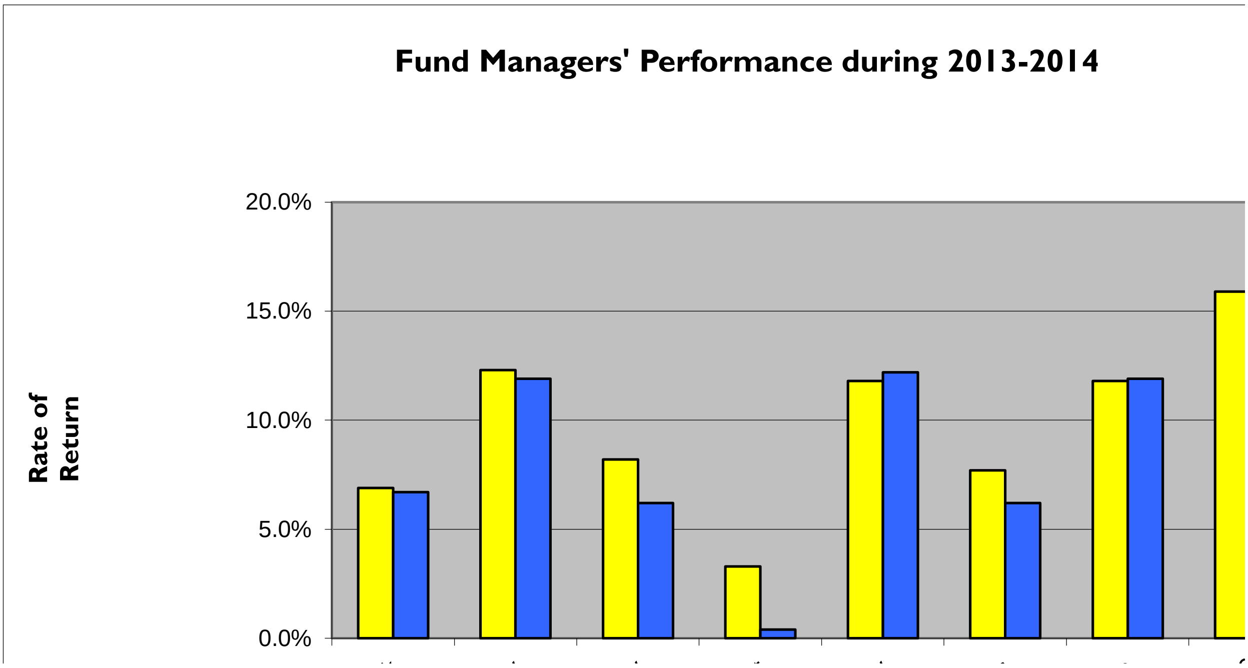
**Partners do not have an official performance target. The target stated above is purely for indicative purposes.*
MSCI=Morgan Stanley Capital International

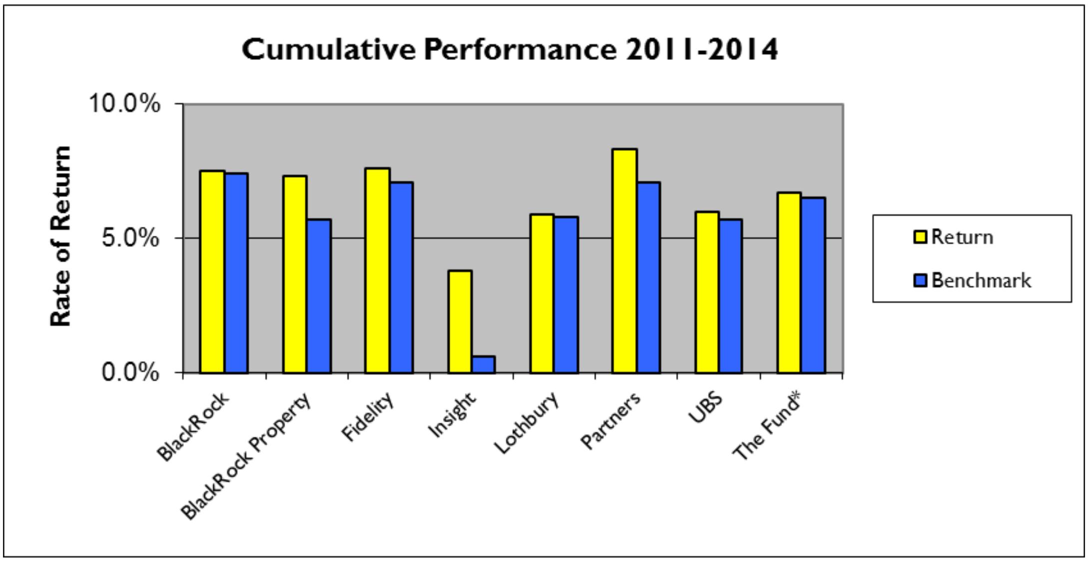
We have made direct investments with Lothbury, UBS and Threadneedle, so therefore have not given them a benchmark. However, for indicative purposes we monitor them against the IPD Balanced Property Unit Trust Index.

Fund Performance

Against the benchmark, the Fund outperformed by 1.9% during the 2013/14 financial year. The Fund achieved a return of +8.2% against a benchmark return of +6.3%. Over a three year period the Fund outperformed against the benchmark, with a return of +6.7% against a benchmark return of +6.5%.

The following graphs and table show the performance of the Managers over 1 and 3 years.





*These figures include an element of Capital's performance until their termination in July 2012 and an element of Veritas performance, since their inception in July 2012.

It is generally accepted that investment performance over a long period of time (say 3+ years) is a more valid indicator than over a single year as investment strategies designed to bring good performance in the longer run may from time to time suffer from short-term setbacks.

	1 Year Return	1 Year Benchmark	3 Year Return	3 Year Benchmark
BlackRock	6.9%	6.7%	7.5%	7.4%
BlackRock Property	12.3%	11.9%	7.3%	5.7%
Fidelity	8.2%	6.2%	7.6%	7.1%
Insight	3.3%	0.4%	3.8%	0.6%
Lothbury	11.8%	12.2%	5.9%	5.8%
Partners	7.7%	6.2%	8.3%	7.1%
Threadneedle	11.8%	11.9%	n/a	n/a
UBS	15.9%	11.9%	6.0%	5.7%
Veritas	11.6%	6.2%	n/a	n/a
TOTAL FUND	**8.2%**	**6.3%**	**6.7%**	**6.5%**

Local Authority League Table

Each year The WM Company produces a League Table that ranks Local Authority Pension Funds according to their investment performance during the financial year. Out of the 85 pension funds who subscribe to the service, Gwynedd was 12th and ranked in the 19th percentile with a return of +8.2% compared to the median of +6.5%.

The following table shows the performance of the Fund in the Local Authority League Tables each year over the past 10 years.

The Year to	Fund Benchmark	Fund Target	Fund Return	Median Return	Percentile
31 March 2014	6.7%	7.71%	8.2%	6.5%	19th
31 March 2013	12.7%	14.2%	11.7%	13.8%	90th
31 March 2012	0.70%	0.99%	0.50%	3.0%	92nd
31 March 2011	7.80%	9.26%	8.50%	8.10%	40th
31 March 2010	40.80%	41.59%	39.70%	35.60%	20th
31 March 2009	-20.60%	-20.25%	-20.60%	-20.30%	57th
31 March 2008	-3.70%	-2.80%	-5.70%	-3.10%	85th
31 March 2007	7.70%	8.56%	6.70%	7.00%	56th
31 March 2006	25.70%	26.89%	24.4%	25.0%	54th
31 March 2005	12.30%	13.15%	11.5%	11.3%	43rd

4.7 Statement of Investment Principles

General

Local Government Pension Scheme administering authorities are required to prepare and publish a written Statement of Investment Principles (SIP).

Reviewing the SIP

A full review of the SIP was undertaken during 2012/13. Following consultation with employers and union representatives the following changes were made:

- Inclusion of infrastructure as an asset classification for investment by the fund.
- Change of investment limits in limited partnerships and benchmarks to include the agreed infrastructure investment.

- Inclusion of the Fund's commitment to the Stewardship Code and membership of the Local Authority Pension Fund Forum (LAPFF) to enhance consideration of and influence over social, environmental and ethical issues in investee companies.

Copies of the SIP
Copies of the current SIP have been sent out to all the Fund's employers, investment managers, the actuary, adviser and union representatives.

A copy can be seen on the Pension Fund website.

4.8 Funding Strategy Statement

General
Local Government Pension Scheme (LGPS) administering authorities are required to prepare and publish a Funding Strategy Statement (FSS).

LGPS benefits are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure. It also provides LGPS administering authorities with a statutory framework within which to manage their Funds' long-term pension liabilities going forward.

Reviewing the FSS
The FSS was reviewed during 2013/14 as part of the 31 March 2013 Actuarial Valuation process. The review process involved consultation with all the Fund's employers and the Fund's Actuary.
The current FSS was adopted by the Pensions Committee on 17th March 2014.

Copies of the FSS
Copies of the FSS were sent out to all the Fund's employers and the fund's actuary, adviser and union representatives on 31st March 2014.

A copy can be seen on the Pension Fund website.

4.9 Knowledge and Skills Framework

The Pensions Committee has formally adopted the following knowledge and skills policy statement:

This organisation recognises the importance of ensuring that all staff and members charged with the financial administration and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

It therefore seeks to utilise individuals who are both capable and experienced and it will provide training for staff and members of the pensions decision-making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

The Pensions Committee agreed that a self assessment questionnaire be circulated to members of the Committee in order to establish the training requirements before moving on to develop an appropriate training programme. The results of the questionnaire will be used to identify the training required.

5. Management Structure

Administering Authority
Gwynedd Council

Pensions Committee 2013/14
Councillor Peter Read (Chairman 2013/14)
Councillor John Pughe Roberts (Vice-Chairman 2013/14)
Councillor Stephen Churchman (Vice-Chairman 2014/15)
Councillor Trevor Edwards
Councillor Peredur Jenkins
Councillor Dafydd Meurig
Councillor W. Tudor Owen (Chairman 2014/15)
Councillor Tom Jones (Co-opted Member to April 2013)
Councillor Hywel Eifion Jones (Co-opted Member from May 2013)
Councillor Margaret Lyon (Co-opted Member)

Corporate Director
Mr Dilwyn O. Williams

Head of Finance ("Section 151 Officer")
Mr Dafydd L. Edwards

Advisor
Mr Paul Potter (Hymans Robertson)

Investment Managers
BlackRock
Fidelity International
Insight Investment
Lothbury
Partners Group
Threadneedle
UBS Global Asset Management Limited
Veritas

Actuaries
Hymans Robertson

Custodian
Northern Trust

Bankers
Barclays Bank plc

Auditors
Wales Audit Office

Contact Details
Enquiries and more detailed information regarding:

- the Gwynedd Pension Fund can be obtained by contacting:

  Mr Gareth Jones,
  Pensions Manager,
  Gwynedd Council,
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- the Fund's investment and accounting activities should be made to:

  Mrs Caroline Roberts,
  Investment Manager,
  Finance Department,
  Gwynedd Council,
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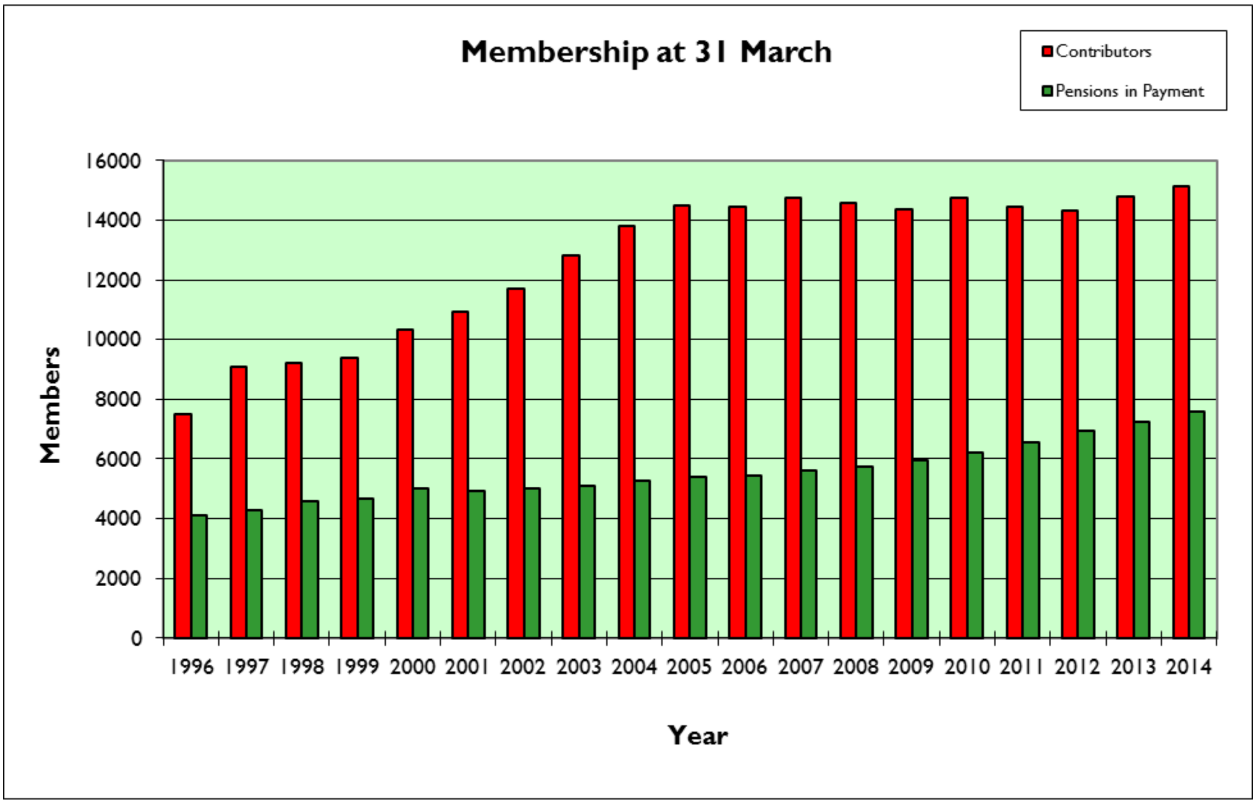
Fund Website
www.gwyneddpensionfund.org.uk

6. Membership Summary

The graph below shows the changes in the Fund's membership over the last 19 years. It shows that while the number of pensioners has slowly increased from 4,092 in 1996 to 7,584 in 2014, the number of active contributors has more than doubled, from 7,511 in 1996 to 15,131 in 2014.



The table below provides the membership summary:

31 March 2013	Description	31 March 2014
14,798	Contributors	15,131
8,369	Deferred Pensioners	10,500
7,231	Pensions in Payment	7,584
1,385	Unclaimed Benefits	1,424
31,783	**Total Membership**	**34,639**

7. Statement of Accounts 2013 -14 subject to audit

GWYNEDD PENSION FUND ACCOUNTS 2013-14

31 March 2013 £'000		Notes	31 March 2014 £'000
	Dealings with members, employers and others directly involved in the fund		
63,451	Contributions Receivable	7	65,700
18	Interest on Deferred Contributions		17
1	Income from Divorce Calculations		3
0	Interest on Late Payment of Contributions		0
3,126	Transfers in from other pension schemes	8	3,810
66,596	**Total contributions received**		**69,530**
(41,714)	Benefits Payable	9	(45,167)
(2,592)	Payments to and on account of leavers	10	(1,516)
(1,068)	Administrative Expenses	11	(1,268)
(45,374)	**Total benefits paid**		**(47,951)**
21,222	**Net additions from dealings with members**		**21,579**
	Returns on Investments		
11,929	Investment income	12	13,993
(335)	Taxes on income	13	(466)
116,102	Profit and (losses) on disposal of investments and changes in the market value of investments	15	88,421
(5,720)	Investment management expenses	14	(6,850)
121,976	**Net returns on investments**		**95,098**
	Net assets of the Fund		
1,049,671	At 1st April		1,192,869
21,222	Net additions from dealings with members		21,579
121,976	Net returns on investments		95,098
1,192,869			**1,309,546**

NET ASSETS STATEMENT AS AT 31 MARCH

31 March 2013 £'000		Notes	31 March 2014 £'000
1,170,051	Investment assets	15	1,280,403
17,316	Cash deposits	15	15,453
1,187,367			**1,295,856**
(4,297)	Investment liabilities	15	(308)
13,682	Current assets	20	17,450
(3,883)	Current liabilities	21	(3,452)
1,192,869			**1,309,546**

The Financial Statements do not take into account the Fund's liability to pay pensions and other benefits to all the present contributors to the Fund after the scheme year end, but rather summarise the transactions and net assets of the scheme. The liabilities of the Fund are taken into account in the periodic actuarial valuations of the Fund (the most recently as at 31 March 2013) and are reflected in the levels of employers' contributions determined at the valuation, so that the Fund will again be able to meet 100% of future liabilities. The actuarial present value of promised retirement benefits is shown in Note 19.

NOTES TO THE GWYNEDD PENSION FUND ACCOUNTS

NOTE 1 – DESCRIPTION OF FUND

The Gwynedd Pension Fund ("the fund") is part of the Local Government Pension Scheme and is administered by Gwynedd Council. The council is the reporting entity for this pension fund. The following description of the fund is a summary only. For more detail, reference should be made to the Gwynedd Pension Fund Annual Report 2013/14 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended);
- the LGPS (Administration) Regulations 2008 (as amended);
- the LGPS (Management and Investment of Funds) Regulations 2009.

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

b) Membership

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

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

There are 59 employer organisations within Gwynedd Pension Fund including the council itself, as detailed below:

Gwynedd Pension Fund	31 March 2013	31 March 2014
Number of employers with active members	40	39
Number of employees in scheme		
Gwynedd Council	5,391	6,525
Other employers	9,408	8,606
Total	**14,799**	**15,131**
Number of pensioners		
Gwynedd Council	2,153	2,296
Other employers	5,078	5,288
Total	**7,231**	**7,584**
Deferred pensioners		
Gwynedd Council	3,601	4,313
Other employers	4,768	6,187
Total	**8,369**	**10,500**

The following bodies are active employers within the Pension Fund:

Scheduled Bodies	
Gwynedd Council	Snowdonia National Park
Conwy County Borough Council	Bryn Eilian School
Isle of Anglesey County Council	Emrys ap Iwan School
Police and Crime Commissioner for North Wales	Pen y Bryn School
Llandrillo – Menai Group	Eirias High School
Resolution Bodies	
Llanllyfni Community Council	Ffestiniog Town Council
Bangor City Council	Llandudno Town Council
Abergele Town Council	Llangefni Town Council
Colwyn Bay Town Council	Menai Bridge Town Council
Beaumaris Town Council	Towyn and Kinmel Bay Town Council
Holyhead Town Council	Tywyn Town Council
Caernarfon Town Council	
Admission Bodies	
Coleg Harlech WEA	North Wales Society for the Blind
CAIS	Conwy Voluntary Services
Conwy Citizens Advice Bureau	Careers Wales North West
Ynys Môn Citizens Advice Bureau	Mantell Gwynedd
Cwmni Cynnal	Medrwn Môn
Cwmni'r Fran Wen	Menter Môn
Holyhead Joint Burial Committee	
Community Admission Bodies	
Cartrefi Conwy	Cartrefi Cymunedol Gwynedd
Transferee Admission Body	
Eden Foods (no active members since 31 August 2013)	Jewsons

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2014. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. During 2013/14 employer contribution rates ranged from 5.1% to 29.1% of pensionable pay. New employer contribution rates will be applied from 1st April 2014 following the actuarial valuation carried out as at 31 March 2013.

d) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

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

Service from 1 April 2014 onwards will be based on new regulations as follows:

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

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

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

NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2013/14 financial year and its position at year-end as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – revenue recognition

a) Contribution Income

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

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

b) Transfers to and from other schemes

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

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

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

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

c) Investment income

i) Interest income

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

ii) Dividend income

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

iii) Distributions from pooled funds including property

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

iv) Movement in the net market value of investments.

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) Administrative expenses

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

g) Investment management expenses

All investment management expenses are accounted for an accruals basis.

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

In addition the fund has negotiated with the following manager that an element of their fee be performance related:

Fidelity – Global Equity

Performance-related fees of £37,844 were paid to the managers in 2013/14 (£0 in 2012/13).

The cost of obtaining investment advice from external consultants is included in investment management charges.

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

Net assets statement

h) Financial assets

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

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

i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.
- Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.
- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with IFRS guidelines. It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors.

iv) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) Pooled investment vehicles

Pooled investments vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

i) Foreign currency transactions

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

j) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

k) Cash and cash equivalents

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

l) Financial liabilities

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

m) Actuarial present value of promised retirement benefits

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

As permitted under IAS26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement. (Note 19).

n) Additional voluntary contributions

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

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 22).

NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Unquoted private equity and infrastructure investments
It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure are valued by the investment managers using guidelines set out by IFRS accounting standards. The value of unquoted securities at 31 March 2014 was £64 million (£62 million at 31 March 2013).

Pension fund liability
The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

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

The items in the net assets statement at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The net pension liability would change if the assumptions used were changed. For instance, an increase in the discount rate assumption would result in a decrease in the pension liability, an increase in assumed earnings inflation would increase the value of liabilities and an increase in assumed life expectancy would increase the liability.
Debtors	At 31 March 2014, the fund had a balance of sundry debtors of £6.8m. A review of significant balances suggested that it was not appropriate to make any impairment of the debts.	If collection rates were to deteriorate, it would be necessary to reconsider this decision.

Private equity and infrastructure	Private equity and infrastructure investments are valued at fair value in accordance with IFRS accounting standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £64 million. There is a risk that this investment may be under or overstated in the accounts.

NOTE 6 – EVENTS AFTER THE BALANCE SHEET DATE

There have been no events since 31 March 2014, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

NOTE 7 – CONTRIBUTIONS RECEIVABLE

By category

2012/13 £'000		2013/14 £'000
49,126	Employers	50,908
14,325	Employees/Members	14,792
63,451		**65,700**

By authority

2012/13 £'000		2013/14 £'000
21,333	Gwynedd Council	23,297
36,999	Other Scheduled bodies	38,065
2,827	Admission bodies	1,722
2,033	Community admission body	2,369
63	Transferee admission body	31
142	Resolution Body	162
54	Closed fund*	54
63,451		**65,700**

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

NOTE 8 – TRANSFERS IN FROM OTHER PENSION FUNDS

2012/13 £'000		2013/14 £'000
3,126	Individual transfers	3,810
3,126		**3,810**

NOTE 9 - BENEFITS PAYABLE

By category

2012/13 £'000		2013/14 £'000
32,237	Pensions	34,425
8,583	Commutation and lump sum retirement benefits	9,787
894	Lump sum death benefits	955
41,714		**45,167**

By authority

2012/13 £'000		2013/14 £'000
10,169	Gwynedd Council	11,613
18,182	Other Scheduled bodies	20,012
1,223	Admission bodies	984
543	Community admission body	1,000
15	Transferee admission body	75
11,495	Closed Fund	11,414
87	Resolution Body	69
41,714		**45,167**

NOTE 10 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2012/13 £'000		2013/14 £'000
37	Refunds to members leaving service net of tax repayments	(1)
1	Payments for members joining state scheme	1
2,554	Individual transfers	1,516
2,592		**1,516**

NOTE 11 – ADMINISTRATIVE EXPENSES

2012/13 £'000		2013/14 £'000
393	Direct employee costs	427
87	Other direct costs	209
434	Support services including IT	366
66	Pension fund committee	50
25	External audit fees	29
63	Actuarial fees	187
1,068		**1,268**

Administrative expenses include amounts charged to the Pension Fund by Gwynedd Council for staff costs, support services and accommodation. Further details are given in Note 23.

NOTE 12 – INVESTMENT INCOME

2012/13 £'000		2013/14 £'000
6	Fixed Interest Securities	0
1,176	UK equities	2,816
5,052	Overseas equities	5,374
923	Private equity	1,264
0	Infrastructure	99
4,593	Pooled property investments	4,322
179	Interest on cash deposits	118
11,929		**13,993**

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

The Council had a deposit of £4m with Heritable Bank, which went into administration in October 2008. An impairment of £2,723 was charged to the Pension Fund in 2012/13. During 2013/14 a distribution of £36,327 was received by the Pension Fund. These amounts have been included in the interest on cash deposits figure for the relevant year in the above table. Further information is included in Note 26.

NOTE 13 – TAXES ON INCOME

2012/13 £'000		2013/14 £'000
335	Withholding tax – equities	466
335		**466**

NOTE 14 – INVESTMENT MANAGEMENT EXPENSES

2012/13 £'000		2013/14 £'000
5,614	Management fees	6,720
46	Custody fees	50
16	Performance monitoring service	16
44	Investment consultancy fees	64
5,720		**6,850**

NOTE 15 – INVESTMENTS

2012/13 £'000		2013/14 £'000
	Investment assets	
157,644	Absolute return	194,386
206,697	Equities	238,975
634,387	Pooled investments	666,049
105,974	Pooled property investments	116,800
58,723	Private Equity	59,696
3,064	Infrastructure	4,497
	Derivative contracts:	
3,562	Forward currency contracts	0
1,170,051		**1,280,403**
17,316	Cash deposits	15,453
1,187,367	**Total investment assets**	**1,295,856**
	Investment liabilities	
	Derivative contracts:	
(3,620)	Forward currency contracts	0
(677)	Amounts payable for purchases	(308)
(4,297)	**Total investment liabilities**	**(308)**
1,183,070	**Net investment assets**	**1,295,548**

Note 15a – Reconciliation of movements in investments and derivatives

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

2012/13	Market value at 1 April 2012 £'000	Purchases during the year £'000	Sales during the year £'000	Change in market value during the year £'000	Market value at 31 March 2013 £'000
Fixed interest absolute return securities	150,723	0	(210)	7,131	157,644
Equities	153,058	206,019	(171,726)	19,346	206,697
Pooled investments	577,137	1,716	(30,999)	86,533	634,387
Pooled property investments	92,685	17,851	0	(4,562)	105,974
Private equity / infrastructure	58,645	9,359	(10,970)	4,753	61,787
	1,032,248	234,945	(213,905)	113,201	1,166,489
Forward foreign currency contracts	16			(82)	(58)
Cash deposits	17,624			(219)	17,316
Amount receivable for sales of investments	284				0
Amounts payable for purchases of investments	(6,756)				(677)
Fees within pooled vehicles				3,202	
Net investment assets	**1,043,416**	**234,945**	**(213,905)**	**116,102**	**1,183,070**

Transaction costs, such as commissions, stamp duty and other transaction fees, are included in the cost of purchases and in sale proceeds. Transaction costs incurred during the year total £186,342 (2012/13 £426,308). The costs for 2012/13 were higher than usual due to the transition to a new manager which involved a signficant number of purchases and sales of investments. In addition to these costs indirect costs are incurred through the bid-offer spread on investments within pooled funds.

Note 15b – Analysis of investments (excluding derivative contracts)

31 March 2013 £'000		31 March 2014 £'000
	Equities	
	UK	
45,299	Quoted	45,272
	Overseas	
161,398	Quoted	193,703
	Pooled funds	
	UK	
218,891	Unit trusts	229,634
	Global (including UK)	
157,644	Fixed income	194,386
211,337	Unit trusts	231,295
	Overseas	
204,159	Unit trusts	205,120
105,974	**Property unit trusts**	116,800
58,723	**Private equity**	59,696
3,064	**Infrastructure**	4,497
1,166,489		**1,280,403**

Analysis of derivatives

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the fund. Derivatives maybe used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the fund and the various investment managers.

Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the fund's quoted equity portfolio is in overseas stock markets. The fund no longer hedges a proportion of the Euro within the portfolio managed by UBS.

Settlement	Asset Value £'000	Liability Value £'000
Net forward foreign currency contracts at 31 March 2014		**0**
Prior year comparative		
Open forward foreign currency contracts at 31 March 2013	**3,534**	**(3,518)**
Net forward foreign currency contracts at 31 March 2013		**16**

Investments analysed by fund manager

Market Value at 31 March 2013 £'000	%		Market Value at 31 March 2014 £'000	%
412,513	34.9	BlackRock	427,249	33.0
240,729	20.3	Fidelity	258,421	19.9
157,648	13.3	Insight	194,394	15.0
20,887	1.8	Lothbury	23,395	1.8
61,787	5.2	Partners Group	64,193	5.0
10,736	0.9	Threadneedle	12,001	0.9
56,223	4.8	UBS	63,323	4.9
222,547	18.8	Veritas	252,572	19.5
1,183,070	**100.0**		**1,295,548**	**100.0**

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

Market value 31 March 2013 £'000	% of total fund	Security	Market value 31 March 2014 £'000	% of total fund
211,337	17.71	Fidelity Institutional Select Global Equity	231,295	17.66
218,889	18.34	BlackRock Asset Management Aquila Life UK Equity Index Fund	229,633	17.53
157,644	13.21	Insight LDI Solution Bonds Plus	194,386	14.84

Note 15c – Stock lending

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

NOTE 16 – FINANCIAL INSTRUMENTS

Note 16a – Classification of financial instruments

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

As at 31 March 2013				As at 31 March 2014		
Designated as fair value through profit and loss	**Loans and receivables**	**Financial liabilities at cost**		**Designated as fair value through profit and loss**	**Loans and receivables**	**Financial liabilities at cost**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
			Financial assets			
157,644			Fixed interest securities	194,386		
206,697			Equities	238,975		
634,387			Pooled investments	666,049		
105,974			Pooled property investments	116,800		
58,723			Private equity	59,696		
3,064			Infrastructure	4,497		
3,562			Derivative contracts	0		
121	24,662		Cash	189	25,959	
	6,216		Debtors		6,755	
1,170,172	**30,878**	**0**		**1,280,592**	**32,714**	**0**
			Financial liabilities			
(3,620)			Derivative contracts	0		
(650)		(3,911)	Creditors	(308)		(3,452)
(4,270)	**0**	**(3,911)**		**(308)**	**0**	**(3,452)**
1,165,902	**30,878**	**(3,911)**		**1,280,284**	**32,714**	**(3,452)**

Note 16b – Fair value of financial instruments and liabilities

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

31 March 2013			31 March 2014	
Carrying value £'000	Fair value £'000		Carrying value £'000	Fair value £'000
		Financial assets		
916,860	1,170,172	Fair value through profit and loss	964,240	1,280,593
30,878	30,878	Loans and receivables	32,728	32,714
947,738	**1,201,050**	**Total financial assets**	**996,968**	**1,313,307**
		Financial liabilities		
(4,216)	(4,270)	Fair value through profit and loss	(254)	(253)
(3,911)	(3,911)	Financial liabilities at cost	(2,325)	(3,508)
(8,127)	**(8,181)**	**Total financial liabilities**	**(2,579)**	**(3,761)**
939,611	**1,192,869**	**Net financial assets**	**994,389**	**1,309,546**

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

Note 16c – Valuation of financial instruments carried at fair value

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

Level 1

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

Level 2

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

Level 3

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

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

December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate. The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

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

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

Values at 31 March 2013	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	513,845	594,540	61,787	1,170,172
Loans and receivables	30,878	0	0	30,878
Total financial assets	**544,723**	**594,540**	**61,787**	**1,201,050**
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(4,270)	0	(4,270)
Financial liabilities at cost	(3,911)	0	0	(3,911)
Total financial liabilities	**(3,911)**	**(4,270)**	**0**	**(8,181)**
Net financial assets	**540,812**	**590,270**	**61,787**	**1,192,869**

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

Risk and risk management

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

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

a) Market risk

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

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

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

The fund manages these risks in two ways:

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

Other price risk

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

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

Other price risk – sensitivity analysis

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

Asset type	**Potential market movement (+/-)**	
	31 March 2013	**31 March 2014**
	%	%
Equities	12.5	11.6
Fixed Income	1.5	1.3
Alternatives (Private Equity)	9.6	6.2
Property	1.9	2.4
Cash	0.0	0.0

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

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

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

Asset type	**Value as at 31 March 2013**	**Percentage change**	**Value on increase**	**Value on decrease**
	£'000	%	**£'000**	**£'000**
Equities	841,084	12.5	946,556	735,612
Fixed Income	157,644	1.5	160,056	155,232
Alternatives (Private Equity)	61,787	9.6	67,694	55,880
Property	105,974	1.9	108,009	103,939
Cash	24,047	0.0	24,049	24,044
Total assets available to pay benefits	**1,190,536**		**1,306,364**	**1,074,707**

Interest rate risk

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

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

The fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	**As at 31 March 2013**	**As at 31 March 2014**
	£'000	**£'000**
Cash and cash equivalents	7,466	10,695
Cash balances	17,316	15,452
Fixed interest securities	157,644	194,386
Total	**182,426**	**220,353**

Interest rate risk sensitivity analysis

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

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

Asset type	**Carrying amount as at 31 March 2013**	**Change in year in the net assets available to pay benefits**	
		+1%	**-1%**
	£'000	**£'000**	**£'000**
Cash and cash equivalents	7,466	75	(75)
Cash balances	17,316	173	(173)
Fixed interest securities*	157,644	851	(851)
Total change in assets available	**182,426**	**1,099**	**(1,099)**

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

Currency risk

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

The fund has made commitments to private equity and infrastructure in foreign currency, (€140million and $7million). These commitments are being drawn down on request from the investment manager over a number of years. The current commitments still outstanding are shown in Note 24. The risk is that the pound is weak relative to the dollar and euro at the time of the drawdown and then strengthens when the fund is fully funded. The fund has been funding the commitments since 2005 and therefore the liability is balanced out over a long period.

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

The following table summarises the fund's currency exposure as at 31 March 2014 and as at the previous period end:

Currency exposure - asset type	**As at 31 March 2013 £'000**	**As at 31 March 2014 £'000**
Overseas and Global Equities	576,897	630,118
Global Fixed Income	157,644	194,386
Overseas Alternatives (Private Equity and infrastructure)	61,787	64,193
Overseas Property	3,673	3,276
Overseas Currency	121	189
Total overseas assets	**800,122**	**892,162**

Currency risk – sensitivity analysis

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

A 5.2% fluctuation in the currency is considered reasonable based on the fund investment analytics advisors analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period to 31 March 2014. The equivalent rate for the year ended 31 March 2013 was 5.2 %. This analysis assumes that all other variables, in particular interest rates, remain constant.

The following tables show analyses of the fund's exposure to individual foreign currencies as at 31 March 2014 and as at the previous year end:

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

* The % change for Total Currency in the table above includes the impact of correlation across the underlying currencies.

Currency exposure - by currency	**Value at 31 March 2013**	**Change**	**Value on increase**	**Value on decrease**
	£'000	%	**£'000**	**£'000**
Australian Dollar	11,926	10.0	13,113	10,739
Brazilian Real	6,175	11.6	6,892	5,457
EURO	88,385	7.8	95,279	81,491
Hong Kong Dollar	5,876	8.5	6,378	5,375
Japanese Yen	5,850	11.8	6,538	5,161
Norwegian Krone	5,720	9.0	6,237	5,202
South African Rand	6,692	12.0	7,492	5,892
Swedish Krona	5,794	8.1	6,265	5,323
Swiss Franc	6,993	9.4	7,648	6,339
US Dollar	83,570	8.7	90,873	78,266
Pooled Investments				
Global Basket	368,981	5.3	388,611	349,351
Global ex UK Basket	174,768	5.8	184,904	164,631
Emerging Basket	29,392	6.4	31,281	27,502
Total change in assets available	**800,122**	**5.2**	**841,405**	**758,835**

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

Currency Exposure - by asset type	**Carrying amount as at 31 March 2013**	**Change in year in the net assets available to pay benefits**	
		Value on increase	**Value on decrease**
	£'000	**£'000**	**£'000**
Overseas and Global Equities	576,897	606,662	547,128
Global Fixed Income	157,644	165,778	149,510
Overseas Alternatives (Private Equity and infrastructure)	61,787	64,975	58,599
Overseas Property	3,673	3,862	3,483
Overseas Currency	121	128	115
Total change in assets available	**800,122**	**841,405**	**758,835**

b) Credit risk

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

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

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

Investment Manager	Percentage of Portfolio
BlackRock	29.5%
Fidelity	19%
Insight	15%
Partners Group	7.5%
Property (UBS, Threadneedle, Lothbury, BlackRock)	10%
Veritas	19%

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

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

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

In order to maximise the returns from Short Term Investments and Cash Deposits, the Council invests any temporarily surplus funds in its bank accounts along with any surplus funds in the Gwynedd Pension Fund bank accounts. An appropriate share of the interest earned is paid to the Pension Fund and any losses on investment are shared with the Pension Fund in the same proportion. Due to the nature of the banking arrangements any surplus cash in the Pension Fund bank accounts is not transferred to the Council's bank accounts. As the Short Term Investments are made in the name of Gwynedd Council they are shown in full on the Council's Balance Sheet. The Pension Fund element of the Short Term Investments and Cash Deposits at 31 March 2014 was £12.1m (£7.4m at 31 March 2013).

Deposits are not made with banks and financial institutions unless they are rated independently and meet the council's credit criteria. The council has also set limits as to the maximum percentage of deposits placed with any one class of financial institution. In addition, the council invests an agreed percentage of funds in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency. The council believes it has managed its exposure to credit risk, and has had only one experience of default or uncollectable deposits when Heritable Bank went into administration in 2008. Full details can be seen in Note 26.

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

New employers to the fund will need to agree to the provision of a bond or obtain a guarantee to save the risk of future financial loss to the fund in the event of not being able to meet its pension liability on cessation. As shown in Note 25 three employers have provided bonds. Any future liabilities falling on the fund as a result of cessation are borne by the whole fund and spread across all employers. This is done to ensure that actuarial recovery periods and amounts are kept at a manageable level for smaller employers.

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

c) Liquidity risk

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

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

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

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

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2014 the value of illiquid assets was £126m, which represented 9.6% of the total fund assets (31 March 2013: £117m, which represented 10.1% of the total fund assets).

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

All financial liabilities at 31 March 2014 are due within one year as was the case at 31 March 2013.

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

NOTE 18 – FUNDING ARRANGEMENTS

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

Description of Funding Policy
The funding policy is set out in the Funding Strategy Statement (FSS) dated March 2014.

The key elements of the funding policy are:

- to ensure the long-term solvency of the fund (and the share of the fund attributable to individual employers)
- to ensure that sufficient funds are available to meet all pension liabilities as they fall due for payment
- not to restrain unnecessarily the investment strategy of the fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk
- to help employers recognise and manage pension liabilities as they accrue
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective

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

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

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

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

Principal Actuarial Assumptions and Method used to Value the Liabilities

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

Method

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

Assumptions

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

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

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

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

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

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

Experience over the Period since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been better than expected meaning that future funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

NOTE 19 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS19 basis every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18) and has also used them to provide the IAS19 and FRS 17 reports for individual employers in the fund. The actuary has also valued ill health and death benefits in line with IAS19.

The actuarial present value of promised retirement benefits at 31 March 2014 was £1,747m (£1,667m at 31 March 2013). All the retirement benefits are vested. The fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS19 basis and therefore differ from the results of the 2013 triennial funding valuation (see Note 18) because IAS19 stipulates a discount rate rather than a rate that reflects market rates.

Assumptions used

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

Assumption	31 March 2013 %	31 March 2014 %
Inflation/ pension increase rate	2.8	2.8
Salary increase rate	5.1*	4.6**
Discount rate	4.5	4.3

* Salary increases are assumed to be 1% p.a. until 31 March 2015 reverting to the long term rate shown thereafter.
** Salary increases are assumed to be 1% p.a. until 31 March 2016 reverting to the long term rate shown thereafter.

The longevity assumption is the same as used for assessing the funding position as shown in Note 18 above.

The commutation assumption allows for future retirements to elect to take 50% of the maximum tax-free cash up to HMRC for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

NOTE 20 – CURRENT ASSETS

2012/13 £'000		2013/14 £'000
753	Contributions due - employees	1,119
2,584	Contributions due – employers	3,861
2,879	Sundry Debtors	1,775
6,216	**Total Debtors**	**6,755**
7,466	Cash	10,695
13,682	**Total**	**17,450**

Analysis of debtors

2012/13 £'000		2013/14 £'000
1,918	Administering Authority	2,116
1,394	Central government bodies	955
1,347	Other local authorities	2,564
3	NHS bodies	3
1,554	Other entities and individuals	1,117
6,216	**Total**	**6,755**

NOTE 21 – CURRENT LIABILITIES

2012/13 £'000		2013/14 £'000
1,616	Sundry creditors	1,904
2,267	Benefits payable	1,548
3,883	**Total**	**3,452**

Analysis of creditors

2012/13 £'000		2013/14 £'000
866	Administering Authority	1,126
15	Central government bodies	22
5	Other local authorities	0
2,997	Other entities and individuals	2,304
3,883	**Total**	**3,452**

NOTE 22 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

The market value of the funds is stated below:

	Market value at 31 March 2013 £'000	Market value at 31 March 2014 £'000
Clerical Medical	2,734	2,792
Equitable Life	413	380
Standard Life	189	214
Total	**3,336**	**3,386**

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

	2012 / 2013 £'000	2013 / 2014 £'000
Clerical Medical	372	331
Equitable Life	1	0
Standard Life	12	10
Total	**385**	**341**

NOTE 23 - RELATED PARTY TRANSACTIONS

Gwynedd Council

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

The council incurred costs of £1,001,991 (£835,101 in 2012/13) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also one of the largest employers of members of the pension fund and contributed £17.65m to the fund in 2013/14 (£16.65m in 2012/13). At the end of the year the council owed £2,116 to the fund (see Note 20) which was primarily in respect of contributions for March 2014 and the fund owed £1,126 to the Council (see Note 21) which was primarily in respect of recharges from the council.

The Gwynedd Pension Fund has three bank accounts which are held as part of Gwynedd Council's Group of Bank Accounts. The overall surplus cash held in the Group of Bank Accounts is invested on a daily basis. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund, based on the Fund's daily balances over the year. During 2013/14, the fund received interest of £77,251 (£86,481 in 2012/13) from Gwynedd Council.

Governance

There was 1 member of the pensions committee who was in receipt of pension benefits from the Gwynedd Pension Fund during 2013/14 (Committee member T.O. Edwards). In addition, committee members T.O. Edwards, P. Jenkins, D. Meurig and W.T. Owen are active members of the pension fund.

Two senior managers of Gwynedd Council who hold key positions in the financial management of the Gwynedd Pension Fund are active members of the Pension Fund (D.O. Williams and D.L. Edwards).

Three members of the pensions committee and two chief officers of Gwynedd Council have declared an interest in bodies which have dealings with the fund. In all cases these bodies are employers which are part of the fund.

NOTE 24 - COMMITMENTS UNDER INVESTMENT CONTRACTS

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

	Total commitment	**Commitment at 31 March 2013**	**Commitment at 31 March 2014**
	€'000	**€'000**	**€'000**
P.G. Direct 2006	20,000	1,384	1,384
P.G. Global Value 2006	50,000	4,592	4,091
P.G. Secondary 2008	15,000	1,960	1,960
P.G. Global Value 2011	15,000	10,657	7,883
P.G. Global Infrastructure 2012	40,000	36,213	34,039
P.G. Direct 2012	12,000	0	8,280
P.G. Global Value 2014	12,000	0	10,178
Total Euros	**164,000**	**54,806**	**67,815**
	$'000	**$'000**	**$'000**
P.G. Emerging Markets 2011	**7,000**	**5,268**	**3,843**

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

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

NOTE 25 – CONTINGENT ASSETS

Three admitted body employers in the Gwynedd Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

NOTE 26 – IMPAIRMENT LOSSES

a) Impairment for bad and doubtful debts
As explained in Note 5 there has not been any impairment for bad and doubtful debts.

b) Impairment of Icelandic bank deposit
During 2008/09 the Council made a deposit of £4m with Heritable Bank which is a UK registered bank under Scottish Law. The pension fund's share of that investment was £565,200.

The company was placed in administration on 7 October 2008. The creditor progress report issued by the administrators Ernst and Young, dated 17 April 2009, outlined that the return to creditors was projected to be 80p in the £ by the end of 2013. The Council received a return of 77.25% amounting to £3,105,729 from the administrators up to 31 March 2013. During 2013/14 the administrators distributed a further 16.74% bringing the total return up to 93.99%.

The relevant proportion of the decrease in impairment (£34,022) and the increase in notional interest (£2,305) has been allocated to the pension fund.

COMMITTEE:	Audit Committee
DATE:	7th November 2014
REPORT TITLE:	PWC Grants Audit Report 2012/13 Response
PORTFOLIO HOLDER:	Councillor H E Jones
LEAD OFFICER:	Richard Micklewright
CONTACT:	Jenny Whiston
PURPOSE OF THE REPORT:	To respond to issues raised in the PWC Annual Grant Audit Report 12-13

1.0 Background

1.1 The Council's external auditors, PWC, are required to report annually on the certification of grant claims and returns.

1.3 In total 38 grant claims were certified with a value of £87,442,975.73 with post audit adjustments of £207,937. This was a correction rate of 0.24%.

1.4 Whilst 61% of the grant claims were certified, which is higher than the Wales average, there were very few significant findings reported with the exception of Housing Benefit and Council Tax and the Schools Effectiveness Grant.

2.0 Considerations

2.1 The observations made by PWC as detailed on pages 11-17 of their report have been considered in detail and further information has been provided in Appendix 1 to inform Members of the issues, including greater detail on matters that were of concern, how they occurred, the financial implications, and where within the Authority they occurred.

2.2 The recommendations by PWC have been welcomed and an Action Plan has been put in place to implement the recommendations which includes:

- Issuing of new Grant Instructions as shown in Appendix 2 to all Finance staff dealing with Grants which will provide clear instruction on compilation, review and certification of grant claims.
- Following up specific audit issues with Project Managers and providing support in the implementation of third party monitoring systems if required.
- Reviewing ledger structures for grant funded projects to ensure that classification codes, where appropriate, are used to identify specific expenditure.

- Issuing a new Document Retention Policy shown in Appendix 3 which will ensure that all original documentation in relation to European Funded projects is separated from the main Finance archiving system and retained within secure Grants storage until the appropriate disposal date.

- Provision of a Grant Acceptance Checklist shown in Appendix 4 which will ensure that all Grant Offers are signed off by both the grant receiving Service and the Section 151 Officer so that a copy of all Grant Terms and Conditions can be held within Finance. The Grant Acceptance Checklist is designed to capture a range of other information which will assist with the monitoring of grants.

- Provide Grants Training in conjunction with PWC for staff dealing with grants to reinforce compliance issues on an annual basis.

- Review the process for applying for funding to assess whether all applications for grant funding applications should be signed off by the Section 151 Officer prior to submission.

Recommendations

Members of the Audit Committee are requested to:

Note the contents of the Report.

FURTHER INFORMATION RELATING TO PWC OBSERVATIONS APPENDIX 1

Ref	Grant Name	PWC Observation	Comment
1	Communities First – Amlwch Exit Strategy	Redundancy payments of £12,753.26 made were approved by WG and were defrayed in September 2013, outside the scope of the period being certified. Additional funding of £12,754 were received from WG in October 2013.	The statement for audit covering October 12 to March 13 totalling £96,648 was submitted for audit in July 2013. WG did not approve the application for redundancy until August 2013. An additional claim for £12,753 had to be submitted for the redundancy funding and the statement amended to include the redundancy expenditure. Instruction from WG was to include it in the 12-13 statement even though it was not paid and received in 13-14. This grant has now ended.
2	Communities First Central Office	Removal of £12,512.06 included twice in error. Amendment of £349.68 in respect of correcting the allocation of total expenditure across each category.	£12,512.06 consultancy expenditure was incorporated into a salary budget line and a separate consultancy budget line on the claim form thereby overstating total expenditure; however this did not impact on the grant claimed. Some expenditure was included in the ‘Publicity & Marketing’ budget line but when the sample was picked and the invoice was examined it was actually for translation. As there was a specific budget line for translation the expenditure had to be reclassified. This was a coding error in Finance ; however there were no financial implications, £44,338 grant was awarded and claimed. This grant has now ended.
3	Communities First Morawelon & London Road Core	The Partnership was unable to provide an invoice for one item totalling £110.23.	A Direct Debit payment was made by the Morawelon & London Road Communities First Partnership to Southern Electric as part of their monthly payment plan. The Partnership was unable to find the actual bill. Total expenditure incurred under the grant was £111,356.

			This was a Partnership error. This grant has now ended.
4	Communities First Morawelon & London Road Non-Core	One item of expenditure totalling £160 was found to be ineligible. There was an overstatement of £567.00 in the detailed listing of the Youth Worker costs provided by the Partnership	£160 was spent on Selection Boxes for the Children's Christmas Parties delivered under the Youth Programme. Whilst PWC felt this was nice to have it was not essential to the programme and they deemed it to be ineligible. WG however have not treated it as ineligible and have not reclaimed the funding. The Partnership accounts showed £1744.74 being paid for salaries but the backing paperwork showed £1177.74 so there was an input error in the accounts. There was no impact on the grant by removing the overstatement because the grant of £15,202 received didn't cover the full cost of the Youth Worker. This was a Partnership error. This grant has now ended.
5	Communities First Tudur Ward	One item of expenditure of £250 was incurred towards a Christmas Lunch for the volunteers of the Partnership. The allocation of total expenditure across each category was amended by £187.20	£250 was paid to the Bull. This was actually found to be a Christmas Lunch for the volunteers, although this was not apparent from the accounts until the full audit trail was in place. This was found to be ineligible by PWC. WG however have not treated is as ineligible and have not reclaimed the funding. £187.20 was entered into the wrong analysis column on the Partnerships accounts; Staff Travel instead of Staff Training. There was no impact on the grant but the form had to be amended. This was a Partnership error. This grant has now ended.

6	NNDR	A Rateable Value decrease notified by VOA had not been processed. It was noted that Management were in the process of reconciling the total RV per the VOA listing to the RV in Northgate. Errors noted with implementation of Mandatory Charitable Relief and Discretionary Top Up Relief. Applications for deferred payments had been received and approved but that was not reflected in the claim. An amendment was made to the claim relating to a manual adjustment posted re mandatory Community Amateur Sports Club Relief.	There was an omission to process a request which was notified on 25.4.2012. There was inconsistent treatment of a not for profit organisation with several properties, some of which were awarded charitable relief whilst another discretionary relief. Staff liaised with the VOA until the identified discrepancies had been ironed out. Schedules are worked on the day that they are received, so there are no longer any delays. Reconciliations are carried out once a month. These were Finance errors
7	School Effectiveness Grant/Pupil Deprivation Grant 12-13	Secondary school underspend identified of £634.77 not declared in claim. Council not able to provide evidence to validate that expenditure of £2613.60 incurred by a school had actually been defrayed. The amount of funding directly delegated to the school was £417,775 which is 56% not 75% which is the minimum threshold required by WG. The Council was not able to provide evidence that the	One of the schools was unable to provide full evidence of expenditure on PDG. An amount of £634.77 was included in their claim as expenditure but no evidence could be provided. A proposal for a programme costing £2613.60 was included in expenditure figures however the school was unable to provide an actual invoice and no evidence could be found on the ledger that this amount had actually been defrayed. The delegation level was not achieved because funding was paid directly by the Authority to Cynnal to deliver certain services to the schools e.g. training. The schools did not pay for these services directly themselves and so the funding was not delegated. This issue has since been discussed with WG and no follow up action is required by them. The spending plan was

		spending plan prepared and submitted to the WG for the grant has been reviewed and approved by WG.	submitted to WG but there was no evidence on file that it was actually approved. This may have been exacerbated by a number of staffing changes within Education. The WG Offer Letter did not refer to the spending plan specifically. The total value of the SEG and PDG programme was £1,413,152. The errors lay with both Finance and Education in the lack of monitoring of the schools expenditure.
8	Teachers Pension Return	The contributory salary figure has been calculated by grossing up the employer contributions as the payroll system used by the Authority is not capable of providing a contributory salary report to support the claim form. Two out of twenty teacher's contributions had been calculated using the incorrect tiered rates. Both instances relate to supply teachers whose full time equivalent salaries were based on time recorded on their timesheets.	The Northgate System is not currently capable of producing the contributory salary report. The incorrect rates were used for supply teachers. The error lay with Finance.
9	Transitional SBIG – Ysgol y Bont	Claim amended to remove ineligible expenditure incurred in 2011/12.	Some development work was undertaken in 11/12, the cost of which was included in the grant expenditure in 12/13. The Grant Offer was made and accepted in November 2011 however the grant profile was from April 2012. The Grant Offer was only provided by Education during the audit but no paperwork could be found to demonstrate that WG had agreed to the 11/12 expenditure being included. WG would have accepted the 11/12 expenditure as the Authority's match funding but would not pay grant against it. Of the £4,501,547 grant claimed

			only £4,471,242 could be deemed eligible resulting in £30,305 to be reclaimed by WG. The error lay with Education. Services should ensure that Finance always receive a copy of the Terms & Conditions of the grant.
10	Welsh in Education Grant	Certification Instructions state that WEG is not to be used for the procurement of ICT or connectivity costs. Testing showed £2,937 which related to ICT equipment. This related to Outcomes 2 projects for which the Authority had £17,000 allocated. Incurred expenditure was £18,949.	IPads were purchased by a school as a learning resource and these were found to be ineligible. This could potentially result in a reclaim of £988 against a grant of £165,700. The error lay with the school in purchasing IT equipment. Schools have been requested to get approval from Education directly before they make an IT related purchase using any grant funding.
11	Flying Start	Amendment of £1,234 in respect of correcting the allocation of the total expenditure across each category.	£1,233.51 of costs relating to 'Staff Costs: Early Language Development (ELD)' was actually recorded as 'Staff Costs: Flying Start Core Team'. There are numerous staff who work on Flying Start and one months salary of an 'ELD' worker had been coded to 'Core Staff' in error. There were no financial implications on the grant. £632,777 grant was claimed. The error lay with Finance in the classification of expenditure on the ledger.
12	Families First	Absence of adequate third party monitoring procedures.	The former Families First Monitoring Officer took over the role of Gwynedd/Mon Programme Manager during 2012/13 under the new Partnership arrangements. The Monitoring Officer role remained vacant for most of the year resulting in no monitoring visits being undertaken to Partner

			Delivery Organisations.
		Amendment of £3,255 to remove ineligible expenditure incurred in 2013/14.	A 2012/13 creditor accrual was raised for training however on looking at the invoices when they were actually paid they related to training undertaken in 13/14 so they should not have been accrued for as the service had not been received. Eligible expenditure was reduced from £770,545 to £767,290 to take account of this. The error lay with the Partnership and has been acknowledged by management there. The Monitoring Officer post has since been filled and monitoring visits have been undertaken. Creditor accruals should not be requested where the goods or service have not been received.
13	Substance Misuse Action Fund	Amendment of £553 in respect of correcting the allocation of the total expenditure across each category.	£20K funding was ring-fenced for specific activity. The Authority incurred £20,553 and this was entered onto the Statement for Audit. The form had to be changed to reallocate the overspend to the generic grant funding There was no impact on the grant of £510,752 They error lay with Finance in the completion of the form.
14	Learning Disabilities Resettlement	The Council was not able to provide a signed Service Level Agreement with a third party provider.	Social Services had an ongoing Service Level Agreement in place for the Advocacy Service but a signed copy could not be provided.
		The Council has apportioned staff costs for four members of staff to the grant. These costs are allocated on an estimation of time and not on a specific time allocation through the use of time sheets. The Council could not provide evidence to support the staff time apportioned.	A proportion of four Social Worker salaries are apportioned to the grant with the same percentage rate being used year on year. The same issue was raised in 2011/12 and the Project Manager was told that the Social Workers should keep timesheets so that the apportionment could be evidenced. Social Services however, decided they would not

			keep timesheets. There were no financial implications as WG have never viewed the lack of timesheets as an issue. £976,481 grant was retained in full. The error lay with Social Services as apportionment of staff time should have been evidenced via a timesheet. This grant is no longer subject to external audit.
15	Strategic Regeneration Areas – Property and Environment Grant (PEG) 11-12 & 12-13	Three of six schemes in 11/12 could not be identified in the Asset Register as projects have been included as part of larger schemes with no audit trail to show which schemes they have been included in.	The Working Papers for the Asset Register in 11/12 did not allow for the tracking of individual small items of capital expenditure on PEG through to a specific item on the Asset Register. The Working Papers for the Asset Register were detailed in 12/13 and the same issue did not arise. The error lay with Finance in the compilation of working papers in support of the Asset Register.
16	Regional Transport Consortia Grant	Authority able to provide evidence of the approved amount of grant funding provided to the Consortium but unable to provide evidence to support the allocations to each Authority therefore unable to agree the total allocation figure to the outturn statement.	Flintshire County Council, the Consortium Lead Partner, was not able to provide the Authority with the evidence that PWC required showing the individual allocations of RTP Capital, Road Safety Capital and Road Safety Revenue within the overall grant to the Consortium. This was actually provided directly by WG following the audit. The error lay with Flintshire County Council who was unable to provide evidence.
17	Sustainable Waste Management	Ineligible expenditure of £27,944 was identified relating to waste disposal. Further ineligible expenditure was identified during the testing of in house fleet	The Waste Grant is a contribution to the costs incurred by Waste Management. The balance is met from core budgets. The relevant cost centres contain expenditure over

		recharges totalling £2,244.21. The ineligible expenditure does not impact on the grant as there was a £422,471 overspend.	and above what the grant funds but specific expenditure has not in the past been allocated to the grant. When the original sample was selected an item for Food Waste Liners for £27,944 was picked and that was deemed to be ineligible, similarly fleet recharges could not specifically be traced back to the grant. There was no financial implications with £1,863,794 grant claimed being retained by the Authority. The error lay with Finance for allowing total expenditure to be tested.
18	HRA Subsidy	The amount paid by the Authority on the claim form was stated as £1,885,950 but the underlying records indicated £1,885,975 a difference of £25. The opening capital funding requirement should be used as the basis to calculate cell 0385 rather than the opening subsidy capital financing requirement. Various amendments were made due to incorrect values extracted from working papers and from the prior year claim.	Payments on account were understated by £25. It was not clear from the guidance whether to use the average total number of dwellings in the year or the total number of dwellings in the HRA at the end of the year. The error lay with Finance on the interpretation of the guidance and quality of working papers.
19	Learning Pathways	Signed SLA's were in place for all 3 Partner organisations however expenditure for one partner had been incurred before the SLA was signed. Amendment in respect of capping the eligible expenditure amount to reflect the grant allocation.	SLA's were put in place between the Authority and three Delivery Organisations namely Cynnal, Coleg Menai and Careers Wales. One of the SLA's was signed and dated after the first item of expenditure had been incurred by the Authority. We incurred a £1 underspend on Welsh Medium activities and 0.72p on the main revenue which was vired into Welsh Medium Forum. This gave an overall overspend of £2.61. The £1

			underspend was not allowed and the eligible expenditure on Welsh Medium Forum was capped. This did not impact on the grant of £613,299. The errors lay with both Education and Finance.
20	Social Care Workforce Development Programme	During testing £3 difference between the invoice amount and the amount on the ledger. Expenditure incurred by the Authority was £313,752.53 above the approved grant expenditure of £309,710.	When the audit statement was produced there was an accrual for £1,950 included. The invoice had not been paid and the invoice was approved for payment during the audit with the invoice amount being £1,947. There was no financial impact. The error lay with Social Services who did not pass the invoice for payment and did not resolve outstanding issues with supplier.
21	Development of Anglesey's Coastal Environment	Items of expenditure not defrayed until after the end of the claim period were included in the amount claimed.	The defrayments related to a cheque payment of £62.50 which had not been presented to the bank and a further cheque payment of £354.11 which did not clear the bank until 8/10/13 outside of the claim period to 30/9/13. The error lay with Finance who should check all defrayal dates prior to inclusion in claims. These two items were removed from the claim for £205,276.
22	SEG 11-12	LAC expenditure of £16,348 was below the minimum of £19,351. Percentages of expenditure for Literacy, Numeracy and Poverty were estimates, therefore unable to determine whether the amounts shown as expenditure for each priority per the claim are accurate.	LAC funding paid for a member of staff, the original member of staff left and the post had to be reappointed which resulted in an underspend. Expenditure on the ledger could not be broken down into the three priorities and many elements had been combined.

		The Authority was not able to evidence that the funding delegated to schools has been defrayed for the purposes for which it was given.	There was no monitoring of the schools expenditure in relation to the grant. It could not be evidenced how the school had spent the funding.
		The Authority has not been able to evidence that the funding devolved to collaboration partners had been defrayed for the purposes for which it was given.	£3,500 was awarded to Plas Cybi Communities First Partnership to deliver a project within the schools but there was no monitoring of how the money had been spent.
		70% of the funding was delegated to schools below the 75% level required.	The Authority paid centrally for the services delivered by Cynnal rather than delegating the funding to the schools.
		Unable to determine the eligibility of 10 from 25 items totalling £121,658.22 due to a lack of information to confirm the nature of the expenditure.	The invoices could not be specifically allocated to Literacy, Numeracy or Poverty as much of the expenditure had been combined and therefore eligibility could not be proved.
		Unable to determine the correct classification of 22 out of 25 items.	As above.
		Unable to determine the apportionments to the claim for 10/25 items totalling £103,810.33.The Authority has not provided an adequate rationale for the method of apportionment adopted.	Where invoices included expenditure on all of the priorities they were apportioned across each of the priorities based on a percentage deemed reasonable by Education but this was not acceptable to PWC. The total grant claimed was £718,552. The financial implication was £3,003 grant recovery on the LAC underspend. The errors lay with both Finance and Education for lack of monitoring of delegated schools funding, third party expenditure and incorrect classification of expenditure.

23	North West Wales LIF 11-12	For two invoices sampled original invoices were not able to be provided although uncertified copies were provided. Staff costs of £10759.12 were defrayed in 2011 and were claimed in 2012. One contract which had been let did comply with the NWW LIF Protocol but did not comply with the authority's internal procurement rules. The Authority did obtain 3 quotes but did not go through a full tendering process. Claim was provided late.	Original invoices stored in the Ysgol y Graig site could not be found due to the poor condition of the storage The salaries and other costs of the Project Manager (Regional costs) are funded equally by the four partners, and invoiced a quarter in arrears. The expenditure is included in the claim after the partners have accepted the invoice and paid it. It was only claimed once. This refers to procurement by grant recipients. They are required to obtain 3 quotes for purchases. The procurement regulations being operated by the partner awarding the LIF grant have not been extended to the grant recipients. WEFO guidelines say that 'non-contracting authorities' need only to use fair and open practices. Claim value £2,172,872.80 The error lay with Finance in terms of retention of original finance documentation.
24	Strategic Infrastructure Sites & Premises 11-12	An advance payment of £74,379 was made for a service which has not been delivered with no indication of when it will or whether it may be outside the life of the project. Claim provided late.	A payment was made to SP Manweb to remove and relocate the electricity substation from the Penyrorsedd Site. The payment had been paid, defrayed and claimed but at the time of the audit, the work had not been completed. A date could not be confirmed when it would be completed as discussions with SP Manweb were still in progress. The amount was removed from the claim of £705,719 and claimed again when the work was completed in July 2014. The error lay with Finance in making the judgement whether the works would be completed within the life of the project.

25	Housing Benefit and Council Tax Subsidy 11-12 & 12-13	A number of issues identified during 11-12 and 12-13 and are being discussed with Housing Benefit Staff	There are ongoing issues with the accuracy of the HB & CT claims going back a number of years. Staffing has been brought in to assist with the process and procedures have been improved. The errors lie with Finance.

GRANT CLAIM INSTRUCTIONS

1 INTRODUCTION

1.1 The certification of grant claims is the responsibility of Finance and it is essential that a process is followed to ensure the accurate compilation of grant claims. The following information outlines the process to be followed to complete, review and authorise any grant or subsidy claims.

1.2 A central Grants Register is maintained within Finance and can be found on *G:\FINANCE\ FINSVCS\LOTSHARE\GrtContr\Grants Monitoring Database\14-15.* This should be updated by the Accountants responsible for the grant with the details of the grant and the claims.

2. THE GRANT CLAIM FILE

2.1 A sufficient level of information should always be maintained on a project file which will allow anyone to verify the information contained within the claims. The file should be marked with a destruction date. Many grants now state that the original documentation should not be destroyed until the Authority is notified that it is safe to do so. This should be noted on the file and an archive record kept of files so that files can be destroyed at the appropriate time. The file should also be protectively marked as 'Official – Sensitive'.

2.2 Where European or Rural Development Plan funding is being claimed the original invoices should be removed from Creditors after they have been scanned into CIVICA and retained on the Project Files as certified copies of scanned originals are not deemed sufficient audit evidence.

2.3 Separate grant instructions should be produced and maintained on the project file, which highlight any unusual compliance issues, a contact within the Service, cost centres, timetable for claims and other deadlines which will allow anyone to be able to provide cover for a grant claim process in the event of staff absences.

2.4 For those grants which require an external audit a standard project file should contain the following:

- The application or approved expenditure plan.
- The signed Offer Letter.
- Copies of invoices, credit notes and payslips.
- Timesheets if staff time has been apportioned, signed by the Officer and Line Manager.
- Rationale behind any other apportionment e.g. overheads.
- Evidence of third party expenditure (if applicable).
- Signed and dated Third Party Service Level Agreements or Grant Offers (if applicable).
- Details of any income generated (if applicable).
- Claim documentation including ledger prints and year end ledger reconciliation.

- Details of any quotes or contracts awarded to show the procurement process has been followed.
- Details of any publicity generated, photographs of activities/assets generated, before and after shots.
- Asset register (if applicable).
- Remittance advice notes.
- Bank statements showing income received.
- Details of in house recharges and supporting evidence showing that they have been recharged on a fair basis i.e. charged on the same basis to grant and non-grant funded activity.

3. COMPILATION OF THE CLAIM

3.1 Claims and returns have to be signed by the Section 151 Officer or Deputy Section 151 Officer in the majority of cases. Some claims may require two signatures which may either be the Project Manager, Head of Service or Service Accountant. The accurate compilation of the claim is the responsibility of Finance.

3.2 The claim can be made up of information from the following sources:

- Financial information recorded in the ledger.
- Financial information recorded in a departmental or third party organisations system e.g. Housing Benefits
- Non-financial information such as delivery against milestones, outputs etc. which is normally provided by the Project Manager.

3.3 All information provided in the claim must be verified and agreed by the Accountant compiling the claim and the Project Manager within the Service. Once completed the claim should be independently reviewed prior to certification. A Grant Claim Checklist (Appendix A) should be completed for every grant or subsidy claim.

3.4 Documentation in support of the claim should be compiled and must include reconciliation back to the ledger. The level of supporting information for each claim will differ for some claims awarding bodies will want to see copies of invoices for others no supporting information will be required with the submission. The supporting information should be sufficient to allow a reviewing Accountant to verify the claim and should include notes on how to complete the claim, a copy of the Offer Letter and information on previous claims. Cross referencing the supporting documentation to the claim can often simplify and speed up the process.

3.5 Sometimes estimated or interim claims are required which are based on forecast expenditure. When the final claim based on actual expenditure is submitted any variances should be investigated and detailed on the supporting papers.

3.6 As a general rule the expenditure included in the claim should be the expenditure that is showing on the ledger. In exceptional circumstances claims can include an amount for invoices which have been received but not yet scanned into CIVICA and therefore not appearing on the ledger. This is only advisable where it is acceptable to the funding body and the actual expenditure is significantly under its’ target profile. If this approach is used it must be carefully monitored to ensure that expenditure is not claimed again in the following claim.

3.7 When the grant or subsidy claim is submitted to the Reviewer at least 3 working days should be given to allow for time to review and amend the claim if necessary.

4. REVIEWING CLAIMS

4.1 All claims must be reviewed prior to certification. A reviewer can be an Accountancy Manager, Service Accountant or Grants Manager. If the claim has been wholly completed by non-Finance staff then an initial check should be carried out by the Service Accountant prior to review by the Accountancy Manager.

4.2 The Reviewer is responsible for:

- Ensuring that the claim has been completed in accordance with the grant conditions.
- Ensuring that the form has been correctly completed and that the figures are accurate and can be related back to the ledger.
- Carrying out sample checks to be satisfied that the form has been completed correctly.

4.3 The Reviewer should completed part B of the Grant Claim Checklist noting the checks carried out and any amendments that need to be made. If amendments are required the claim should be returned to the preparing Accountant for amendment.

4.4 If the Reviewer is satisfied that the claim has been completed correctly then the Checklist should be signed and dated and the claim passed for certification.

5. CERTIFICATION OF THE CLAIMS

5.1 The Chief Financial Officer is normally specified as the person to certify the claims. This will be the Section 151 Officer or alternatively the Deputy Section 151 Officer.

5.2 The Certifying Officer should receive the claim and all supporting paperwork at least 2 days before the due date of the submission.

5.3 The Certifying Officer should ensure that the process has been followed and that the checks that he/she determines necessary have been carried out.

5.4 The date the claim was certified should be added to the checklist.

6. CERTIFICATION OF YEAR END CLAIMS FOR EXTERNAL AUDIT

6.1 A number of grants require external audit. The audit requirement will be laid out in the original Offer Letter.

6.2 Following submission of the final claim a year end Statement of Expenditure will be compiled by the Service Accountant for submission to the Authority's external auditors. The Statement will be based on the ledger entries for the year and will state whether money is owed to the Authority as a result of an under claim or money is owed to the funding body as a result of an over claim.

6.3 Particular attention needs to be paid to creditor accruals to ensure that:

(i) They have actually been paid and can therefore legitimately be included in the claim if the grant operates on an accruals basis.

(ii) That the invoice which has been paid against the accrual actually matches the original accrual amount.

6.4 Claims for audit should be prepared in the same way as interim claims however a full ledger reconciliation detailing the cost centre(s) transactions should be submitted to PWC as part of the audit paperwork. This will allow them to pick their sample prior to arrival on site.

6.5 Where expenditure exceeds the approved grant expenditure as detailed in the Offer Letter it should be made clear on the ledger which transactions should be included for testing and which should be excluded.

6.6 The ledger reconciliation and original signed copy of the statement for audit should be passed to the Grants Manager for submission to the auditors and a copy should be retained on the Project File.

6.7 For most grants, auditors have a period of about 3 months to certify the Statement. A timetable of audit work will be agreed between the auditors and the Grants Manager and notified to the Accountant and Project Manager to ensure availability during the audit. Most grant audits will last 1-2 weeks depending on the number of queries raised by the auditor and the speed with which the queries are dealt with. Most audit queries should be dealt with within 2-3 working days.

6.8 The audit will look at a number of elements related to the management of the grant funding in line with Certification Instructions (CI's) produced by the Wales Audit Office. Current CI's can be found on G:\FINANCE\FINSVCS\LOTSHARE\Certification Instructions\2013-14.

6.9 The cost of the audit and the time taken can be kept to a minimum by ensuring that all supporting documentation is made available to the auditor in the project file as referred to in 2.4 above.

6.10 Upon completion of the audit a certified Statement will be released. Any areas of non-compliance with the terms and conditions of the Grant Offer will result in a qualified audit report. Qualification points should be followed up by the Project Manager with the support of the Grants Manager if necessary, to ensure that these issues are addressed for future years. Consistent audit qualifications year on year could result in the loss of grant funding.

GRANT CLAIM CHECKLIST

APPENDIX A

CLAIM TITLE ____ **YEAR** _______________

DEPARTMENT____

SERVICE ACCOUNTANT ____

DEPARTMENTAL CONTACT OFFICER(S) ____

DEADLINE DATE FOR SUBMISSION ____

ANY INTERIM / ESTIMATED CLAIMS PREVIOUSLY SUBMITTED (Yes / No) ___________

To be completed by the Grant Claim Preparer

Name of Preparer______________________________________

1. Has evidence been obtained to support all assurances required for the certification statement?

   Date of completion ___________________ Signed ________________________

2. Has evidence of all non-financial information been obtained?

   Date of completion ___________________ Signed ________________________

3. Has the claim been completed and agreed with both Finance and the Department?

   Date of completion ___________________ Signed ________________________

4. Has any expenditure been included which is not yet on CIVICA? Yes/No

   Date Claim Passed to Reviewer __________________________

To be completed by the Reviewer

Name of Reviewer _____________________________________

1. Details of checks carried out

   Date Working Papers Reviewed _________________ Signed ___________________

   Date Claim Checked __________________________ Signed _________________

2. Was it necessary to correct the claim following the review? Yes / No

   Date amendment completed ____________________

   Preparer ____________________________Reviewer _________________________________

3. Date Passed for Certification ____________________________

Date claim certified _________________________Certified by ______________________________

Date submitted to funding body ________________Date submitted for audit ___________________

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APPENDIX 3

CYNGOR SIR
YNYS MÔN
ISLE OF ANGLESEY
COUNTY COUNCIL

Isle of Anglesey County Council EU/RDP Management and Retention of Records Policy

ERDF
Llywodraeth Cymru
Welsh Government
Ewrop & Chymru: Buddsoddi yn eich dyfodol
Cronfa Datblygu Rhanbarthol Ewrop
Europe & Wales: Investing in your future
European Regional Development Fund

ESF
Llywodraeth Cymru
Welsh Government
Ewrop & Chymru: Buddsoddi yn eich dyfodol
Cronfa Gymdeithasol Ewrop
Europe & Wales: Investing in your future
European Social Fund

Cronfa Amaethyddol Ewrop ar gyfer Datblygu Gwledig: Ewrop yn Buddsoddi mewn Ardaloedd Gwledig
The European Agricultural Fund for Rural Development: Europe Investing in Rural Areas

Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Contents

Annexes

1. Purpose

1.1 The purpose of this policy is to ensure the Isle of Anglesey County Council (IACC) conforms to the rules and regulations of retaining the correct and full documentation in relation to projects funded through the EU Convergence Programme and the Rural Development Plan.

1.2 This policy will provide guidance and instructions on the processes for management of relevant records for officers working on EU/EAFRD funded projects.

2. Introduction

2.1 Records relating to EU/EAFRD projects need to be managed effectively so that Wales European Funding Office (WEFO) and the Welsh Government (WG) auditors can access project records for a lengthy period of time as set out by the European Commission (EC) – potentially at least 17 years for projects that started in 2007/ 2008.

2.2 EC legislation requires WEFO/WG to ensure that all supporting documents relating to expenditure are kept available for three years following the formal closure of the Operational Programme that funded the expenditure.

2.3 Therefore, projects must retain all records until WEFO/WG confirm that this period has expired. This date will be notified on the WEFO website and directly by the WG for RDP projects. Based on previous experience of programme closure, it is anticipated that this point will not arrive until at least 2024.

2.4 This document outlines the minimum requirements of WEFO and the EC so that organisations can decide on the best arrangements for their individual circumstances.

2.5 The information and advice in this document relates solely to the requirements of the 2007-2013 programmes and not to earlier programmes. Similarly, it does not aim to explain or substitute any of the wider records management responsibilities that may apply to a particular organisation, such as Public Records legislation, Freedom of Information, Data Protection, The National Archives, HMRC, Companies House etc.

2.6 Full WEFO 'Management and Retention of Records Guidance can be found at: http://wales.gov.uk/docs/wefo/publications/developingguidance/120906docmanandreten.pdf

3. Document Retention EU Regulations

3.1 Options are outlined below for consideration by Project Managers. Important factors to consider will include:

- Storage space and costs;
- Each organisation's policy/ risk appetite regarding the legal admissibility of copies/ scans in UK civil courts;

- Whether 'originals' will be retained as a back-up or destroyed when a copy or scan is created; and
- Convenience, access, ease of retrieval for current and future staff.

Unfortunately for Project Managers of RDP funding the only option available is Option 1 where the original paper version of the documents must be retained as certified scanned or photocopies are not acceptable. The inability to produce original documents at audit could result in clawback and an additional fine of an equivalent value.

3.2 OPTION 1 - Original (paper)
Retaining original paper copies may have significant physical storage implications. Physical damage is a risk and the ability to retrieve documents quickly can be challenging, particularly if stored off-site. Records will need to be clearly labelled and/or filed separately to normal business records so that each organisation holding records complies with the lengthy retention period. No 'certification process' is required for original paper records.

3.3 OPTION 2 - Paper copy (photocopy of original paper document)
This must be the first photocopy of an original and not a 'copy of a copy'. Both sides of the original document must be copied if applicable. The copy must be certified using the certification process outlined in the full WEFO Management and Retention of Records Document http://wales.gov.uk/docs/wefo/publications/developingguidance/120906docmanandreten.pdf.

3.4 OPTION 3 – Scan an original paper document (digitised documents)
Scanning of original paper records can be used if the WEFO certification process is followed. Scanned documents must be a true representation of the original document (a replica image, including the reverse of the document if applicable) and must not be condensed, cropped etc. Any alterations made to the scanned image must be logged in an audit trail and presentational changes (contrast, brightness, rotation, zoom etc.) must not permanently replace the original image. EC regulations (and WEFO) do not impose any higher burden beyond standard UK legal and audit requirements other than the requirement to comply with the certification process.

The scan must be certified using the certification process outlined in the full WEFO Management and Retention of Records Document http://wales.gov.uk/docs/wefo/publications/developingguidance/120906docmanandreten.pdf.

3.5 OPTION 4 - Original (electronic records and documents)
In practice, this means e-mails, word processing files, spreadsheet files, database records, electronic invoices received from suppliers, electronic data interchange etc.

The terms 'document' and 'records' can be used interchangeably in this context (in the sense that a document is information stored in a particular media format).

Where documents are created/ transmitted/ filed in electronic version only, they are, effectively, the ‘original’ and therefore do not need to be ‘certified.

As with the scanning process in Option 3 above, the computer system must maintain an audit trail/ system log that would show any modifications to the records or documents (and this log must be capable of inspection until 2024 or later).

Important Note

Each organisation that chooses to retain records electronically/ digitally must be able to explain and demonstrate (if requested by WEFO and/or auditors) how their IS/ IT systems adhere to the above requirements. Structural Funds audits and inspections are not designed to be computer-security compliance audits and therefore, in practice, records will usually be accepted at face value with auditors/inspectors applying their professional judgement to identify any indications that a record is not authentic or that organisations are not aware of, or not aiming to follow, accepted security standards. Similarly, a successful audit or inspection must not be interpreted as providing assurance that computer systems are compliant with computer security standards.

3.6 OPTION 5 - Paper version of electronic records/ documents

Some electronic documents and records can be printed via an integrated ‘print’ option in the software application – e.g. e-invoices received by e-mail as protected PDF documents, PDF bank statements created by the online bank website application, or other PDF primary documents held within - or created by - a secure system with a hard-copy print option.

If preferred, these documents can be printed and retained as hard-copy records. The printed version must be certified as outlined in the certification process for photocopies (above).

Screen prints or screen dumps (copying screen images and pasting them into another application such as Microsoft Word and then printing) are not acceptable.

4. Accepted Security Standards

4.1 The EC require the above computer systems to meet accepted security standards to ensure that the records held comply with national legal requirements and can be relied on for audit purposes.

4.2 To help project sponsors, WEFO considers that the three sources outlined in Annex A are authoritative, commonly used standards/ sources of guidance that can be used as a reference point to provide assurance about the adequacy of security standards.

4.3 The key aim is that information contains the following four characteristics of an ‘authoritative record’:

Authentic

- Is the document/record what it purports to be?

- Was the document/record created or sent by the person purported to have created or sent it?
- Was the document/record created or sent at the time purported?

Reliable

- Can the document record be depended on and its contents trusted as a full and accurate representation of the transactions, activities or facts to which it claims to represent?

Integrity

- Is the document/record complete and unaltered?

Usability

- Can the document/record be located, retrieved, presented and interpreted?

4.4 An automated audit trail/system log must therefore be maintained to enable the demonstration of the above four characteristics if required and to support legal admissibility. This log must be available for inspection to 2024 or beyond. This log must register any changes made to the electronic records unless it can be demonstrated that the file format is incapable of being edited - although, an automated log of the date/time that the record was created or scanned is always required.

4.5 Computer systems must maintain the content of the record that would have existed when the record was first received or created e.g. not summarised, condensed or aggregated.

4.6 Each organisation that chooses to retain records electronically/ digitally must be able to explain and demonstrate (if requested by WEFO and/ or auditors) how their IS/ IT systems adhere to the above requirements.

5. IACC Document Retention Protocol

5.1 General Project Document Filing

European/RDP funded projects are required to retain sufficient document records to satisfy future audits on any expenditure claimed during the project period.

Examples of the types of documentation to be retained are as follows (not exhaustive):

- Project Business Plan;
- Project Approval letters;
- Project Financial and Delivery Profiles;
- Notification of significant change;
- Project Claim documents (including financial ledger, bank statements, remittance advice notes etc.);
- Any documents outlining expenditure (Invoices, travel claim forms etc.);
- Significant relevant email correspondence.

Original paper documents, for example, letter correspondence should be retained according to Retention Option 1 (Original Paper).

Certain documents, such as contracts and business planning documents will need to be signed and returned in order to complete an approval process. These documents will need to be copied (photocopy) and will then become a 'Paper Copy'. Paper copies should be retained according to the guidelines in retention Option 2.

Copies produced must be the first photocopy of an original and not a 'copy of a copy'. Both sides of the original document must be copied if applicable. The copy must be certified using the certification process outlined in Option 1.

When there is a requirement to file an electronic document as a hard copy, the guidance within retention Option 5 must be followed. Printed versions must be certified as outlined in the certification process for photocopies (above).

Screen prints and screen dumps (copying screen images and pasting them into another application such as Microsoft Word and then printing) are not acceptable.

5.2 Payments for Goods and Services

The IACC's 'CIVICA' Finance system supports the retention of records produced when making payment for goods and services received for a project i.e. paper invoices, electronic invoices, scanned invoices and procurement card payments (not exhaustive).

Each project will have a Grant Accountant from the Finance Department appointed to work with the Project Officer to ensure financial control of the project. The Accountant will establish a unique cost centre for the project and a range of expense codes within the Authority's accounting ledger.
When purchasing goods and services the project officer will do so through the CIVICA system according to the specific cost headings he/she will have access to, this will then be authorised by a senior officer prior to placing the order with the supplier.

Official Orders (PRD's) generated by the IACC are stored within CIVICA electronically and should be retained until 3 years after the closure of the programme (currently predicted as 2024).

Documentation relating to any internal transfers or BACS transactions are also retained on the system as electronic documents.

Upon the authorisation of the purchase the supplier will issue a request for payment in one of the following forms:

a) **Paper Invoices** – Will be returned to the IACC and scanned to be input onto the CIVICA system. This will then become a digitised document. **For both EU and RDP projects the original invoice should be removed from Creditors and retained as**

an original document on the project file by the Grant Accountant, they SHOULD NOT BE DESTROYED ONCE SCANNED ONTO THE SYSTEM.

b) **Electronic Invoices -** Are filed electronically as an original file / document within the CIVICA system. These are regarded as originals and do not require certification (see Option 4).

c) **Procurement Card Payments** – Creditor invoices: (card statements) are issued electronically and should be treated using the same process as an electronic invoice. Supplier invoices: If returned electronically, can be treated as above. If returned as a paper copy, they should be retained according to the guidance on paper invoices.

NOTE: FULL CLAIMS AND PAYMENT PROCESSES CAN BE FOUND IN THE IACC EU PROJECT MANAGEMENT GUIDELINES:
http://www.anglesey.gov.uk/business/european-funding/eu-convergence/european-guidance-notes-project-management-and-frameworks/eu-project-management-guidelines

5.3 Archiving

Following the completion of the project the Project Holding Department/Project Manager/ Responsible Owner is responsible for the archiving of project files and transfer to the Archive Unit according to the instructions provided by the IACC's Senior Archivist. A record of all files transferred to the Archive Unit will be maintained by each team, and record/log of when the files have been transferred. Access to files will be controlled by the Team Managers and Senior Archivist.

The Grant Accountant will retain all original finance documents on their project files and transfer them for storage to the Finance Archive after completing the Grant Archive Schedule.
NOTE: ALL ARCHIVED DOCUMENTATION MUST STILL DISPLAY LABELS SPECIFYING THE EARLIEST DATE OF POSSIBLE DISPOSAL (CURRENTLY 2024) IN ACCORDANCE WITH EU REGULATIONS.
http://wales.gov.uk/docs/wefo/publications/developingguidance/120906docmanandreten.pdf.

The retrieval of records from the Archive Unit will follow established procedures. The permanent retrieval of files from the facility will be authorised by Team Managers with an appropriate entry made in the file register.

NOTE: ANY DOCUMENTATION ARCHIVED MUST BE IN FULLY INDEXED BOXES; ENSURING EASE OF RETREIVAL IN ACCORDENCE TO THE TIMELINE PUT FORWARD BY THE EU AUDIT TEAM.
http://wales.gov.uk/docs/wefo/publications/developingguidance/120906docmanandreten.pdf.

There is currently no charge for storage costs at the Anglesey Archives. However, given the increasing pressures on service budgets, this may change in the near future. Archiving costs will be attributed to the Project Holding Department.

NOTE: PROJECT ARCHIVING IS AN INTEGRAL PART OF EU PROJECT CLOSURE PROCEDURES AND IS TO BE ADOPTED AS PART OF THE CLOSURE PROCEDURES.

5.4 Email Retention

It is the responsibility of the project manager to ensure the retention and filing of any key documents received by email.

Any documentation received by email should not be retained within the Outlook system. Key documents/email correspondence should be printed and filed according to retention guidelines in Option 1(Original Paper).

The IACC email system should not be used as a document management system.

5.5 Staff Turnover

It is the responsibility of the Project Manager to ensure that officers moving to another role or leaving the Authority review their e-mail accounts and file (as hard copies) any key documents received, and delete any personal emails prior to leaving their post.

The following steps summarises the actions required (in relation to email accounts) when an officer working on a European project leaves their role:

- Project Manager and Project Officer to discuss timing of role to be vacated, associated work programme and notice period (usually 1 month);
- Project Officer to notify ICT department of exit and notice period;
- Project Officer to review & file key email documents and remove personal information during the specified notice period;
- ICT to provide proxy access to the relevant post's email account to Project Manager until the post is filled;
- ICT to make copy (CD) of relevant email account for future reference;
- New post holder to be provided with access to 'old' email account and copy of files (CD) by ICT.

ANNEX A - Computer Security Standards

WEFO considers that the following three sources outlined are authoritative, commonly used, well-established standards/ requirements that project sponsors can use as a reference point to provide assurance about the adequacy of their computer security systems.

The three sources share common fundamental requirements and this guidance note signposts project sponsors to the key elements.

- **ISO 15489** is commonly regarded (including by The UK National Archives) as an authoritative records management text. The Welsh Government designs its own core IT systems to comply with this standard.

- **BSI 10008** (2008) British Standards Institute, Code of Practice on the Legal Admissibility and Evidential Weight of Information Stored Electronically. The code also draws upon ISO 15489 requirements.

- **MoReq2** (Model Requirements for the Management of Electronic Records 2008). The National Archives endorses and participates in this EU initiative, which incorporates and harmonises all or part of national standards across the participating European Member States. MoReq2 draws significantly.

APPENDIX 4

GRANT ACCEPTANCE CHECKLIST

TO BE COMPLETED BY SERVICE RECEIVING THE GRANT			
Grant Title			
Amount Awarded		**Period of Award**	From To
Project Manager		**Service**	
Please indicate which category of funding best describes the grant Annual recurring grant New one off project New programme Other (please state)			
Is the Offer Letter accurate in terms of the start and end dates, funding, outputs? Yes/No **If No please return the Offer Letter to the funding body requesting an amendment.**			
Does the grant require additional resource from: **Procurement** Yes/No **IT** Yes/No **Other (please state)**		**Is this a capital project with ongoing revenue implications** Yes/No **Will staff be funded by the grant** Yes/No **If yes how many?**	
Does the grant have any State Aid implications? Yes/No		**Will any of the grant be delegated to third parties?** Yes/No	
Will any of the grant be awarded to Third Sector Organisations? Yes/No		**Is the Corporate Performance, Planning and Programme Office aware of the grant?** Yes/No	
TO BE COMPLETED BY FINANCE			
Responsible Accountant		**Is external audit required?** Yes/No	
Level of financial risk to Authority High Medium Low **Reason**			
New cost centre required? Yes/No		**Is match funding required?** Yes/No	
Date signed by S151		**Date returned to funding body**	

ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	**AUDIT COMMITTEE**
DATE:	**7 NOVEMBER 2014**
SUBJECT:	**TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY: MID-YEAR REVIEW REPORT 2014/15**
LEAD OFFICER:	**RICHARD MICKLEWRIGHT (TEL: 2601)**
CONTACT OFFICER:	**GARETH ROBERTS (TEL: 2675)**

Nature and reason for reporting

To scrutinise the report to be consistent with professional guidance and to comply with the recommendations of the CIPFA Code of Practice on Treasury Management.

1. Background

1.1 Two of the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) are the receipt by the full council of a mid-year review report on treasury management activity and the delegation of the role of scrutiny of treasury management strategy and policies. This report will fulfill those requirements and covers the following:

- An economic update for the first six months, and looking forward to the second half, of 2014/15;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2014/15;
- A review of the Council's borrowing strategy for 2014/15;
- A review of any debt rescheduling undertaken during 2014/15;
- A summary of activity since quarter 2;
- A look ahead to next year; and
- A review of compliance with Treasury and Prudential Limits for 2014/15

2. Economic Update

2.1 The Council's treasury advisers provided a summary of the economic performance to date and outlook shortly after the end of the first quarter, and can be found in Appendix 1. They have also recently provided the following forecast:

	Dec 2014	Mar 2015	Jun 2015	Sep 2015	Dec 2015	Mar 2016	Jun 2016
Bank Rate (%)	0.50	0.50	0.75	0.75	1.00	1.00	1.25
5yr PWLB rate (%)	2.50	2.70	2.70	2.80	2.90	3.00	3.10
10yr PWLB rate (%)	3.20	3.40	3.50	3.60	3.70	3.80	3.90
25yr PWLB rate (%)	3.90	4.00	4.10	4.30	4.40	4.50	4.60
50yr PWLB rate (%)	3.90	4.00	4.10	4.30	4.40	4.50	4.60

2.2 The Council's treasury advisers recently provided a commentary alongside the interest rate forecast above. This commentary can be found in Appendix 2.

3. Treasury Management Strategy Statement and Annual Investment Strategy Update

3.1 The Treasury Management Strategy Statement (TMSS) for 2014/15 was approved by this Council on 27 February 2014. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position.

4. The Council's Capital Position (Prudential Indicators)

4.1 This part of the report is structured to update:-

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.
- HRA Reform

4.2 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure	2014/15 Original Estimate £m	Position as at 30 September 2014 £m	2014/15 Current Estimate £m
Council Fund	18,100	4,701	15,010
HRA	5,700	1,569	6,000
Total	23,800	6,270	21,010

4.2.1 The current estimate for capital expenditure is behind the original estimate mainly due to the exclusion of contingency items no longer being part of the capital strategy.

4.3 Changes to the Financing of the Capital Programme

4.3.1 There are no significant changes to the financing of the capital programme to report at this stage.

4.4 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

4.4.1 The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

4.4.2 Prudential Indicator – Capital Financing Requirement

4.4.2.1 We are projected to be marginally ahead of the original forecast capital financing requirement.

4.4.2.2 The Borrowing figure for the External Debt/the Operational Boundary is based on the assumption that we continue to internalize our borrowing.

4.4.3 Prudential Indicator – External Debt/the Operational Boundary

	2014/15 Original Estimate £m	2014/15 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement		
CFR – Council Fund	92,400	83,226
CFR – HRA	23,000	24,723
Total CFR	115,400	107,949
Net movement in CFR	5,057	1,534
Prudential Indicator – External Debt/the Operational Boundary		
Borrowing	120,000	89,583
Other long term liabilities	2,000	Nil
Total debt 31 March	122,000	89,583

4.5 Limits to Borrowing Activity

4.5.1 The first key control over the treasury activity is a prudential indicator to ensure that, over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2014/15 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2014/15 Original Estimate £m	Position as at 30 September 2014 £m
Gross borrowing	115,400	89,587
Plus other long term liabilities	Nil	Nil
Gross borrowing	115,400	89,587
CFR (year end position)	115,400	n/a

4.5.2 By the end of the year the CFR is projected to be £108m, and there is a borrowing requirement of £18m as a result. The treasury management strategy statement (Section 3.4.1) states that a flexible approach will been adopted with regards to the choice between internal and external borrowing. This has been, and will continue to be, the case, with consideration to all the factors listed in that section. The decision to continue to internalize has been driven mainly due to 2 factors: (1) To limit the Authority’s exposure to credit risk (2) to limit the cost of carry. These are set against the backdrop of PWLB and investment rates continuing to remain at historically low levels with only a steady increase forecast into the medium term. This current stance is in line with many other local authorities that have been asked in seminars and workshops attended by officers within the finance service. The appointed treasury advisors have also supported the decision to continue to internalize borrowing at this time. External borrowing at year end is therefore, expected to be £89.583m. Any changes to the current approach will be reported as appropriate.

4.5.3 It is not envisaged that there will be any difficulties for the current year in complying with this prudential indicator.

4.5.4 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2014/15 Original Indicator (£m)	Position as at 30 September 2014 (£m)
Borrowing	125,000	89,587
Other long term liabilities	2,000	Nil
Total	127,000	89,587

4.6 HRA Reform

4.6.1 The proposed reform of the HRA subsidy arrangements is expected to take place on 31 March 2015. This will involve the Council paying funds to the Welsh Government which will remove the Council from the HRA subsidy system. The estimated payment is £23.9m. This will impact on the capital structure of the Council, (as the HRA Capital Financing Requirement will rise by the size of the Welsh Government payment), and the treasury management service will need to consider the funding implications for borrowing

5. Investment Portfolio 2014/15

5.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 2, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. Indeed, the Funding for Lending scheme has reduced market investment rates even further. The potential for a prolonging of the Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

5.2 The Council held £18.6m of investments as at 30 September 2014 (£9.2m at 31 March 2014) and the investment portfolio yield for the first six months of the year was 0.39%. A full list of investments as at 30th September 2014 can be found in Appendix 4. A summary of the investments and rates can be found in Appendix 3.

5.3 The approved limits within the Annual Investment Strategy were not breached during the first six months of 2014/15.

5.4 The Council's budgeted investment return for 2014/15 is £0.3m. As indicated in the strategy, some borrowing has been internalised and so, during the year, the projected investment returns are below those budgeted for. However, there have been corresponding savings on loan interest and the forecast net outturn is within budget.

5.5 Investment Counterparty criteria

5.5.1 The current investment counterparty criteria selection approved in the TMSS is meeting the requirements of the treasury management function, although it is continuing to be challenging to place funds as the credit quality of counterparties continues at a reduced level.

6. Borrowing

6.1 The projected capital financing requirement (CFR) for 2014/15 is £1.5m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive, the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council has projected year end borrowings of £89.6m and will have used £18m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

6.2 A summary of investments held can be found in Appendix 3.

7. Debt Rescheduling

7.1 No debt rescheduling was undertaken during the first six months of 2014/15.

8. Activity Since Quarter Two

8.1 There has been no change since Quarter 2

9. Plans for next year

9.1 At its next meeting in February, this Committee will consider the plans for borrowing and investment for the next financial year. The initial plans, according to the current strategy are:

- to use the available general supported borrowing allocation of £3.502m (£2.193m in 2014/15) plus any unused allocation brought forward from this year;
- to borrow, on an unsupported basis, to fund capital investment priorities, linking in to the transformation objectives.

10. Recommendation

10.1 To consider the content of the report and to pass the report onto the next meeting of the County Council together with any comments.

RICHARD MICKLEWRIGHT
INTERIM HEAD OF FUNCTION (RESOURCES) &
SECTION 151 OFFICER **31 OCTOBER 2014**

Perfformiad Economaidd hyd yma a'r rhagolygiad/ Economic performance to date and outlook

1.1 U.K.

After strong UK GDP quarterly growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), and 0.7% in Q1, 0.9% in Q2 and a first estimate of 0.7% in Q3 2014 (annual rate 3.1% in Q3), it appears very likely that strong growth will continue through 2014 and into 2015 as forward surveys for the services and construction sectors, are very encouraging and business investment is also strongly recovering. The manufacturing sector has also been encouraging though the latest figures indicate a weakening in the future trend rate of growth. However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster through the initial threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate. The MPC has, therefore, subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. The MPC is particularly concerned that the current squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Most economic forecasters are expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016. Unemployment is therefore expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in pay rates at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

Also encouraging has been the sharp fall in inflation (CPI), reaching 1.2% in September, the lowest rate since 2009. Forward indications are that inflation is likely to fall further in 2014 to possibly 1%. Overall, markets are expecting that the MPC will be cautious in raising Bank Rate as it will want to protect heavily indebted consumers from too early an increase in Bank Rate at a time when inflationary pressures are also weak. A first increase in Bank Rate is therefore expected in Q2 2015 and they expect increases after that to be at a slow pace to lower levels than prevailed before 2008 as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the 2013 Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19. However, monthly public sector deficit figures have disappointed so far in 2014/15.

1.2 U.S.

In September, the Federal Reserve continued with its monthly $10bn reductions in asset purchases, which started in December 2013. Asset purchases have now fallen from $85bn to $15bn and are expected to stop on 29th October 2014, providing the economic outlook remains strong. First quarter GDP figures for the US were depressed by exceptionally bad winter weather, but growth rebounded very strongly in Q2 to 4.6% (annualised).

The U.S. faces similar debt problems to those of the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth, although the weak labour force participation rate remains a matter of key concern for the Federal Reserve when considering the amount of slack in the economy and monetary policy decisions.

1.3 Eurozone

The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In September, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June to loosen monetary policy in order to promote growth. In September it took further action to cut its benchmark rate to only 0.05%, its deposit rate to -0.2% and to start a programme of purchases of corporate debt. However, it has not embarked yet on full quantitative easing (purchase of sovereign debt).

Concern in financial markets for the Eurozone subsided considerably during 2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed.

1.4 China and Japan

Japan is causing considerable concern as the increase in sales tax in April has suppressed consumer expenditure and growth. In Q2 growth was -1.8% q/q and -7.1% over the previous year. The Government is hoping that this is a temporary blip.

As for China, Government action in 2014 to stimulate the economy appeared to be putting the target of 7.5% growth within achievable reach but recent data has raised fresh concerns. There are also major concerns as to the creditworthiness of much bank lending to corporates and local government during the post 2008 credit expansion period and whether the bursting of a bubble in housing prices is drawing nearer.

Sylwadau ar y rhagolygon diweddaraf ar raddfeydd llog/Commentary on the latest interest rates forecasts

The Council's treasury advisers undertook a review of its interest rate forecasts on 24 October. During September and October, a further rise in geopolitical concerns, principally over Ukraine but also over the Middle East, plus fears around Ebola and an accumulation of dismal growth news in most of the ten largest economies of the world and also on the growing risk of deflation in the Eurozone, had sparked a flight from equities into safe havens like gilts and depressed PWLB rates. However, there is much volatility in rates as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2015.

Our PWLB forecasts are based around a balance of risks. However, there are potential upside risks, especially for longer term PWLB rates, as follows: -

- A further surge in investor confidence that robust world economic growth is firmly expected, causing a flow of funds out of bonds and into equities.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

Downside risks currently include:-

- The situation over Ukraine poses a major threat to EZ and world growth if it was to deteriorate into economic warfare between the West and Russia where Russia resorted to using its control over gas supplies to Europe.
- Fears generated by the potential impact of Ebola around the world
- UK strong economic growth is currently mainly dependent on consumer spending and the potentially unsustainable boom in the housing market. The boost from these sources is likely to fade after 2014.
- A weak rebalancing of UK growth to exporting and business investment causing a weakening of overall economic growth beyond 2014.
- Weak growth or recession in the UK's main trading partner - the EU, inhibiting economic recovery in the UK.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.
- Recapitalisation of European banks requiring more government financial support.
- Lack of support by populaces in Eurozone countries for austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- Italy: the political situation has improved but it remains to be seen whether the new government is able to deliver the austerity programme required and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- France: after being elected on an anti austerity platform, President Hollande has embraced a €50bn programme of public sector cuts over the next three years. However, there could be major obstacles in implementing this programme. Major overdue reforms of employment practices and an increase in competiveness are also urgently required to lift the economy out of stagnation.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Heightened political risks in the Middle East and East Asia could trigger safe haven flows back into bonds.

There are also increasing concerns at the reluctance of western central banks to raise interest rates significantly for some years, plus the huge QE measures which remain in place (and may be added to by the ECB in the near future). This has created potentially unstable flows of liquidity searching for yield and, therefore, heightened the potential for an increase in risks in order to get higher returns. This is a return to a similar environment to the one which led to the 2008 financial crisis.

Crynodeb Benthyca a Buddsoddi – Chwarteroedd 1 a 2 2014/15
Borrowing and Investment Summary – Quarters 1 and 2 2014/15

	30 Medi / Sept 2014		30 Mehefin / June 2014	
	£m	%	£m	%
Benthyca – graddfa sefydlog Borrowing – fixed rate	89.6	5.72	89.6	5.72
Benthyca – graddfa amrywiol Borrowing – variable rate	Dim / Nil	d/b / n/a	Dim / Nil	d/b / n/a
Adneuon – galw hyd at 30 diwrnod Deposits – Call to 30 days	18.6	0.39	19.1	0.40
Adneuon – Tymor sefydlog < 1 bl. Deposits – Fixed Term < 1 year	0.0	nil	0.0	nil
Adneuon – Tymor sefydlog 1 bl. + Deposits – Fixed Term 1 year +	Dim / Nil	d/b / n/a	Dim / Nil	d/b / n/a
Cyfanswm Adneuon Total Deposits	18.6	0.39	19.1	0.40
Cyfartaledd Adneuon yn y Chwarter Average Deposits in the Quarter	21.2	0.43	20.3	0.50

Ni torwyd unrhyw un o'r dangosyddion trysorlys yn ystod hanner cyntaf y flwyddyn.
None of the treasury indicators were breached during the first half of the year.

Graddfeydd Credyd Gwrthbartion buddsoddi a'r adneuon a ddelir gyda phob un ar 30 Medi 2014*
Credit ratings of investment counterparties and deposits held with each as at 30 September 2014*

Grŵp Bancio/ Banking Group	Sefydliad/ Institution	Adneuon / Deposit £'000	Hyd (Galw tymor sefydlog) / Duration (Call / Fixed Term**)	Cyfnod (O/I)/ Period (From / To)	Graddfa Dychweliad/ Rate of Return %	Graddfa Tymor Hir Fitch Long Term Rating	Graddfa Tymor Byr Fitch Short Term Rating	Graddfa Tymor Hir Moody's Long Term Rating	Graddfa Tymor Byr Moody's Short Term Rating	Graddfa Tymor Hir Standard & Poor's (S&P) Long Term Rating	Graddfa Tymor Byr Standard & Poor's (S&P) Short Term Rating	Lliw Sector/Hyd Awgrymiedig/ Sector Colour / Suggested Duration
Lloyds Banking Group plc	Bank of Scotland plc	**9,950**	**Galw/ Call**	**n/a**	**0.40**	**A**	**F1**	**A1**	**P-1**	**A**	**A-1**	**Glas - 12 mis/ Blue - 12 months**
HSBC Holdings plc	HSBC Bank plc	**703**	**Galw/ Call**	**n/a**	**0.25**	**AA-**	**F1+**	**Aa3**	**P-1**	**AA-**	**A-1+**	**Oren – 12 mis / Orange – 12months**
Santander Group plc	Santander UK plc	**7,499**	**Galw/ Call**	**n/a**	**0.40**	**A**	**F1**	**A2**	**P-1**	**A**	**A-1**	**Coch – 6 mis/ Red - 6 months**
The Royal Bank of Scotland Group plc	The Royal Bank of Scotland plc	**470**	**Galw/ Call**	**n/a**	**0.25**	**A**	**F1**	**Baa1**	**P-2**	**A-**	**A-2**	**Glas - 12 mis / Blue - 12 months**

* Ceir y Rhestr Benthyca Cymeradwyedig yn Atodiad 6 o'r Datganiad Strategaeth Rheoli Trysorlys 2014/15/Strategaeth Buddsoddi Blynyddol/ The Approved Lending List can be found at Appendix 6 of the 2014/15 Treasury Management Strategy Statement / Annual Investment Strategy

** Sef tymor ar pwynt y buddsoddi/Being term at the point of investment.

- Yn Atodiad 5 ceir y graddfeydd credyd cyfatebol ar gyfer y 3 asiantaeth graddio y cyfeirir atynt uchod./The equivalent credit ratings for the 3 rating agencies referred to above can be found at Appendix 5.

Graddfeydd Credyd Cyfatebol/
Equivalent Credit Ratings (Fitch, Moodys, S&P)

Tymor Hir Fitch Long Term	**Tymor Hir Moodys Long Term**	**Tymor Hir S&P Long Term**
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-
Tymor Byr Fitch Short Term	**Tymor Byr Moodys Short Term**	**Tymor Byr S&P Short Term**
F1+	d/b / n/a	A-1+
F1	P-1	A-1
F2	P-2	A-2
F3	P-3	A-3

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ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	AUDIT COMMITTEE
DATE:	07 NOVEMBER 2014
TITLE OF REPORT:	RECOMMENDATION TRACKING UPDATE
PURPOSE OF REPORT:	FOR INFORMATION
REPORT BY:	AUDIT MANAGER
ACTION:	N/A

1. BACKGROUND

1.1 The Council has an application (4Action) that records recommendations and proposed actions and allocates these to designated individuals with an agreed implementation date.

1.2 Current arrangements are that Internal Audit input those agreed Internal Audit recommendations, responsible officers and timescales from reports onto 4Action. Users set up for the purpose in each Service access the system to update any actions taken to implement the recommendations. Such updates are based on self-assessment of implementation status.

1.3 The primary user of the system is Internal Audit who use it to record Internal Audit recommendations and to produce reports for stakeholders (including SLT and the Audit Committee) on implementation rates within Services. These reports are based on the total number of recommendations and percentage implementation rates per Service rather than on details of individual recommendations.

1.4 Other Services have used and continue to use the system to record required actions but not to any degree.

1.5 Internal Audit produce reports from the system of outstanding recommendations prior to each Audit Committee to which an Internal Audit Progress report is scheduled to be presented. A request to update 4Action with a detailed recommendation report is sent to the relevant Services with a request that the 4Action system be updated before a required cut off date for final reports to SLT and Audit Committee.

2. RECENT DEVELOPMENTS

2.1 In recent Internal Audit Progress reports we have started to include details of the High category recommendations that remain outstanding including initial and subsequent implementation targets and the responsible officer for implementation.

2.2 Internal Audit Progress reports with details of outstanding High Category Internal Audit recommendations are now being reported to SLT prior to going to Audit Committee which will raise the profile of these issues.

3. CURRENT IMPLEMENTATION RATES

3.1 **High and Medium Recommendations –**. During the twelve month period up to 14-10-14 there were 156 High and Medium category recommendations made by Internal Audit. Of these 45 had not reached their target implementation date on 14-10-14 leaving 111 past their implementation date of which 81% had been either implemented or superseded; 14% were being implemented and 5% had yet to be implemented.

3.2 **All recommendations** - During the twelve month period up to 14-10-14 there were 258 recommendations of either High, Medium, Low or no category recommendations made by Internal Audit. Of these 60 had not reached their target implementation date on 14-10-14 leaving 198 past their implementation date of which 86% had been either implemented or superseded; 8% were being implemented and 7% had yet to be implemented.

_____END OF DOCUMENT____