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## AGENDA

<b>Committee</b>	AUDIT COMMITTEE
<b>Date and Time of Meeting</b>	MONDAY, 19 SEPTEMBER 2016, 2.00 PM
<b>Venue</b>	COMMITTEE ROOM 4 - COUNTY HALL
<b>Membership</b>	Councillor Ian Arundale (Chair) Councillors Howells, Kelloway, McGarry, Mitchell, Murphy, Weaver, Walker, Hugh Thomas and Professor Maurice Pendlebury

*Time approx.*

### 1 **Apologies for Absence**

To receive apologies for absence.

### 2 **Declarations of Interest**

To be made at the start of the agenda item in question, in accordance with the Members' Code of Conduct.

### 3 **Minutes** (*Pages 1 - 8*)

To approve as a correct record the minutes of the meeting held on 27 June 2016.

### 4 **Operational Matters** (*Pages 9 - 46*)

2.10 pm

4.1 Annual Report on School Governance (including Balances) and Deficits (Nick Batchelar, Director Schools & Lifelong Learning) (2.10pm)

4.2 Supply Teachers Briefing Note (Nick Batchelar, Director Schools & Lifelong Learning) (2.30pm)

4.3 Response to Internal Audit Report (Highways Payroll Follow Up Review) (Andrew Gregory, Director City Operations) (2.40pm)

### 5 **Finance** (*Pages 47 - 406*)

3.00 pm

5.1	Financial Update	
5.2	Statement of Accounts 2015/16	
5.3	Audit of Financial Statement for City of Cardiff Council (ISA260) - WAO	
5.4	Cardiff & Vale of Glamorgan Pension Fund Statement of Accounts 2015/16 (contained within item 5.2 Appendix 1)	
5.5	Audit of Financial Statement Report – Cardiff & Vale of Glamorgan Pension Fund (ISA260) - WAO	
5.6	Welsh Pool Pension Fund Governance Aspects	
<b>6</b>	<b>Governance and Risk Management</b> ( <i>Pages 407 - 414</i> )	3.50 pm
6.1	Risk Management Update	
<b>7</b>	<b>Wales Audit Office</b> ( <i>Pages 415 - 498</i> )	4.00 pm
7.1	<a href="#">Annual Improvement Report</a> (follow link to view Cabinet report).	
<b>8</b>	<b>WAO Tracker/Other Studies</b> ( <i>Pages 499 - 536</i> )	2.15 pm
8.1	Report Update	
<b>9</b>	<b>Treasury Management</b> ( <i>Pages 537 - 566</i> )	4.15 pm
9.1	Performance Report	
9.2	Annual Report	
<b>10</b>	<b>Internal Audit</b> ( <i>Pages 567 - 650</i> )	4.35 pm
10.1	Progress Report Update	
10.2	PSIAS Assessment	
10.3	Fighting Fraud and Corruption Locally	
<b>11</b>	<b>Published Scrutiny Letters</b> ( <i>Pages 651 - 680</i> )	4.55 pm
11.1	Correspondence between the Chairs of Scrutiny and Audit Committee	
11.2	Published Scrutiny Letters	
<b>12</b>	<b>Outstanding Actions</b>	5.00 pm
<b>13</b>	<b>Work Programme Update</b> ( <i>Pages 681 - 686</i> )	

**14 Urgent Business**

**15 Date of next meeting**

The next meeting of the Committee is scheduled to take place on 29 November 2016.

**David Marr**

**Interim Monitoring Officer**

Date: Tuesday, 13 September 2016

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## AUDIT COMMITTEE

27 JUNE 2016

Present: Ian Arundale(Chairperson)  
Professor Maurice Pendlebury, Hugh Thomas

County Councillors Professor Maurice Pendlebury,  
Hugh Thomas, Howells, McGarry, Mitchell, Murphy, Weaver and  
Walker

## 1 : APOLOGIES FOR ABSENCE

Apologies were received from Councillor Kelloway.

## 2 : APPOINTMENT OF CHAIRPERSON

RESOLVED – That Ian Arundale be appointed Chairperson of the Audit Committee for the Municipal Year 2016/17 and Professor Maurice Pendlebury was appointed as Deputy Chairperson.

## 3 : DECLARATIONS OF INTEREST

## 4 : MINUTES

The minutes of the meeting held on 22 March 2016 were approved by the Committee as a correct record and were signed by the Chairperson.

Wales Audit Office

## 5 : CARDIFF REGULATORY PROGRAMME LETTER 2016-17

Chris Pugh of the Wales Audit Office presented the Regulatory Programme Letter for 2016/17. Members were advised that the WAO would be undertaking three thematic reviews at the Council during 2016/17, which are Financial Resilience, Governance and Transformation. These thematic reviews are being undertaken at all Council's in Wales. The WAO will also be undertaking local risk based work, which will focus on how the Council is demonstrating how it is addressing the recommendation and proposal for improvements contained the WAO Corporate Assessment Follow On Report. Finally, the WAO will be undertaking an improvement plan audit and an assessment of performance audit as in previous years.

The Committee noted the WAO performance audit work fees for 2016/17.

RESOLVED – That the Cardiff Regulatory Programme Letter for 2016/17 be noted.

Finance

## 6 : FINANCIAL UPDATE

The Committee received a report providing an update on the Council's financial outturn position for 2015/16 and an outline of work being undertaken in preparation for the 2017/18 budget. A brief summary of the position and the key issues was set

out in the report. Members were advised that the outturn position was reported to the Cabinet on 16 June 2016.

The Corporate Director Resources stated that the revenue outturn position showed a surplus of £1.696 million after contributions to and from reserves, compared to a surplus of £988k at Month 9. The improvement reflected an improvement in directorate positions at year end, a higher surplus on Council Tax and an increase in non-domestic rate (NDR) refunds following successful appeals to the Valuation Agency.

Members were asked to note the continuing financial pressures set out in paragraph 5 of the report, in particular those in Social Services, Corporate Management, City Operations and Economic Development. The Committee discussed the overspend of £5.022 million in Social Services. Members asked whether the Corporate Director Resources was concerned at another overspend within the Social Services Directorate. The Corporate Director stated that she was having regular meetings with the Chief Executive and the Director of Social Services. The Leader was also holding the Cabinet Member to account.

The Chairperson sought clarification on the consistent overspends within Social Services and asked whether this was as a result of management failure or a failure to set and profile the budget correctly. The Corporate Director Resources stated that the overspend relates to the late delivery of budgeted savings. Management within the Directorate were working to address the issue and realise the savings. The Chairperson asked that the Committee's position be noted and would welcome further clarification on this matter.

The Corporate Director advised that redundancy costs during the year amounted to £2.027 of which £1.018 million was in respect of school based staff. The statutory redundancy costs were capitalised in line with Welsh Government direction, leaving £399k to be funded from the General Fund via the voluntary severance budget. The low level of redundancy costs during the year allowed repayments of £4.377 million to be made to earmarked reserves to offset sums previously borrowed.

Members were asked to note that increases in the Council's earmarked reserves as a result of the outturn position will serve to improve the Council's overall financial resilience. In addition, the resources will be available to assist funding one-off investments to support service transformation.

The Capital Programme Outturn showed a variance of £35.631 million of which £33.631 million was slippage.

The Committee asked whether the £4 million contingency budget would be carried forward. The Corporate Director advised that the £4 million contingency was in the 2017/18 budget and was in addition to a £4 million sum for the financial resilience mechanism, which was protected in the base budget.

RESOLVED – That

1. the Committee notes the Council's final budget outturn position for 2015/16 and the work being undertaken in relation to the budget strategy for 2017/18;

2. the Committee would welcome clarification of the position regarding the continual overspends in the Social Services Directorate.

## 7 : DRAFT STATEMENT OF ACCOUNTS/ANNUAL GOVERNANCE STATEMENT 2015/16

Rob Green and Anil Hirani presented a report setting out the draft Statement of Accounts for the financial year 2015/16. Members of the Committee were asked to comment on the Statement of Accounts 2015/16 prior to the accounts being submitted for external audit.

Members agreed that most of the concerns raised by the Committee were referred to within the Statement of Accounts, and in more detail than in previous years. It was noted that the report did not include individual school balances. Officers advised that in an attempt to 'declutter' the Statement of Accounts individual school balances were removed, however this information is still available and is reported to the School Budget Forum. The officers agreed to include a signpost to this data in the final draft, as the data was publically available.

Members noted that the value of the assets held by the authority had decreased by £143 million. Members believed that these were large amounts and some indication of the magnitude and reasons for the revaluation should be included in the final draft. Officers agreed to include this information and the explanation of the rationale and assumptions used in the next iteration of the Statement of Accounts.

Page 34 of the Statement of Accounts lists Council Tax received at £144.062 million. However, comprehensive income and expenditure account gives a figure of £173 million. Members asked why there was a difference of over £29 million. Officers advised that precepts, levies and a small surplus accounted for the difference. It was agreed that officers review these figures and identify the difference in the final draft.

The Committee discussed the contingent assets listed on Page 123 of the Statement of Accounts. A Member stated that £1.9 million loan to Glamorgan CCC was shown as an asset but it should not appear if listed as a contingency. Officers stated that there was no line in the accounts regarding this sum, however, it was reflected in the narrative and it could prove to be an asset should Glamorgan CCC redeem the loan. Members of the Committee considered this to be misleading. Officers agreed to review this information and make a clear statement. Members requested that the form of words reflect the actual position.

The Corporate Director Resources advised that Pension Fund investments had performed less favourably than in previous years. The 15% increase in management fees related to good performance in previous years. Members were advised that changes to Local Government Pension Fund arrangements now mean that all pension schemes must pool their assets and reduce the amount of expenditure on management fees. There were 8 pools UK-wide, 1 pool for Welsh pension schemes. The Welsh Pension scheme has completed a collaborative procurement exercise for a passive investment mandate which resulted in a £2.1 million saving across Wales – a £230,000 saving for Cardiff. The Committee accepted an offer from the Corporate Director Resources to bring a report on these developments to the next meeting of the Committee.

Members asked whether the additional income received from Moving Traffic Offences (MTOs) was the result of a deliberate attempt to raise income. The Corporate Director Resources stated that the additional income from MTOs is ring-fenced for traffic management improvements. All income from penalty notices is used to cover the cost of providing the service – with a surplus balance of £370,000.

The Committee asked whether paid employees in receipt of salaries over £170,000 should be named in the Annual Report. Members were advised that posts in the Senior Management Team are listed. However, one Member of staff who fell into this bracket was not part of the Senior Management Team and therefore the post was not disclosed. Officers agreed to provide some clarification regarding the post concerned.

Officers confirmed that the £1.7 million in capital receipts related to the 'Right to Buy' scheme.

Members welcomed changes to procurement controls and monitoring, particularly those relating to housing repair contracts. The Corporate Director Resources indicated that the new Commercialisation Unit will oversee the framework for those contracts. The launch of the second iteration of the contract will include workshops for all Members. Members of the Committee were invited to participate in these. Members were satisfied with the content of the Annual Governance Statement, and no amendments were suggested.

RESOLVED – That the Committee:

1. subject to the comments received in respect of the 2015/16 draft Statement of Accounts as set out above, note that these Accounts are to be signed by the Corporate Director Resources and submitted for external audit and public inspection;
2. note that the Audited Statement of Accounts for 2015/16 will reviewed by this Committee in September 2016, prior to being presented to Council;
3. the Corporate Director Resources present a report on changes to the management arrangements for Welsh Pension Funds to the next meeting of the Committee.

## 8 : FINANCIAL RESILIENCE

The Committee received a report advising Members of the assessment carried out by the Wales Audit Office on behalf of the Auditor General Wales in respect of the authority's financial resilience. The assessment took place during the period May to October 2015 and followed up issues highlighted in 2014/15. The work focussed on the delivery of 2014/15 savings plans and the 2015/16 financial planning period.

The report considered whether effective support arrangements were in place in respect of financial planning, financial control and financial governance. The full assessment was appended to the report at Appendix A. The assessment included

four recommendations. The Council's response to the recommendations was appended to the report at Appendix B.

The Chairperson welcomed Janet McNicholas and Chris Pugh of the Wales Audit Office to the meeting. Members asked whether Ms McNicholas had any concerns regarding the use of reserves. Members were advised that WAO were not concerned as the use of reserves was planned. Reserves were not being used as a 'stop gap' measure, but part of the financial planning process.

Referring to the WAO assessment report, paragraph 19, Members asked which directorate delivery plans did not link to the Medium Term Financial Plan (MFTP). Chris Pugh gave an undertaking to provide this information. It was requested that the information be circulated to all Members of the Committee via email.

RESOLVED - That:

1. the assessment carried out by Wales Audit Office on behalf of the Auditor General Wales in respect of financial resilience, and the Council's response, be noted.
2. Chris Pugh provides members with information relating to which directorate delivery plans did not link to the Medium Term Financial Plan (MFTP). The information to be circulated to all Members of the Committee via email.

## 9 : CERTIFICATE OF COMPLIANCE

The Committee received the Certificate of Compliance issued by the Wales Audit Office in respect of the Council's Corporate Plan 2016/17. The Auditor General Wales concluded that the Council has discharged its duties under Section 15(6) to (9) of the Local Government (Wales) Measure 2009 and has acted in accordance with the Welsh Government guidance sufficiently to discharge its duties.

RESOLVED – That the Committee notes the report.

## Governance and Risk Management

### 10 : AUDIT COMMITTEE ANNUAL REPORT 2015/16

Members received a report and were asked to consider approving the Audit Committee's Annual Report 2015/16 as a record of the activities and opinion of the Audit Committee for the municipal year. The report was prepared based on the evidence presented to the Committee throughout the year and following consideration of the draft Annual Report at the Committee meeting held on 22 March 2016.

RESOLVED – That the Audit Committee Annual Report 2015/16 be approved for consideration by Council.

### 11 : CORPORATE RISK REGISTER (YEAR END)

The Corporate Director Resources presented a report which was prepared in order to bring the Corporate Risk Register (CRR) to the attention of the Audit Committee, so that Members are given an opportunity to consider the strategic risks facing the Council. The CRR identifies the main risks so that Members and Senior Officers can make informed decisions and prioritise actions. The CRR was last received by the Audit Committee on 30 November 2015. It is intended to bring the CRR to the attention of the Audit Committee biannually, in line with reporting to Cabinet.

Members were advised that the CRR currently contains 24 risks, all of which are assigned to Members of the Senior Management Team to ensure ownership and accountability. Each risk has been reviewed and updated by the respective risk owner to reflect the year-end position.

The Committee discussed a number of the risks identified in the Corporate Risk Register. The Corporate Director Resources stated that the number of risks rated 'high' was comparable with other Core Cities. An exercise has been completed to compare the composition of the corporate risk register with those of the Core UK Cities. This exercise provided assurance that the risks which are managed, monitored and reported upon through our Corporate Risk Register are closely aligned with those reported by the other Core UK Cities. It was confirmed that the number rate 'high' did not exceed that reached previously.

RESOLVED – That the content of the Corporate Risk Register be noted.

## 12 : SENIOR MANAGEMENT ASSURANCE STATEMENT REVIEW - FEEDBACK

The Committee received a report providing Members with a summary of the returned Senior Management Assurance Statements (SMAS) for the financial period 2015/16. The Committee noted the positive responses received and the increased level of engagement. The Chairperson also commended the involvement of the Chief Executive in the process through the introduction of a Chief Executive Assurance Statement.

The Committee raised some concerns regarding the directorate risk management response. Officers advised that the SMAS reflected greater engagement and a more robust assessment. The Committee was also advised that training was provided to the City Operations Management Team as a result of their SMAS response. There was recognition and acceptance given that more work needed to be done to address some directorate risk management weaknesses, with work ongoing.

RESOLVED – That the Committee notes the summary of the responses received.

## Treasury Management

### 13 : PERFORMANCE REPORT

*Appendix 1 and Appendix 2 to this report contained exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972. It was agreed that the public be excluded for the duration of the discussion of this item of business on the grounds that if members of public were present during the discussions, due to the nature of the business to be transacted there would be disclosure to them of exempt information of the description in Paragraphs 14 and 21 of Schedule 12A of the Local Government Act, 1972.*

The Committee received a report providing Treasury Management performance information and position statements as at 31 March and 31 May 2016. The Operational Manager – Capital and Treasury presented the report.

*31 March 2016*

Members were advised that investments arising from temporary cash balances stood at £58 million. External borrowing totalled £666.1 million which included additional borrowing undertaken in year to make a £187 million Housing Subsidy Reform Settlement to the Welsh Government.

*31 May 2016*

At 31 May 2016 investments totalled £84 million. External borrowing was unchanged at £666.1 million. The total interest on borrowing payable was £32.8 million as initially budgeted.

Officers stated that PWLB continued to offer the most preferential rates for certain schemes. It was not policy to seek long term repayment for all borrowing. The term was very much dependent on the profile. Borrowing in advance of capital spend of up to 3 years is permitted.

RESOLVED – That the report be noted.

#### Internal Audit

#### 14 : INTERNAL AUDIT PROGRESS REPORT 2016/17

*Appendix B to this report contained exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972. It was agreed that the public be excluded for the duration of the discussion of this item of business on the grounds that if members of public were present during the discussions, due to the nature of the business to be transacted there would be disclosure to them of exempt information of the description in Paragraphs 14 and 21 of Schedule 12A of the Local Government Act, 1972.*

The Group Auditor presented the Internal Audit Progress Report 2016/17. The report provided Members of the Committee with an update on the work of Internal Audit to 31 May 2016.

Members of the Committee considered that it would be useful to have the recommendations from audit conducted reported to the Committee. Officer gave an undertaking to provide further details of the carried over recommendations for improvement at the next meeting of the Committee.

RESOLVED – That the report be noted.

#### 15 : INTERNAL AUDIT ANNUAL REPORT 2015/16

*Appendices C and D to this report contained exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972. It was agreed that the public be excluded for the duration of the discussion of this item of business on the grounds that if members of public were present during the discussions, due to the nature of*

*the business to be transacted there would be disclosure to them of exempt information of the description in Paragraphs 14 and 21 of Schedule 12A of the Local Government Act, 1972.*

The Committee received the Internal Audit Annual Report 2015/16. The report provided an overview of the approach adopted to audit assignments and detailed the work undertaken by the various audit teams during the previous 12 month.

Officers agreed to rephrase paragraph 2.4 regarding contract management concerns and cross reference those concerns detailed in the Audit Committee Annual Report. Furthermore, Members suggested that investigation data on dismissals and registrations could be given context e.g. a comparison with the prior year figure.

RESOLVED- That the report be noted.

#### 16 : INTERNAL AUDIT PLAN 2016/17

*Appendix A to this report contained exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972. It was agreed that the public be excluded for the duration of the discussion of this item of business on the grounds that if members of public were present during the discussions, due to the nature of the business to be transacted there would be disclosure to them of exempt information of the description in Paragraphs 14 and 21 of Schedule 12A of the Local Government Act, 1972.*

At the meeting of the Committee held on 22 March 2016 the Committee were presented with the Internal Audit Strategy 2016/17 which contained background information for the Audit Plan for the year. Members requested a more detailed Audit Plan commencing 1 April 2016. The plan was attached to the report at Appendix A.

In respect of the ADM projects, Members requested that sufficient time be set aside in the Audit Plan to provide assurance that ADM targets are being met.

RESOLVED – That the report be noted.

#### 17 : WORK PROGRAMME

RESOLVED – That the Audit Committee Work Programme 2016/17 be noted.

#### 18 : URGENT BUSINESS

The Chairperson advised that there was no urgent business to be considered.

#### 19 : DATE OF NEXT MEETING

The next meeting of the Committee will take place on 19 September 2016.

The meeting terminated at 12.30 pm



# CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD



**AUDIT COMMITTEE: 19 SEPTEMBER 2016**

## GOVERNANCE IN SCHOOLS AND SCHOOL BALANCES

### REPORT OF THE DIRECTOR OF EDUCATION AND LIFELONG LEARNING

**AGENDA ITEM: 4.1**

#### Reason for Report

1. At its meeting in June 2014 the Audit Committee requested that, on an annual basis, it should receive a report on governance in schools and the report should provide the Director of Education's opinion, an update on relevant governance aspects and updated figures and opinions related to the corporate risk in respect of school balances.

#### Background

2. The annual net budget delegated to the 127 schools in Cardiff in the 2016/2017 financial year is £216.246m. School Governing Bodies are delegated the responsibility for the effective governance of these funds and are accountable for the proper use of that funding.
3. The Welsh Government's School Funding (Wales) Regulations 2010 (The Regulations) set the parameters for how Local Authorities in Wales should fund individual schools and also obliges each Local Authority (LA) to publish a Scheme for Financing Schools (The Scheme). The Regulations list the matters which are required to be included in The Scheme including financial reporting requirements, audit, banking and procurement obligations.
4. In addition to The Scheme, schools receive regular advice and guidance on financial issues through the Council's Local Financial Management Team and Council's Internal Audit Team.
5. Each LA in Wales is obliged to have a School Budget Forum, which is key to developing informed and confident dialogue between the LA and its schools on budgetary issues including school funding levels, financial pressures on schools, changes to local funding formulae and the review of contracts/service level agreements between an LA and schools.

## Issues

### **School Audits**

6. During the 2015/2016 financial year, 10 new school audits were carried out, 7 (70%) received a satisfactory opinion and 3 (30%) an opinion of limited assurances. Of the 3 follow up audits, 2 (67%) received a satisfactory opinion and 1 (33%) received a no assurance opinion.
7. These figures represented a slight improvement on the previous year where, of the 14 new school audits, 9 (64%) received a satisfactory opinion and 5 (36%) an opinion of limited assurance. Of the 11 follow up audits, 10 (91%) received a satisfactory opinion and 1 (9%) received a limited assurance opinion.

### **School Control Risk Self-Assessment Tool**

8. Following the development of this tool, through the School Budget Forum, it continues to be used in all schools to promote the importance of self-governance and accountability.

### **Estyn Action Plan – School Governance**

9. Following an Estyn monitoring visit at the end of January 2016, Cardiff Council was judged to have made sufficient progress in relation to the recommendations that arose from the monitoring visit in February 2014. As a result, Her Majesty's Chief Inspector of Education and Training in Wales considered that the authority was no longer in need of significant improvement and removed it from any follow-up activity.
10. Following the monitoring visit in January 2016, the letter from Estyn contained the following comments with regards to School Governance;

*'Processes for strengthening school governance are developing well. This includes bespoke training for governors of its underperforming schools. The council has revised the process for appointing local authority governors and it has brokered a wide range of partnerships with businesses in the city to identify and deploy governors who are better able to support their schools. In schools where governance is particularly weak, the regional consortium has recruited a number of experienced governors to act as consultant governors to work alongside challenge advisers to support the governing body.'*

### **School Balances**

11. Attached as Appendix A is an analysis of individual school balances as at 31<sup>st</sup> March 2016 and the previous four financial years.
12. Overall the level of surplus balances held by schools has increased from £1.287m at 31<sup>st</sup> March 2015, to £2.521m at 31<sup>st</sup> March 2016. However, there are 20 schools, 12 Primary and 8 Secondary, which carried forward a deficit balance. This is an improvement on the previous year when there were 21 schools; 14 Primary and 7 Secondary. Each school with a deficit budget has a medium term financial plan showing how it will reduce its' deficit to a balanced position. There is an assigned monitoring officer for each school with a deficit working closely with the school and governing body monitoring the delivery of the medium term plan. In addition, a

number of schools hold surplus balances in excess of the recommended Welsh Government levels of £50,000 for a primary school and £100,000 for a secondary or special school. Schools have been notified of the fact that they need to take steps to reduce the level of balances held and have been asked to develop plans for utilising these surplus funds. Again, schools are working closely with their particular finance officer to develop these plans.

## **Director’s Opinion**

### **School Audits**

13. Continue to be encouraged by the work being undertaken through the Control Risk Self-Assessment Tool which I believe will be strengthened by the decision of the S151 Officer to charge schools for any Internal Audit work identified as a result of a school not following the Controlled Risk Self-Assessment process properly. This will provide the process with a necessary sanction.
14. However, there are still too many schools being identified as just satisfactory or worse and I will continue to consider exercising the LA powers of intervention in those schools where poor financial management and poor governance are identified.

### **Estyn Action Plan – School Governance**

15. Whilst it was encouraging to be removed from further follow up activity that does not mean that in order to achieve the outcomes that we wish to see in the capital city of Wales there is much more to do. Good schools with strong leadership and governance will be at the forefront of leading our improvement journey and developing their staff teams as we move forward.
16. In moving forward to accelerate educational achievement in Cardiff and ensure that all children and young people have the opportunity to succeed we will be focussing on five key goals which are outlined in ‘Cardiff 2020’ – attached as Appendix B.

### **School Balances**

17. The number and level of schools with a deficit balance in Cardiff remains too high. I am pleased that colleagues from Financial Services, Education and the Central South Consortium continue to work together to formulate and monitor individual school plans however, this identified risk needs to remain on the Corporate Risk Register.

## **Recommendations**

18. That the information and opinion contained in this report are noted.

**NICK BATCHELAR**  
**DIRECTOR EDUCATION & LIFELONG LEARNING**

The following Appendices are attached:

*Appendix A – Analysis of Individual School Balances*

*Appendix B – ‘Cardiff 2020’*

**ANALYSIS OF PRIMARY SCHOOLS BALANCES AS AT 31ST MARCH 2016**

Profit Centre	School	Bal as at 31st March 2012	Bal as at 31st March 2013	Bal as at 31st March 2014	Bal as at 31st March 2015	Bal as at 31st March 2016
EA001	Adamsdown Primary School	-121,864.17	-47,385.86	-72,348.81	-34,871.59	1,585.28
EA002	Albany Primary School	-129,469.45	-123,370.86	-94,223.97	-74,778.61	-64,974.37
EA003	Allensbank Primary School	-61,215.35	-45,548.23	-21,941.57	-20,266.75	-81,374.27
EA004	All Saints C.W. Primary School	-2,027.79	-16,434.20	-23,765.59	-39,684.21	-32,468.86
EA005	Baden Powell Primary School	-81,741.68	-60,125.47	-31,979.63	-148,384.59	-36,006.61
EA006	Birchgrove Primary School	-49,927.95	-77,897.11	-58,196.43	-88,568.47	-92,720.50
EA007	Bishop Childs C.W. Primary School	-69,990.58	-54,034.59	-51,672.83	-57,053.58	-28,896.50
EA008	Bryn Celyn Primary School	5,034.17	-5,907.10	21,037.08	-8,366.88	-37,900.57
EA009	Bryn Deri Primary School	-39,574.26	-50,692.45	-26,862.33	-18,820.51	-21,430.40
EA010	Bryn Hafod Primary School	-9,847.86	-44,403.50	-37,940.18	3,526.88	-27,030.80
EA013	Cefn Onn Primary School	-63,319.19	0.00	0.00	0.00	0.00
EA014	Christ The King R.C. Primary School	-80,342.59	-23,968.86	-3,617.70	-23,099.14	-48,674.43
EA015	Coed Glas Primary School	-58,821.64	-46,069.12	-37,877.41	-35,913.27	-122,056.34
EA016	Coryton Primary School	-31,840.74	-48,348.46	15,710.69	26,799.82	-23,767.81
EA017	Creigiau Primary School	-23,745.19	-75,084.50	-56,645.24	-59,634.31	-46,360.29
EA020	Danescourt Primary School	-45,191.86	-9,649.96	48,063.36	40,195.78	49,085.28
EA021	Eglwys Newydd Primary School	57,566.27	0.00	0.00	0.00	0.00
EA022	Eglwys Wen Primary School	-56,047.08	0.00	0.00	0.00	0.00
EA023	Fairwater Primary School	-25,562.91	-26,371.05	-3,134.63	-14,651.38	4,180.40
EA024	Gabalfa Primary School	-89,562.75	-43,594.00	-51,402.04	-21,266.29	-60,933.27
EA025	Gladstone Primary School	-66,351.50	-37,814.27	-35,185.96	-64,444.77	-80,019.92
EA026	Glan Yr Afon Primary School	-16,005.86	-16,354.09	11,393.45	-13,494.04	-10,698.66
EA029	Grangetown Primary School	-82,364.97	-44,245.05	-29,103.36	-125,608.53	-94,042.72
EA030	Grangetown Nursery School	-6,873.83	-12,700.58	-18,913.26	-47,528.70	-82,266.92
EA031	Greenway Primary School	-43,068.95	-5,792.71	-18,200.19	-32,110.31	-70,311.78
EA032	Gwaelod-y-Garth Primary School	-9,950.21	1,954.72	-22,532.51	-11,598.45	-42,287.48
EA034	Hawthorn Primary School	-8,080.21	5,751.73	-885.27	-8,093.39	-30,007.33
EA035	Herbert Thompson Primary School	-84,719.07	-55,127.67	-19,620.22	-49,394.77	-52,628.26
EA036	Holy Family R.C. Primary School	-43,490.80	-2,729.48	-14,668.32	-9,535.83	-27,662.18
EA038	Hywel Dda Primary School	-94,070.69	-65,220.92	-62,321.04	-76,792.90	-91,272.04
EA039	Kitchener Primary School	-44,511.27	-18,645.50	-41,849.38	-3,023.37	-20,457.28
EA040	Lakeside Primary School	-21,191.59	-40,264.71	-15,411.62	-26,206.65	-79,704.30
EA041	Lansdowne Primary School	-68,476.30	-21,535.12	8,413.03	-1,660.33	-13.24
EA042	Llandaff C.W. Primary School	-57,850.27	-8,716.03	-21,667.98	-4,763.77	-26,530.19
EA043	Llanedeyrn Primary School	-52,038.40	-15,528.11	-30,517.51	-105,532.06	-41,515.41
EA044	Llanishen Fach Primary School	-21,678.33	-845.00	-7,457.57	-56,652.99	-50,462.15
EA045	Llysfaen Primary School	-210,496.98	-163,472.21	-113,887.23	-62,523.81	-93,609.95
EA048	Meadowlane Primary School	-43,270.75	-28,286.87	25,589.43	-61,907.97	-62,623.36
EA049	Millbank Primary School	-44,186.65	-61,996.44	-33,340.23	-64,060.48	-57,712.32
EA050	Moorland Primary School	-24,080.15	-26,649.63	-16,004.29	-18,892.98	-44,056.18
EA052	Mount Stuart Primary School	-31,018.38	-35,590.66	-37,638.60	-51,048.08	-104,498.26
EA053	Ninian Park Primary School	-19,603.56	-20,608.58	-1,587.15	-45,669.56	-61,796.27
EA054	Pontprennau Primary School	0.00	0.00	0.00	0.00	190.13
EA055	Oakfield Primary School	-6,024.21	28,951.13	24,477.36	47,569.46	-67,527.27
EA056	Pentrebane Primary School	14,888.35	19,164.45	-57,060.89	-68,289.97	-42,793.30
EA057	Pentyrch Primary School	-20,781.07	-71,302.29	-25,857.91	-21,959.09	-21,943.28
EA058	Pen-y-Bryn Primary School	-55,188.73	-30,079.94	-30,470.23	-8,177.10	-41,422.26
EA059	Peter Lea Primary School	-280.27	1,312.35	-22,682.57	29,523.87	18,017.21
EA060	Radnor Primary School	-34,507.93	-28,882.27	-34,454.30	-19,506.03	-25,777.56
EA061	Radyr Primary School	-24,671.12	-49,865.52	-43,205.91	-29,617.55	-29,331.61
EA062	Rhiwbeina Primary School	-218,422.12	-151,921.52	-75,855.05	-50,043.83	-135,099.85
EA063	Rhydypenau Primary School	-96,373.22	-82,991.20	-51,319.67	-58,062.33	-102,835.77
EA064	Roath Park Primary School	-78,377.15	-90,744.15	-56,896.11	-56,765.57	-34,939.87
EA065	Rumney Primary School	-36,023.84	-64,067.40	-17,073.26	-9,996.49	-47,425.45
EA068	Severn Primary School	-114,067.67	-34,013.39	-56,000.87	-39,743.04	-96,126.14
EA069	Springwood Primary School	-26,336.43	-21,862.50	-69,416.13	-66,686.67	-61,285.11
EA070	Stacey Primary School	-30,167.95	-33,527.21	-28,788.21	-9,451.72	-27,804.44
EA071	St Alban's R.C. Primary School	-21,782.39	70,201.47	176,329.41	192,820.92	42,294.52
EA073	St Bernadette's R.C. Primary School	-28,658.09	-14,563.49	-10,093.53	-12,944.21	-18,446.92
EA074	St Cadoc's R.C. Primary School	-59,697.64	-34,792.51	-48,018.21	-30,703.19	-46,727.18
EA075	St Cuthbert's R.C. Primary School	-56,676.48	-53,780.86	-46,039.84	-73,962.04	-44,596.99
EA076	St David's C.W. Primary School	-248.32	-24,002.87	-2,236.86	3,750.02	6,095.57
EA077	St Fagan's C.W. Primary School	-40,386.19	-20,951.62	26,268.28	-9,275.50	-20,151.72
EA078	St Francis R.C. Primary School	-45,589.10	-35,034.39	-55,682.76	-19,852.38	-34,876.16
EA079	St John Lloyd R.C. Primary School	-47,535.43	-53,581.72	-45,415.61	-67,956.86	-65,295.20
EA080	St Joseph's R.C. Primary School	2,872.63	-20,454.05	75,433.30	112,780.04	111,169.51
EA081	St Mary's R.C. Primary School	-34,706.71	-9,797.60	46,020.79	43,665.98	6,659.36
EA082	St Mary The Virgin C.W. Primary School	-42,680.48	-19,892.78	-40,291.70	-15,203.61	-23,194.15
EA083	St Mellons C.W. Primary School	-32,223.48	-29,104.52	-39,242.45	-30,752.88	-25,977.75
EA084	St Monica's C.W. Primary School	-3,607.23	-788.66	47,570.02	93,055.69	20,819.71
EA085	St Patrick's R.C. Primary School	-24,914.96	-65,559.55	-29,389.90	-14,302.80	-17,777.01
EA086	St Paul's C.W. Primary School	-8,237.73	-33,774.76	-53,489.57	-58,038.73	-43,950.13
EA087	St Peter's R.C. Primary School	-93,696.35	-78,614.83	-47,083.16	-90,969.79	-121,292.56
EA088	St Philip Evans R.C. Primary School	-11,038.93	-29,963.13	15,079.50	-93,589.01	-79,790.67
EA089	Thornhill Primary School	-92,593.27	-24,131.96	6,933.89	-19,600.42	-34,052.85
EA090	Tongwynlais Primary School	-10,852.11	-32,031.66	-36,612.81	-17,422.95	-17,453.16
EA091	Ton-yr-Ywen Primary School	-87,154.08	-60,065.06	-37,335.92	-71,700.02	-65,838.93
EA092	Tredegaville C.W. Primary School	-68,003.57	-70,672.35	-49,115.75	2,465.08	-25,467.85
EA093	Trelai Primary School	-103,172.76	-68,289.50	-65,120.00	-38,322.06	-25,894.60
EA094	Tremorfa Nursery School	-35,346.50	-50,411.66	-42,397.62	-37,801.05	-53,463.36
EA098	Willowbrook Primary School	-26,343.25	-33,898.52	-13,783.91	-42,355.99	-39,862.13
EA100	Windsor Clive Primary School	-143,513.95	-113,589.85	-68,824.02	-122,969.09	-101,803.24
EA101	Ysgol Bro Eirwg	-90,667.82	-51,229.62	-28,661.48	-63,328.60	-58,227.45
EA102	Ysgol Gymraeg Coed-y-Gof	-32,297.76	-55,226.29	-29,603.90	-86,462.12	-59,296.83
EA103	Ysgol Melin Gruffydd	-94,168.09	-51,155.82	-44,985.10	-49,084.05	-52,191.31
EA104	Ysgol Pencae	-14,760.43	-18,271.18	-9,438.66	-19,753.89	-28,553.46
EA105	Ysgol Pwll Coch	-46,057.45	-18,271.18	-24,435.93	-15,978.69	12,116.51



Profit Centre	School	Bal as at 31st March 2012	Bal as at 31st March 2013	Bal as at 31st March 2014	Bal as at 31st March 2015	Bal as at 31st March 2016
EA106	Ysgol-y-Berllan Deg	-34,346.17	-60,949.48	-23,638.85	-6,887.00	19,840.48
EA107	Ysgol Mynydd Bychan	-54,832.30	-17,678.86	-43,629.09	-10,716.25	-5,202.63
EA108	Ysgol Gymraeg Treganna	-33,984.20	-27,751.63	-17,387.06	-20,021.89	-54,350.21
EA109	Ysgol-y-Wern	-187,632.01	-176,394.02	-39,401.70	-53,208.73	-49,519.71
EA110	Ysgol Glan Morfa	-58,166.10	4,373.98	44,364.61	-8,626.33	-22,874.78
EA111	Ysgol Gymraeg Nant Caerau	-14,215.58	-7,317.00	14,677.06	14,224.25	-2,631.52
EA112	Ysgol Tan Yr Eos	-21,751.79	-46,364.03	-0.00	-0.00	0.00
EA113	Ysgol Gynradd Gymraeg Pen Y Groes	-155,867.10	-120,248.55	-62,879.65	-31,421.10	-70,864.65
EA114	Ysgol Pen Y Pil	-49,367.43	-41,253.18	-49,849.17	-37,536.48	-14,946.13
EA115	Ysgol Glan Ceubal	-50,356.97	-1,459.53	4,803.52	16,334.16	-6,117.54
EA116	Pencaerau Primary	-56,454.06	-51,542.23	-17,070.41	-21,751.57	-46,114.60
EA117	Trowbridge Primary	-39,928.62	-60,974.65	-32,955.00	-20,240.58	-6,368.70
EA246	ICC Ely	-31,120.47	-50,379.94	-34,242.84	42,688.12	-65,395.77
EA247	Glyncoed Primary School	-28,250.88	-48,698.05	-48,153.33	-74,467.07	-22,472.78
EA248	Marlborough Primary School	-165,626.81	-83,484.63	-89,621.33	-126,366.66	-81,112.39
EA249	Whitchurch Primary School	0.00	-95,070.90	-58,078.98	-136,624.12	-184,736.27
EA250	Howardian Primary School	0.00	0.00	0.00	0.00	-98,975.52
	<b>Total Primary &amp; Nusery</b>	<b>-5,172,843.06</b>	<b>-4,073,431.48</b>	<b>-2,453,522.53</b>	<b>-3,005,000.40</b>	<b>-4,226,894.02</b>
<b>ANALYSIS OF SECONDARY SCHOOLS BALANCES AS AT 31ST MARCH 2016</b>						
Profit Centre	School	Bal as at 31st March 2012	Bal as at 31st March 2013	Bal as at 31st March 2014	Bal as at 31st March 2015	Bal as at 31st March 2016
EA120	Corpus Christi R.C. High School	-30,049.97	30,872.41	41,507.15	-62,062.23	-98,907.40
EA121	Mary Immaculate High School	72,627.49	149,455.76	75,121.11	-66,085.35	-106,069.75
EA122	St Illtyd's R.C. High School	-120,506.66	-78,132.57	-13,653.60	-13,154.99	122,555.01
EA123	Bishop Of Llandaff C.W. High School	270,999.85	127,496.38	66,445.95	263,648.15	212,229.39
EA124	Michaelston Community College	108,382.74	241,219.73	549,629.10	866,815.37	1,069,846.23
EA125	Cantonian High School	860,087.18	1,076,944.65	1,287,786.25	1,226,723.76	1,108,993.26
EA126	Cardiff High School	-99,308.86	-517.31	79,487.29	-42,668.72	23,402.54
EA127	Cathays High School	-58,460.00	-30,612.34	-31,712.17	-28,483.25	-145,658.99
EA128	Fitzalan High School	-73,563.18	-36,274.27	-698.51	-22,197.77	-16,865.80
EA130	Glyn Derw High School	-156,004.72	-48,801.23	161,495.80	310,906.82	201,989.36
EA131	Llanedeyrn High School	2,019,141.30	0.00	0.00	0.00	0.00
EA132	Llanishen High School	-102,843.65	-41,874.29	-73,228.54	-5,090.97	144,595.81
EA133	Llanrumney High School	0.00	316,909.73	0.00	0.00	0.00
EA134	Radyr Comprehensive	-73,638.17	-20,651.95	-99,431.74	-99,691.21	-85,485.08
EA135	Rumney High School	0.00	244,191.92	380,925.11	0.00	0.00
EA136	St Teilo's C.W. High School	-22,188.58	149,278.89	250,601.57	-86,618.27	-143,141.71
EA137	Whitchurch High School	127,686.19	-34,527.85	79,859.32	205,153.36	297,225.34
EA138	Willows High School	-127,841.79	-129,258.12	-3,381.01	43,576.99	-57,794.32
EA139	Ysgol Gyfun Gymraeg Glantaf	-173,269.21	-142,148.40	-97,668.87	-202,723.62	-131,340.90
EA140	Ysgol Gyfun Gymraeg Plasmawr	-5,400.56	-12,461.94	64,608.27	174,666.11	20,995.25
EA141	Ysgol Gyfun Bro Eder	0.00	-79,534.26	-46,917.63	-60,327.48	-80,878.69
EA142	Eastern High School	0.00	0.00	0.00	-139,607.94	-121,644.55
	<b>Total Secondary</b>	<b>2,415,849.40</b>	<b>1,681,574.94</b>	<b>2,670,774.85</b>	<b>2,262,778.76</b>	<b>2,214,045.00</b>
<b>ANALYSIS OF SPECIAL SCHOOLS BALANCES AS AT 31ST MARCH 2016</b>						
Profit Centre	School	Bal as at 31st March 2012	Bal as at 31st March 2013	Bal as at 31st March 2014	Bal as at 31st March 2015	Bal as at 31st March 2016
EA150	The Court School	-31,175.35	-65,155.89	-72,809.42	-78,519.65	-71,036.70
EA151	Riverbank School	-96,244.31	-63,540.26	-58,653.60	-74,255.82	-66,736.19
EA152	Ty Gwyn School	108,192.55	105,460.87	-61,135.67	-160,224.53	-183,511.64
EA153	Woodlands High School	-52,059.59	-85,343.88	-69,536.52	-10,512.73	26,341.38
EA154	Greenhill School	-62,754.46	-97,558.35	-124,628.86	-95,899.20	-97,321.92
EA155	Meadowbank School	-68,316.73	-87,608.60	-86,363.41	-73,742.81	-65,774.10
EA156	The Hollies School	-17,591.88	-87,054.16	-78,577.74	-51,693.06	-50,717.90
	<b>Total Special</b>	<b>-219,949.77</b>	<b>-380,800.27</b>	<b>-551,705.22</b>	<b>-544,847.80</b>	<b>-508,757.07</b>
	<b>GRAND TOTAL ALL SCHOOLS</b>	<b>-2,976,943.43</b>	<b>-2,772,656.81</b>	<b>-334,452.90</b>	<b>-1,287,069.44</b>	<b>-2,521,606.09</b>



# Cardiff 2020

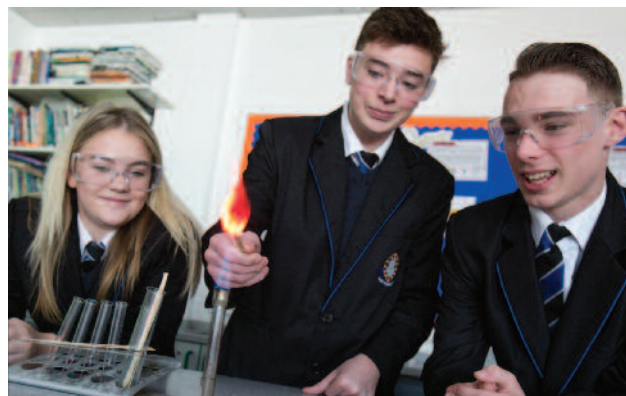
A renewed vision  
for education and  
learning in Cardiff





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# Foreword

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Education in Cardiff is ‘on the up’. We are extremely proud to see the strengthening picture of education across the city, borne out by the significant improvement in the standards achieved by learners since 2013. Improvements across all phases of education and the growing commitment to work together to offer the very best opportunities for our children and young people are incredibly encouraging.

Having said that, we know that there is much more to do to achieve the outcomes that we wish to see in the capital city of Wales. Cardiff needs consistently excellent education, so that every child and young person has the opportunity to thrive and prosper.

We want to see our vulnerable learners achieving more; being offered appropriate support and a curriculum that meets their individual needs. We also want much greater opportunities for our most able pupils to allow them to compete with peers nationally and internationally. And, ultimately we want all our young people to make a successful transition from statutory schooling to ongoing education, training and the world of work.

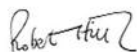
The very close relationship between the strength of our schools and the economic wellbeing of the area is undeniable and whilst future economic growth poses challenges, it also provides the ideal conditions for innovation and change.

We have clear ambitions for our future and through this strategy, we have set out our vision and goals to champion and deliver change. We want school leaders and governors to be at the forefront of leading our improvement journey and developing their staff teams as we move forward.

There is a commitment from all of us to play our part in achieving the excellent education system that Cardiff requires.



CLlr Phil Bale - Leader, City of Cardiff Council



Robert Hill- Chair of Cardiff Education Development Board



Nic Naish - Chair of Primary head teacher conference



Steve Jones - Chair of Secondary head teacher conference



Lorraine Felstead - Chair of Special head teacher conference



Alan Evans- Chair of Cardiff Governors Association

# Introduction

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A strong education system is a key foundation for vibrant, cohesive communities and a prosperous economy and society. Cardiff, the capital city of Wales, is projected to be the fastest growing city in the UK over the next 18 years. It has long been an international city, trading with the world, welcoming people, ideas and innovation from elsewhere. Its economy has changed radically and is developing in new ways. Its population is increasingly diverse, with over 100 languages spoken. Cardiff is a proudly bilingual city, committed to ensuring that the Welsh language thrives.

Cardiff's education system has been responding to these changes. With a strong university sector, and major employers in the region, Cardiff has the second highest proportion of citizens educated to graduate level of any city in the U.K, attracting and retaining a highly skilled workforce. In the past some aspects of the statutory schooling system have been underperforming, with stark differences in outcomes for learners, and life chances, in different parts of the city. This has been changing in recent years and improvements are clear but more remains to be done to ensure that Cardiff has consistently excellent education.

Our recent strategy has been focusing on strengthening partnerships to ensure that all schools meet minimum standards, and where necessary taking action where that is not the

case. We have ensured that data on performance is visible and transparent so that schools and their communities know how well children and young people are learning. Through joint working between schools, the Local Authority, the Consortium and the three Dioceses we have set out to bring about a shift in focus to enable schools to lead improvement across the system, moving away from a culture of dependency, and encouraging innovation in teaching and leadership. With Cardiff having so many strong national and international institutions and businesses, stronger partnerships have been built to ensure that every school is connected with and contributes to, the energy and dynamism of Cardiff.

Our strategy has been making a difference. We can see the impact in:

- Improving outcomes for learners as measured by test and examination results.
- More learners positively engaged in learning as measured by improving attendance, reducing exclusions and a reduction in the number of young people not in education, employment or training after statutory schooling.
- Changing professional practices, with schools working effectively together to develop greater consistency across the system and growing numbers of head teachers taking on broader leadership roles.

We face ongoing challenges:

- Implementing new curriculum and assessment arrangements.
- Closing opportunity and achievement gaps.
- Recruiting, developing, retaining and valuing the best teachers and support staff.
- Identifying, developing and deploying talented leaders.
- Deepening and extending partnerships.
- Meeting the changing demands of employers in the local economy.
- Ensuring young people have the life skills to succeed in fulfilling their ambitions.
- Using funding and resources effectively in the context of significant pressure on public finances in the foreseeable future.
- Creating a culture of innovation that draws on the resources of organisations, companies and communities across the city.
- Providing extra school places to meet the very rapid population growth in the region.

We now need a change of pace, and different approaches which build on the improving practice in schools to deliver consistently excellent outcomes. This strategy sets out our shared vision for the role that education plays in the further development of vibrant communities and a prosperous economy in Cardiff. It renews the commitment of everyone who has a stake in this vision to a clear set of goals and actions to deliver them.

“ By focusing on the five key goals outlined in ‘Cardiff 2020’ we will accelerate educational achievement in Cardiff and ensure that all children and young people have the opportunity to succeed. ”



# A renewed vision for education and learning in Cardiff

## Vision

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All children and young people in Cardiff attend a great school and develop the knowledge, skills and characteristics that lead them to become personally successful, economically productive and actively engaged citizens.

## Values

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We are committed to:

- Supporting the development of happy and resilient learners, with a focus on both academic achievement and personal well-being.
- Equality of opportunity and championing the success and life chances of all children by narrowing the gap in education outcomes.
- Working openly and collaboratively with each other and sharing knowledge, practice and learning.
- Raising the aspirations of all children and young people and our expectations of what they can achieve, irrespective of their background or need.
- Embracing diversity, practising tolerance and respect for ourselves, our communities and our environment.
- Celebrating the success of pupils, practitioners and schools at every opportunity.

## Mission Statement

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Through excellent education and learning for all children and young people, strengthen economic prosperity, wellbeing and social cohesion in Cardiff.



# Context

Cardiff 2020 sits within the context of Cardiff's 'What Matters Strategy 2010 – 2020', which sets out to make Cardiff one of the best places to live, work and visit - 'Europe's most liveable city by 2020'.

Over the next 18 years Cardiff is projected to be the fastest growing city in Britain. In response to this growth, Cardiff's Local Development Plan, covering the period 2006 to 2026, outlines how the city will accommodate and make provision for 41,100 new homes and 40,000 new jobs. There will be significantly more people between the age of 30 and 50, more school children and more people over 65 years old. A 25% increase in school age children is predicted which means we will need more schools and more teachers in Cardiff.

The distribution of population by age group in Cardiff is in stark contrast to the rest of South East Wales. Of particular significance is Cardiff's student population who now represent over 10% of the city's residents. Most full-time students are

aged between 18 and 29 and in Cardiff almost a quarter (23.5%) of the total population fall within this age group compared with 14.8% for the rest of South East Wales.

According to the 2011 Census, 15.3% of Cardiff's population is from a non-white ethnic group, equating to almost two-fifths (39.2%) of the total non-white ethnic population in Wales. Over 118 different main languages are spoken across the city.

In 2014/15, more than a fifth (22.2%) of pupils in Cardiff aged 5-15 were eligible for free school meals, compared to 18.8% for Wales. (Welsh Government).

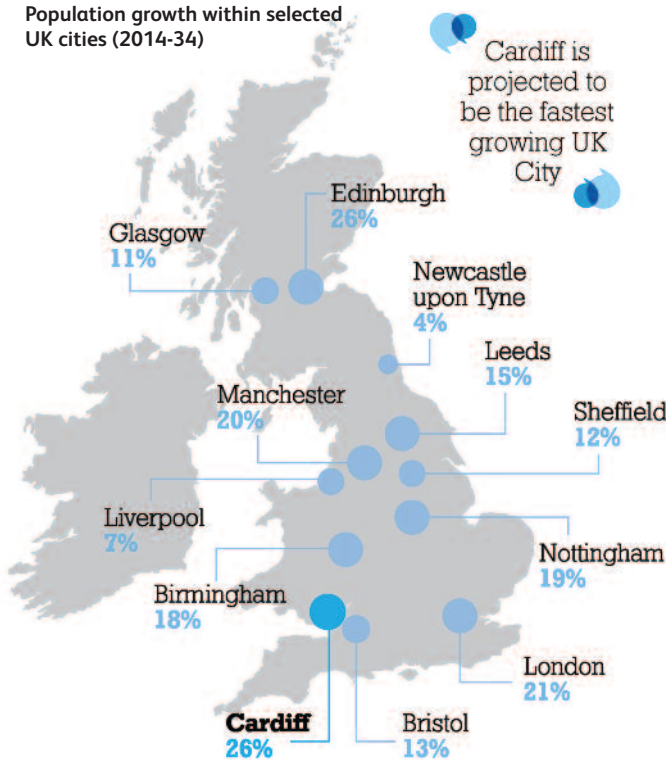
It is clear that the city of Cardiff presents great opportunities and challenges. In response, to achieve the vision of becoming Europe's most liveable city, Cardiff's What Matters Strategy will continue to focus on improving outcomes for citizens in seven key areas:

- People in Cardiff are healthy;
- Cardiff has a clean, attractive and sustainable environment;
- People in Cardiff are safe and feel safe;
- Cardiff has a thriving and prosperous economy;
- People in Cardiff achieve their full potential;
- Cardiff is a great place to live, work and play;
- Cardiff is a fair, just and inclusive society.

Cardiff 2020 makes a substantial contribution to 'What Matters', in particular to the desired outcome that people in Cardiff achieve their full potential.

An integral part of Cardiff 2020 will be delivered through the recently launched 'Cardiff Commitment', which aims to ensure that all young people in Cardiff are provided with the support, choices and opportunities to make a successful transition from statutory schooling to ongoing education, employment or training.

Population growth within selected UK cities (2014-34)



Source: Welsh Government/ONS/NRS population projections

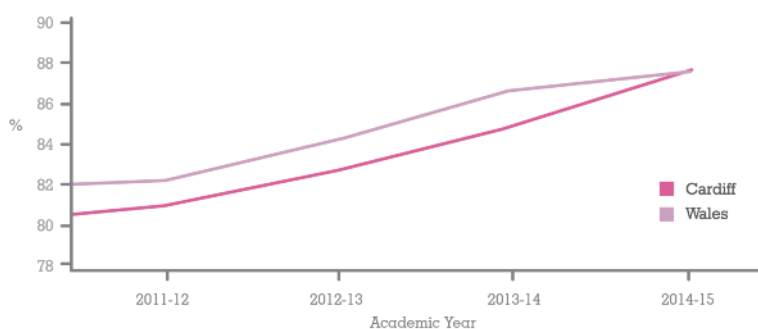
## Where are we now?

### Educational Attainment

- In the **Foundation Phase**, the percentage of pupils achieving expected outcomes (5+) improved from 78.7 % in 2012 to **86.7%** in 2015 but remained just below the welsh average of 86.8 %.
- At **Key Stage 2**, **87.8%** of pupils in Cardiff achieved the expected level (4+) in the core subject indicator in 2015, just above the welsh average of 87.7 %.
- At **Key Stage 3**, **83.4%** of pupils in Cardiff achieved the core subject indicator in 2015, just below the welsh average 83.9 %.
- At **Key Stage 4**, 2015 figures show that Cardiff has seen an increase in the proportion of Key Stage 4 pupils achieving the **Level 2+ threshold** (5 GCSEs A\* - C, including English/Welsh and Mathematics) from 44.34 % to **59.30%** over the last six years, with an improvement of 9.4 % between 2013 and 2015. Current performance is higher than the welsh average of 57.95 %.
- At **Key Stage 4** in 2015, **32.23%** of pupils in Cardiff eligible for **FSM**, achieved the **Level 2+ threshold** compared to **66.52%** of **non-FSM** pupils. The performance of FSM pupils at this level is higher than the welsh average of 31.63 %.
- Since 2010, there has been a significant reduction in the numbers of **year 11 leavers** designated as **Not in Education, Employment or Training** in Cardiff, from 8.8 % to **4.5%** in 2015. (4.5 % is 152 young people). Despite this improvement being at a faster rate than other local authorities, further reductions are required.
- Over the previous 4 years, the number of **year 13 leavers** designated as **Not in Education, Employment or Training** in Cardiff, has been below the welsh average. In 2015, **2.96%** of year 13 leavers did not progress into ongoing education, employment or training (40 young people).
- As at March 2016, **673 (8.6%)** of 7,806 16 – 18 years olds in Cardiff registered with Careers Wales were designated as **Not in Education, Employment or Training**.

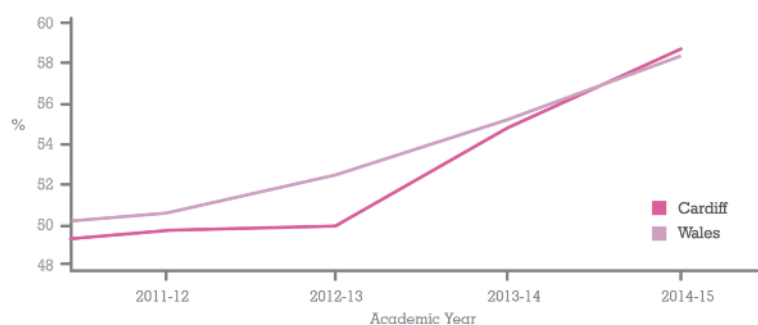
The percentage of pupils assessed at the end of Key Stage 2, in schools maintained by the local authority, achieving the Core Subject Indicator, as determined by Teacher Assessment

Source: Data Unit Wales (2015)



The percentage of pupils aged 15 at the preceding 31 August, in schools maintained by the local authority who achieved the Level 2 threshold including a GCSE grade A\*-C in English or Welsh first language and mathematics

Source: Data Unit Wales (2015)



## Socio Economic factors

- For the year ending December 2015, the **employment rate for the population aged 16-64** in Cardiff (**68.0%**) was below the equivalent figure for Wales (70.3 %). In addition, the unemployment rate was higher in Cardiff (7.5 %) than Wales (6.0 %). (Annual Population Survey, Office of National Statistics ONS)
- The **economic activity rate** for those **aged 16-64** in Cardiff (**73.1%**) was just below the national average (74.9 %). However, when students are excluded from the calculation, Cardiff's economic inactivity rate (19.0 %) falls below that of Wales (21.0 %). (Annual Population Survey, (ONS)
- The latest statistics available on commuting show large numbers of in-commuters to Cardiff from outside its local authority boundaries. An estimated 61,700 people commute in to Cardiff from the neighbouring local authority areas of the Vale of Glamorgan, Rhondda Cynon Taff, Caerphilly and Newport alone, while a further 22,100 commute to the city daily from further afield.
- There were 200,400 people working in Cardiff in 2014, with the largest sectors being Health (13.9 %), Retail (10.8 %), and Business Administration & Support Services (10.0 %). (Business Register & Employment Survey, ONS)
- A recent labour market demand and supply report by the South East Wales Learning Skills and Innovation Partnership (LSKIP) states that the region is entering an extremely challenging five year period. A City Deal for the Cardiff Capital Region, accelerated development across the three South East Wales Enterprise Zones including Cardiff Airport, and the establishing of close ties between the Great Western Cities, as well as £10 billion of planned infrastructure investment, represent a huge opportunity but also a challenge.
- The LSKIP report stated that traditional learning, training models and qualifications need radical change to deliver the skills industry needs. Delivering key essential skills in numeracy, literacy, ICT and employability for people across the age range will help to build an employee pool/register particularly focused on areas of high unemployment.

Attention needs to be paid to skills shortages in areas such as manufacturing, tourism, financial services, education and public administration, where employers have expressed difficulties in recruiting.

- There are also clear messages that digital literacy is recognised as being essential for future employability. "90 % of new jobs will require excellent digital skills. Improving digital literacy is an essential component of developing *employable* graduates." (JISC,2011).

## Education Reform in Wales

Cardiff 2020 is set within the context of the Welsh Government's national education reform agenda:

- The vision articulated by Professor Graham Donaldson in his review 'Successful Futures,' published in February 2015, sets out firm foundations for a new approach to curriculum and assessment that is genuinely and fully inclusive. Donaldson emphasises the need for a curriculum that would better prepare children and young people in Wales to thrive and be successful in a rapidly changing world. He points to the need for a simpler, more connected curriculum that would provide breadth, enable greater depth of learning, ensure better progression, give scope for more imaginative and creative use of time and place a much greater emphasis on skills.
- 'Qualified for Life' set out a vision for an education system where every child and person benefits from excellent teaching and learning and where their potential is actively developed.
- The Welsh Government's New Deal for the Education Workforce, announced in March 2015, sets out plans for supporting the professional development of those working in schools. This has been designed to support teachers, leaders and support staff with professional development throughout their careers.
- In addition to the New Deal, the 'Teaching Tomorrow's Teachers' report by Professor John Furlong, makes clear that the need for reforming initial teacher training in Wales is 'undeniable' if we are to raise standards and deliver our ambitious reform programme.

# Desired outcomes

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As a result of our work over the next five years we are seeking to achieve ambitious outcomes for the children and young people of Cardiff:

- All children and young people will be able to access an appropriate, high quality education place that meets their individual needs.
- Educational attainment at the end of each key stage will be the best in Wales and in line with top quartile performance in the core cities of the UK.
- Every child will leave primary school literate and numerate in line with age related expectations.
- Pupils from low-income families will achieve at the same level as their peers – we will close the attainment gap.
- Children and young people with additional learning needs will be able to access an improved system designed to ensure that their needs are assessed, and the provision necessary to meet those needs is planned for in a more collaborative, consistent and equitable way.
- All young people will achieved a recognised qualification at the end of statutory schooling.
- All young people will complete statutory schooling equipped with a menu of skills for life and make a successful transition to education, employment or training.
- All young people are safe and their emotional well-being is high.
- Children and young people will be aware of their right to participate, for their opinion to be heard, and will be involved in decision-making about education policies and services which affect their lives.





# Goals

To deliver these aspirations our key goals are:

- **Excellent outcomes for all learners**

We hold consistently high expectations for all learners and ensure high achievement and positive well-being for all. Barriers to learning are addressed to make sure that no child or young person is 'left behind'. The curriculum is flexible and engaging. A focus on high quality teaching is at the heart of every school. Assessment is used to develop learning and to ensure open and clear accountability in the education system.

- **A high quality workforce**

We attract the best people to lead and work in our schools and education settings. We recruit, retain and develop staff at all levels and ensure that the next generation of teachers, wider practitioners and leaders are working in Cardiff.

- **21st Century learning environments**

There are appropriate, high quality school places for children and young people which meet the needs of Cardiff's growing and changing population. Schools provide a safe and inspiring environment for learning and are strongly connected to their communities. Learning beyond the classroom is extended through the creative use of digital technologies and through accessing the resources of the city and its wider environment.

- **A self-improving school system**

Schools take shared responsibility with the Local Authority and the Central South Consortium for securing the best outcomes for all learners across the city. Collaboration between schools builds the capacity for collective improvement across the system.

- **Schools and Cardiff in partnership**

Schools and early years settings have strong links with the communities they serve and with business and enterprise in the city region. Families and employers value education and work closely with schools to contribute to the achievement and progression of children and young people.



# Goal:

## Excellent outcomes for all learners

We hold consistently high expectations for all learners and ensure high achievement and positive well-being for all. Barriers to learning are addressed to make sure that no child or young person is 'left behind'. The curriculum is flexible and engaging. A focus on high quality teaching is at the heart of every school. Assessment is used to develop learning and to ensure open and clear accountability in the education system.

### Why this matters

Standards achieved by learners in Cardiff schools are now improving at a faster rate than previously and many at a faster rate than the rest of Wales. 2015 saw a significant step forward in nearly all measures but we want to see further and more rapid improvement in performance. Outcomes at the end of each key stage are not yet high enough, in particular for vulnerable learners facing challenges and barriers to successful learning and attainment.

Academic attainment is a major contributory factor to the progression and future life chances of young people. By securing excellent outcomes for all learners, we can ensure that our children and young people have the opportunity to shape their lives and play a full role in society. In this way we are also investing in the future of our city, which is reliant on future citizens that are able to compete and thrive in the modern world.

### Plan of action

#### To achieve success, Cardiff will:

- Focus on quality teaching in every classroom, every day to drive up outcomes and accelerate progress for all pupils.
- Use the framework of the government's 'Successful Futures' programme to shape curriculum pathways which are appropriate to learners' needs, flexible and fit for the future, including implementing new pathways for learners at risk.
- Further challenge and support schools and partners to improve educational outcomes for pupils at risk of under achievement, in particular, looked after children, pupils from low income families, pupils with English as a second language and those pupils with Additional Learning Needs.
- Deliver, adapt and embed the national reforms for pupils with Additional Learning Needs.
- Further develop the use and application of assessment to accelerate learning and to underpin strong professional practice and accountability.
- Recognise, facilitate and encourage a wide range of opportunities for meaningful parent and carer engagement and involvement in children's learning.
- Further develop opportunities and methods to capture the voices of children and young people to inform service development.



### Success measures

#### Over the next 5 years Cardiff aims to:

- Increase the percentage of pupils achieving the expected outcomes in the mandatory areas of learning in the Foundation Phase at the end of year 2.
- Increase the percentage of pupils achieving the expected outcomes in the core subjects of Mathematics, English or Welsh and Science in Key Stage 2 at the end of year 6.
- Increase the percentage of pupils achieving the Level 2+ Threshold (5 GCSE's at A\* - C including English/Welsh and Mathematics) in Key Stage 4 at the end of year 11.
- Increase the number of young people making a successful transition to ongoing education, employment or training at the end of statutory schooling (year 11) and at the end of year 13.
- Increase the percentage of pupils eligible for Free School Meals achieving the expected outcomes in the core subjects of Mathematics, English or Welsh and Science in Key Stage 2 at the end of year 6.
- Increase the percentage of pupils eligible for Free School Meals achieving the Level 2+ Threshold (5 GCSE's at A\* - C including English/Welsh and Mathematics) in Key Stage 4 at the end of year 11.

- Improve the levels of achievement of vulnerable learners in line with their individual requirements, needs and aspirations. In particular:
  - ✍ Pupils with Additional Learning Needs
  - ✍ Pupils educated 'other than at school'
  - ✍ Looked after children
  - ✍ Pupils entering Cardiff schools with English as a second language
- Maintain attendance levels in schools above the Welsh average.

**Appendix 1 sets out our baseline position and targets on these measures.**





# Goal:

## A high quality workforce

We attract the best people to lead and work in our schools and education settings. We recruit, retain and develop staff at all levels and ensure that the next generation of teachers, wider practitioners and leaders are working in Cardiff.

### Why this matters

Education systems that excel are able to recruit high calibre graduates and train and support them to become outstanding classroom practitioners. We also know that the action that has the greatest impact on improving learner outcomes is teacher development – both in terms of their subject knowledge and classroom expertise. Teaching assistants also play an important role in ensuring effective learning. Good schools draw on the expertise of a wider range of other support staff.

Research also tells us that equipping and empowering headteachers and other senior leaders to have the time, skills and resource to focus on leading learning, is vital to improving outcomes for children and young people. The recruitment of teachers and headteachers is a particular challenge and we need to be innovative in new approaches.



### Plan of action

#### To achieve success, Cardiff will:

- Launch more innovative recruitment approaches to promote the value of working in Cardiff and fill the gaps in key sectors of the education workforce.
- Create clear career progression routes supported by appropriate support and development.
- Deliver high quality training and professional development, in partnership with higher education training providers, which equips staff to support excellent learning and improve learner outcomes.
- Embed enquiry led learning and coaching as a way of working across schools in the city.
- Identify and develop aspiring and emerging leaders and provide pathways into leadership positions, including executive headship.
- Increase leadership capacity by deploying and supporting leaders to lead across schools and by reducing the time heads spend managing support functions in schools.
- Raise the profile of the roles played by non-teaching staff and create opportunities for continuous professional development at all levels.



### Success measures

Over the next 5 years Cardiff aims to:

- Increase the population of ‘Outstanding’ teachers and practitioners in Cardiff, particularly in those areas of the curriculum where the need to improve learner outcomes is greatest.
- Increase school leadership capacity in Cardiff to respond to the diverse and changing needs of education in the city region.
- Implement new school leadership models that enable experienced Heads and Senior Leaders to oversee and support those appointed to a role as Head of School, either as part of a federation or by agreement with the governing bodies of the schools involved.
- Create a network of Executive Leaders across the city that is able to support other schools and lead federations and school improvement groups.
- Engage all teachers in enquiry led learning related to the improvement priorities for their school and/or partnership/federation.

- More effectively evaluate the contribution of the non-teaching workforce to school improvement and harness this capacity to enhance teaching and learning outcomes.



# Goal:

## 21st Century learning environments

There are appropriate, high quality school places for children and young people which meet the needs of Cardiff's growing and changing population. Schools provide a safe and inspiring environment for learning and are strongly connected to their communities. Learning beyond the classroom is extended through the creative use of digital technologies and through accessing the resources of the city and its wider environment.

### Why this matters

The significant population growth in Cardiff, coupled with an ageing educational estate presents real challenges to maintaining sufficient school places in good learning environments across the city. Between 2006 and 2016, approximately £110 million has been invested in new buildings and in upgrading existing ones. Further investment will be secured to meet current growth, replace unsuitable buildings and in the longer term to meet the needs of major housing developments.

Beyond the classroom, the city itself presents many opportunities for learning and we want to see all young people accessing the sporting, cultural and environmental opportunities of Cardiff wherever they live.

### Plan of action

#### To achieve success, Cardiff will:

- Work with the Dioceses to maintain and improve the existing school estate to ensure access for all children to good learning environments.

- Deliver new sustainable high quality schools, in both the primary and secondary sector, which are flexible, fit for the future and enable quality teaching to take place in every classroom.
- Ensure a balance of Special Educational Needs (SEN) provision across the city so that where possible we have local schools for local children.
- Continue to provide more Welsh medium school places in line with the Welsh in Education Strategic Plan for Cardiff.
- Invest in new technology for learning, building on the most effective practice already operating, to provide innovative ways of engaging, motivating and helping children and young people learn.
- Ensure best value from available financial resources by embracing innovative procurement methods and standardised designs methods.
- Create a Community Focused Schools approach so that the curriculum can be enriched by local involvement and the use of school buildings can benefit the wider community in Cardiff.





### Success measures

#### Over the next 5 years Cardiff aims to:

- Significantly improve the learning environments of the existing school estate through the implementation of the annual asset management plan, ensuring best value for financial resources.
- Complete the planning of the next set of priorities for the 21st century school programme, including a focus on SEN provision across the city, by the 31st March 2017.
- Offer a co-ordinated Admissions process with the voluntary aided sector, which provides parents/carers with a clear picture of the school place choices available to them and the likelihood of securing first preferences.
- Increase the number of pupils securing a school place that meets individual needs, where appropriate in accordance with their first preference.
- Embed a new Community Focused Schools approach, across all Cardiff Schools, providing a range of activities and opportunities to enrich the lives of children, families and the wider community; whilst contributing to community objectives including local cohesion, sustainability and regeneration.
- Develop approaches to learning in the context of the whole city which ensure the full participation of every young person in the life of Cardiff, through business, sporting and cultural links.
- Complete the construction of a new High School in the East of the city, in partnership with Cardiff & Vale College by autumn 2017.
- Complete the construction of three new two form entry primary schools, by spring 2018.
- Complete the construction of a new High School in West of the city by September 2018.



# Goal:

## A self-improving school system

Schools take shared responsibility with the Local Authority and the Central South Consortium for securing the best outcomes for all learners across the city. Collaboration between schools builds the capacity for collective improvement across the system.

### Why this matters

Our ambition is that as the school system continues to progress, schools, school leaders and governors are increasingly trusted, supported and resourced to lead improvement. Instead of school improvement coming from local authority or external consultants, the aim is to create a system where schools are able to support each other and are committed to sharing staff and expertise.

Working in this way enables schools to learn from and draw upon each other's strengths and helps to move knowledge about what works and best practice around the system more quickly. As Michael Fullan has written "Good collaboration reduces bad variation" and this applies both within schools and across schools. This way of working is not limited to teachers and school leaders but also applies to school governors and other staff who work in schools. Neither is it limited by geography. There is an exceptionally strong network of international links between Cardiff schools and education partners worldwide, facilitating a powerful exchange of practice across national boundaries.

### Plan of action

#### To achieve success, Cardiff will:

- Continue to work with the Consortium and the Dioceses to further develop the capacity of the school system to be self-improving through the Central South Wales Challenge.

- Enable and encourage governors, including those within the same school improvement group to organise joint training, share ways of working and observe and challenge each other's practice.
- Engage all schools in a School Improvement Group or other accredited school improvement network.
- Promote the growth of clusters and federations of schools to build leadership capacity and enable head teachers to focus on leading high quality teaching and learning.
- Strengthen school to school engagement through initiatives such as enquiry led learning groups, peer review between schools and by providing a menu of school to school support for struggling schools to draw on.
- Build challenge, impact and evaluation into school to school activity through open and transparent use of data.







### Success measures

#### Over the next 5 years Cardiff aims to:

- Have no schools in an Estyn follow up category.
- Increase the proportion of schools categorised as green by Welsh Government in the annual national categorisation process.
- Increase the proportion of schools where standards are judged by Estyn to be good or excellent.
- Secure improved learner outcomes at the designated Challenge Cymru secondary schools that are at least in line with the Welsh average.
- Have no schools running recurrent deficit budgets.
- Have all primary schools belonging to a business cluster or federation in addition to their membership of a School Improvement Group.
- Have all secondary schools paired with another school, either within the consortium or the city

to support leadership of teaching and learning.

- Have an agreed peer to peer model operating across the city, based on the shared use of data and performance measures.



# Goal:

## Schools and Cardiff in partnership

Schools and early years settings have strong links with the communities they serve and with business and enterprise in the city. Families and employers value education and work closely with schools to contribute to the achievement and progression of children and young people.

### Why this matters

We know that high quality education is vital to improving life chances for children and young people, but we also know that factors outside school have an impact on the levels of achievement and wellbeing.

A safe environment, families that encourage learning and aspiration and policies that tackle poverty and deprivation can all play a significant part in helping young people achieve success. Partnerships between schools and business can be mutually beneficial connecting business with communities and schools with the wider economy. Such partnerships also provide opportunities to strengthen the governance of schools.

### Plan of action

#### To achieve success, Cardiff will:

- Implement the 'Cardiff Commitment' to Youth Engagement and Progression to ensure positive futures for all young people beyond statutory education.
- Continue to encourage a wide range of professionals to take up the role of school governor to strengthen governance models across all sectors.
- Enable schools to engage with and benefit from the Cardiff Early Help Strategy, ensuring

that statutory and voluntary agencies work effectively together to intervene early to support families.

- Maintain and where possible expand investment in early years through Flying Start and other programmes to ensure that children from economically deprived communities have a good start in life.
- Strengthen relationships between schools and the business sector to provide a menu of opportunities for business partners to support schools, whilst also realising business benefits that add value to their individual goals and ambitions.
- Develop and pilot models for partnership between schools and particular skill sectors in the local economy.







### Success measures

Over the next 5 years Cardiff aims to:

- Working with the Dioceses, further strengthen school governance, increasing the number of school governors and the range of skills that they are able to offer to help drive school improvement.
- Improve the broad range of skills of children starting school as measured by the new foundation phase profile, in partnership with families, communities, health and the early years sector.
- Ensure that all schools have a clear business partner, with purposeful shared objectives.
- Ensure that all young people have access to careers advice, guidance and work experience opportunities.
- Increase the numbers of young people that make a successful transition to the world of work.
- Provide a broader range of alternative curriculum options that respond effectively to the needs of vulnerable learners that may have difficulties learning in a classroom environment.



# Moving forward

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This is an ambitious strategy because Cardiff needs the best possible education system. The future prosperity and social health of the city depends on it.

Cardiff is dynamic and changing rapidly. Old industries have gone, replaced by a much more diverse and more fluid economy. As a port city, Cardiff has always been outward looking, open to new ideas, welcoming, and ready to change and adapt. These qualities were never more important than now. Young people currently in our schools will face a future which is guaranteed to be different from whatever we may predict now.

This strategy acknowledges the improvements made in recent years but it states clearly the expectation that more needs to be done, and can be done. There is immense appetite across the school system, in communities and throughout the business, arts and voluntary sectors in Cardiff to build on the best, whether that is already here in our city, is elsewhere in the UK, or further afield.

This renewed vision for education and learning in Cardiff sets ambitious goals. Whilst being ambitious they are also realistic. People are at the heart of this strategy, both learners and educators and all who work to support learning. The strategy places a key focus on recruiting, and developing those who work in the school system. It also recognises that resources are limited, so there is a real focus on ensuring effective and efficient use of resources, and in developing new ways of working which enable us to deliver improving outcomes from a reducing resource base.

By working together we can make Cardiff 2020 a reality. We can enable the young people in our city to reach their potential whatever that might be. We can support and develop further their success and the success of their schools, both inside and beyond the classroom. We can play a part in building a city that is ready to take on the challenges of the future.







## Appendix One – Performance Measures

### Outcomes for Learners

This core set of measures provides an initial framework to track performance against the desired outcomes identified in this strategy over the next 18 months. This will be developed and

extended as we move forward in conjunction with the changes to measures of academic attainment and school performance reporting that are being progressed by Welsh Government.

Measure	Cardiff Baseline Position Academic Year 2014/15	Wales Average Academic Year 2014/15	Cardiff Target Academic Year 2016/17
The percentage of pupils achieving the expected outcomes in the mandatory areas of learning in the Foundation Phase at the end of year 2.	86.73 %	86.80 %	88.6 %
The percentage of pupils achieving the expected outcomes in the core subjects of Mathematics, English or Welsh and Science in Key Stage 2 at the end of year 6.	87.76 %	87.74 %	93.09 %
The percentage of pupils achieving the Level 2+ Threshold (5 GCSE's at A* - C including English/Welsh and Mathematics) at the end of Key Stage 4 (year 11).	59.30 %	57.95 %	67.8 %
The number of young people making a successful transition to ongoing education, employment or training at the end of statutory schooling (year 11) and at the end of year 13.	Year 11: 95.5 % (4.5 % NEET)  Year 13: 97.04 % (2.96 % NEET)	Year 11: 97.2 % (2.8 % NEET)  Year 13: 96.24 % (3.76 % NEET)	Year 11: 97 % (3 % NEET)  Year 13: 97 % (3 % NEET)
The percentage of pupils eligible for Free School Meals achieving the expected outcomes in the core subjects of Mathematics, English or Welsh and Science in Key Stage 2 at the end of year 6.	76.74 %	75.10 %	85 %

Measure	Cardiff Baseline Position Academic Year 2014/15	Wales Average Academic Year 2014/15	Cardiff Target Academic Year 2016/17
The percentage of pupils eligible for Free School Meals achieving the Level 2+ Threshold (5 GCSE's at A* - C including English/Welsh and Mathematics) at the end of Key Stage 4 (year 11).	32.23 %	31.63 %	50 %
The percentage of Looked After Children achieving the expected levels at:			
Foundation Phase	75 %	58 % (2014)	85 %
Key Stage 2	56 %	59 % (2014)	70 %
Key Stage 4 – Level 2+	17.1 %	17.1 % (2014)	25 %
The percentage of pupils with English as a second language achieving at the expected levels at:			
Foundation Phase	82.79 %	81.7 %	84 %
Key Stage 2	83.59 %	82.6 %	88 %
Key Stage 4 – Level 2+	59.64 %	57.7 %	66 %
Attendance levels in schools			
Primary:	95.2 %	94.9 %	95.5 %
Secondary	93.9 %	93.9 %	95.5 %





**AUDIT TITLE: Review of Schools' arrangements for covering teacher absence**

### Background

1. In response to a request from the Audit Committee, a review has been undertaken of the arrangements in place for the engagement by schools of supply teachers. The Headteachers and finance staff of 6 randomly selected schools were interviewed - 3 high schools, 2 primary schools and 1 special school.
2. The scope of the review included teaching cover provided by agencies, short term contracts and cover supervisors.

### Findings

#### Reasons for engaging supply teaching cover

3. Supply cover in schools was the subject of a 2013 Wales Audit Office (WAO) report, 'Covering Teachers Absence', commissioned by Welsh Government (WG). The report recognised that one reason for teacher absence from the classroom - and a driver of the need for cover - is to enable teacher participation in events linked to government policies and initiatives. According to the report 'The Welsh Government pays grants for supply cover to encourage schools to release teachers to attend relevant training, meetings and conferences, and for non-teaching time' and (WG) 'policies and initiatives for education in schools are one of the significant drivers of classes requiring cover'.
4. Cover may be required for classes where the teacher is absent for a day or couple of days, due to sickness absence or attendance on a training course, or for longer periods due to long term sickness, maternity leave, or as a result of an unfilled vacancy. High schools may employ 'cover supervisors' – school officers who are not necessarily qualified teachers, whose role is to maintain the 'non contact' periods of teaching staff, and provide supply cover when required. In schools which do not employ cover supervisors – generally Primary schools – or when the cover supervisor cannot cover all the classes required - a supply teacher is normally engaged via an agency. When cover is required for the longer term, it is usual to employ a teacher on a short term contract.
5. Most of the Headteachers interviewed demonstrated innovative approaches to training teachers including the provision of 'twilight' (out of hours) training, and the restriction of externally provided courses in favour of 'in house' courses and mentoring style arrangements with other schools, which do not require supply cover. Currently, qualifying schools are able to provide the 'Newly Qualified Teacher' qualification course themselves, although it will soon be compulsory for teachers to attend the Welsh Government (WG) provided course.
6. One school in the sample used supply cover to manage a situation where 8 experienced teachers left in a short period and, instead of filling all the vacant posts at once, potentially with 8 newly qualified teachers, the Headteacher engaged supply teachers in the interim. A perceived benefit of engaging supply staff is that, in the event of a vacancy, it provides a trial period for both the School and teacher. Most schools quoted examples of former supply teachers who had gone onto become permanent members of staff.

## **Monitoring of supply costs**

7. Supply teachers may be funded by various sources: an allocation in the School annual budget, the 'Mutual Supply Fund' e.g. for cover of maternity leave, or by a specific grant used to employ a teacher on a short term contract for the duration of the grant period.
8. Arrangements for checking, authorising and paying invoices were found to be robust, based on the samples selected and interviews with the Headteacher and finance staff. Monitoring of expenditure on supply is undertaken as part of overall financial monitoring by the Headteacher and Governing Body. The Headteachers interviewed were aware of the budget allocated to them and their latest expenditure position against the budget.

## **Monitoring of supply teachers**

9. Supply teachers are usually interviewed by the school, unless they are engaged at short notice or have worked there before. Efficient arrangements were found to be in place to welcome supply teachers including 'meet and greet' on arrival, timesheets for signing in and out and welcome packs which included child protection guidance, the behaviour policy and marking sheets. Details of the lessons to be undertaken were provided by the head of department when the cover was at short notice, or prepared by the teacher where the absence and, therefore, the supply requirement was known in advance.
10. For long term supply, formal monitoring is the same as for permanent teachers and includes classroom observation and reviewing children's books without notice. For short term supply cover, feedback is more informal, via other teachers, and teaching assistants. All schools reported giving feedback to agencies on the supply teachers provided.
11. Supply teachers are normally required to undertake training which is held on site or after hours, and are generally keen to take advantage of the opportunity to receive training as it improves their employment prospects.

## **Safeguarding - DBS checks**

12. The schools sampled demonstrated their awareness of the need for a 'Disclosure and Barring service' (DBS) check to be undertaken and the results received and reviewed prior to employment. They were aware that they should not retain possession of the DBS but annotate the reference number.

## **Process for arranging supply**

13. Clear processes and arrangements were found to be in place for notifying the Headteacher or Deputy Headteacher of teacher absence, deciding how to cover the staff absence and contacting the agency where relevant. Officers were aware of their roles and responsibilities for making arrangements and record keeping.

## **Agencies used – reasons**

14. There is little material difference in cost between agencies and the market is very competitive, therefore, cost does not usually drive the decision to use a particular agency. It can be difficult to obtain a supply teacher for some subjects e.g. maths and science and, therefore the availability of a teacher in these subjects can be a deciding factor in using a certain agency. Also, a school may request a teacher who has successfully worked at the school previously. For short term cover, availability of a suitable teacher was a deciding factor e.g. when a maths or physics teacher is required, as these were found to be difficult subjects to get supply cover for. However, the biggest factor overall was that the agency understood the school and its particular characteristics, and managed to match an appropriate teacher to the school or acknowledged that they could not meet the demand as an appropriate teacher was not

available. The special school in the sample had forged a relationship with their agency with the result that potential supply teachers spent a few hours working at the school (at no charge to the school) in order to determine their suitability for the role.

## Conclusion

15. Many scholarly articles have concluded that teachers are the largest contributing factor to pupil success and attainment. A report produced by the Economic and Social Research Council stated that 'Schools where spending on supply teachers is high are damaging the progress of all their pupils'. An Estyn report found that 'in primary and secondary schools, learners make less progress in developing their skills, knowledge and understanding when the usual class teacher is absent, and learners' behaviour is often worse, particularly in secondary schools.'
16. Whilst schools were found to monitor the supply teachers engaged, and record the reasons for each teacher absence, the Council does not monitor and report on the reasons for teachers' absence across all schools, so the reasons for teaching supply requirements is not fully quantified or understood. This information could be used to monitor the reasons for teacher absence, in order to identify trends and determine actions that could be taken.
17. The WAO report made recommendations - set out at Appendix A - for Welsh Government, Schools and Local Authorities. These recommendations, however, are generic for all Local Authorities and in Cardiff the division of responsibilities for supply cover are different to many of the other Welsh Local Authorities due to the greater level of delegation from Cardiff LA to its schools.
18. Whilst the Council could consider the recommendations which relate to Schools and Local Authorities, this would have to be done within the parameters of the local delegation rate.

## Recommendations

That the above report is referred to School Budget Forum for consideration

## Recommendations included in the WAO report 'Covering Teachers Absence'

## Appendix A

*N.B. the recommendations are set out below to show the organisation/area of the Council responsible for implementation*

### Schools should:

REF	RECOMMENDATIONS
1	Manage teacher absence more efficiently.
2	Improve the quality of teaching and learning in covered lessons by making sure that the work set is at an appropriate level and staff receive enough information on the individual needs of learners.
3	Support supply and cover staff to improve their classroom behaviour management techniques.
4	Evaluate the impact of teacher absence on learners, especially more able pupils and those in key stage 3, and monitor the quality of teaching and learning when teachers are absent.
5	Ensure that supply staff are included in performance management arrangements.
6	Provide more professional development opportunities for supply staff.
7	Make sure that supply staff receive essential information on health and safety and safeguarding, including the contact details of the named child-protection officer at the school.
8	Apply their attendance management policies rigorously, particularly in the management of long term absence
9	Ensure that they provide sufficient information and support to supply teachers (for example daily timetable, lessons plans and material, school policies such as approach to behaviour management and access to ICT) so that they can work effectively.
10	Include supply teachers who have either regular or long-term involvement with a school in their in-service training and performance management arrangements and include the requirement to participate



### Local Authorities should:

REF	RECOMMENDATIONS
11	Provide schools with comparative data on teacher absence rates (same recommendation for Supply Agencies)
12	Seek feedback on and record the quality of supply staff they register and use the information for quality control. (same recommendation for Supply Agencies)
13	Collect and analyse absence-related data for all the schools in their area, and disseminate information that would enable its schools to compare absence levels with those of other schools in the local authority or within their family of schools

### Schools and Local Authorities should:

REF	RECOMMENDATIONS
14	<ul style="list-style-type: none"><li>- Routinely monitor trends in cover expenditure and compare with others to highlight areas of inconsistency for further investigation and action</li><li>- Evaluate whether arrangements for managing supply cover budgets (such as opting into the local authority's mutual fund or purchasing private absence in insurance) provide value for money for the school and across the authority.</li><li>- Regularly review the cost effectiveness of the skill mix of the staff employed in schools to provide cover, including an assessment of the relative costs of employing cover supervisors, HLTAs, floating teachers, temporary staff recruited through an agency and temporary staff recruited from the local authority list.</li><li>- Review that arrangements with supply agencies where these exist, continue to provide good value for money</li><li>- Explore opportunities to achieve savings and/or an improved service by collaborating with local schools</li></ul>

### Local Authorities and Welsh Government should:

REF	RECOMMENDATIONS
15	Encourage schools to develop policies on managing cover that focus on ensuring that learners progress is maintained and resources are used effectively.
16	Should monitor the extent to which their school improvement programmes and training initiatives contribute to the need for cover
17	Agree guidance for schools on the procurement of supply teachers. This guidance should set out the different arrangements available or otherwise possible, including the two framework contracts for supply teachers, the legal and human resource implications of different arrangements, and the potential for collaboration to result in better value for money. (joint rec for WG and LA)
18	Ensure that appropriate quality standards and the Welsh Government's policies are reflected in any future framework agreements for supply agencies (joint rec for WG and LA)

**Schools, Local Authorities, Welsh Government and the General Teaching Council for Wales should:**

REF	RECOMMENDATIONS
19	Develop clearer mechanisms for reporting concerns about unsatisfactory performance in addition to the reporting of any child protection concerns.

**Welsh Government should:**

REF	RECOMMENDATIONS
20	Provide better access for supply staff to those national training programmes that are available to permanently employed teachers.
21	Take greater account of the impact of cover in its policies and strategies including setting out clearly in grant and other guidance that it expects schools, local authorities and regional consortia to seek to minimise the need for covered lessons.
22	Monitor the impact on supply teachers of their developing arrangements for induction and access to the Masters in Educational Practice; to ensure that teachers who work as supply teachers on a long term basis are not disadvantaged
23	Issue clear guidance to schools to ensure that they are clear about the appropriate pre-employment and safeguarding checks required for teachers and other school staff, understand that the checks need to be completed before a supply teacher commences work in a school, and retain records of the pre-employment checks that have been undertaken for all supply teachers and other staff employed with the school

**AUDIT TITLE: Highways Payroll Follow Up Review****Background**

1. This update has been prepared by Internal Audit, to provide an update on the implementation of a series of recommendations made following 'Highways Street Operations' audits in 2011 and 2014, for which the original audit opinion was 'limited assurance'.
2. A follow up audit in May 2015 noted that some progress had been made to implement the recommendations. In order to allow the directorate to allow the various initiatives and other changes to be embedded, audit opinion was 'deferred' at this time.
3. Interviews were held recently with management in the directorate in order to obtain an update on the recommendations outstanding in 2015. The narrative of the recommendation and the management response is set out in the next section of this report

**Issues**

4. **Audit Recommendation** A review of all acting up arrangements should be undertaken, to ensure the continued appropriateness of arrangements  
**Management Response** - Acting up is required only for supervisor absence, with 4 operatives acting up on these occasions and the relevant form held in HRPS for each operative.
5. **Audit Recommendation** - Start and finish times for each job should be clearly shown on timesheets prior to authorisation by the supervisor. Management should consider using mobile scheduling technologies.  
**Management Response** - System is being developed to facilitate recording of works orders on hand held sets, with a trial phase currently underway. Subject to the outcome, it is expected that mobile functionality will start to be rolled out across highways maintenance operations in April 2017. The expected benefits are replacement of the existing paper based system, more efficient scheduling of work, improved route planning and more accurate information for performance management purposes.
6. **Audit Recommendation** - Where planned works cannot be undertaken due to adverse weather conditions, staff should be given alternative jobs wherever possible, and remain available for work.  
**Management Response** - This has been achieved through the creation of multi functional gangs, for whom job evaluation is now complete. Works managers allocate additional tasks to operatives e.g. filling grit bins and cleaning road signs.

7. **Audit Recommendation** - Overtime should not be paid for an entire shift, once work is complete or during adverse weather.  
**Management Response** - There is no set shift duration e.g. '6 hours overtime', and operatives are paid for hours worked only.
8. **Audit Recommendation** - For HGV drivers, a written record of driver activity should be maintained either using a log book or tachograph, to be certified by supervisors  
**Management Response** - HGV drivers are now using tachographs, except in the occasional 'old' vehicle or when using a hire vehicle, in which case a drivers log is completed and signed off by a supervisor.  
The tachograph data must be downloaded to a 'tacho reader' on a regular basis (28 days maximum). Currently the only 'reader' in operation is at Lamby Way, and managed by CCTS, requiring drivers to make a special trip to get data downloaded. There is a 'reader' at the Brindley Road CTS facility, however it is apparent that no operative is available to use it. The unavailability of this equipment causes some inconvenience in terms of unnecessary trips to Lamby Way. Highways run circa 14 Large Goods Vehicles which require a LGV licence and therefore recording of drivers hours. 'Street Cleansing' vehicles which are fitted with tachos and operate from Brindley Road are also making the journey to Lamby Way.
9. **Audit Recommendation** - Supervisors should check timesheets and the Quartix daily vehicle logs to ensure appropriate use of vehicles  
**Management Response** - Information from quartix is used in accordance with policy, and is subject to an ongoing process.
10. **Audit Recommendation** - A bespoke report should be produced from Quartix to show productive and non productive time.  
**Management Response** - Works managers run off reports from works orders and Quartix to examine efficiency in view of identifying any spare capacity to enable additional works to be undertaken and potentially generate income.
11. **Audit Recommendation** – Need to use performance management information, and the undertaking of 'spot' site checks.  
**Management Response** - The development of AMX, the development of multi functional gangs and the use of other monitoring information demonstrates the commitment to performance management.

## Recommendations

12. To note and consider the management response in respect of Highways payroll.

**ANDREW GREGORY**  
**DIRECTOR OF CITY OPERATIONS**



**CITY OF CARDIFF COUNCIL  
CYNGOR DINAS CAERDYDD**

**AUDIT COMMITTEE:**

**19 September 2016**

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**FINANCIAL UPDATE 2016/17**

**REPORT OF THE CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 5.1**

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**Reason for this Report**

1. To provide the Audit Committee with an update on the Council's financial position.

**Background**

2. To assist the committee in understanding the current financial context within which the Council is operating, this report sets out an overview of the current monitoring position for 2016/17 and gives an update on the preparatory work for 2017/18 and the medium term.

**Issues**

**Financial Monitoring**

3. Overall, the month four revenue monitoring for the Council shows a projected overspend of £850,000 reflecting financial pressures and shortfalls against budget savings targets in directorate budgets. These are partly offset by projected savings on capital financing, the release of contingency budgets previously earmarked to fund voluntary severance costs, an anticipated surplus on Council Tax collection and NDR refunds on Council properties. Directorate budgets are currently projected to be overspent by £6.5 million however it is anticipated that management actions will enable this to be reduced by the year end. The current position includes projected overspends in the Social Services, City Operations and Governance & Legal Services Directorates and in Corporate Management. The directorate overspends are partially offset by the £4.0 million general contingency budget which was maintained as part of the 2016/17 budget in order to reflect the quantum, risk and planning status of the proposed savings for 2016/17.
4. The projected overspends in directorate budgets include £5.221 million in Social Services, £785,000 in City Operations, £494,000 in Corporate Management and £44,000 in Governance and Legal Services. This position reflects a range of factors including increased demographic pressures in Social Services, shortfalls in income and the anticipated failure to fully achieve the savings targets set as part of the 2016/17 Budget together with on-going shortfalls carried forward from the previous financial year.

5. An overall shortfall of £5.462 million is currently anticipated against the £25.892 million 2016/17 directorate savings target with £7.297 million having been achieved to date and a further £13.133 million anticipated to be achieved by the year end. The budget approved by Council on the 25 February 2016 identified red or red / amber achievability risks totalling £11.663 million with £2.752 million of the savings proposals still at a general planning stage. These risks are evident in the projected shortfall currently reported as part of the month four monitoring. A projected shortfall of £1.819 million has also been identified in relation to savings targets carried forward from 2015/16. The projected shortfalls are reflected in the directorate monitoring positions although where possible shortfalls have been offset by savings in other budget areas. The £4.0 million General contingency budget which was allocated to reflect the risk and planning status of the proposed savings for 2016/17 is also available to offset the shortfall in the current financial year. However, despite this the shortfalls represent a continuing cause for concern particularly as the Council is about to embark on another very difficult budget round.
6. Actions are being taken by those directorates currently reporting a projected overspend to try to resolve the issues that led to the current position or alternatively to identify offsetting savings in other areas of the service. These will be considered as part of the challenge process to review the performance of directorates including the budget monitoring position. The Chief Executive has held a series of meetings with directors to identify measures to reduce the level of spend across the Council with the intention of improving the overall position as the year progresses. These reviews will continue throughout the year and the actions taken also discussed in the Chief Executive's monthly meetings with individual directors. In addition the Chief Executive has implemented a number of management actions which it is anticipated will enable a balanced position to be achieved by the end of the financial year.
7. The Capital Programme for 2016/17 amounts to £127.126 million of which £101.641 million is in respect of General Fund schemes and £25.485 million is in relation to the Council's Public Housing schemes. Against this the projected out-turn is £107.189 million resulting in a total variance of £19.937 million. The majority of the projected variance is in relation to slippage against the 21<sup>st</sup> Century Schools Programme mainly due to delays in the construction of the new Eastern High School. There is also projected slippage on schemes such as modernising technology to support business processes, improvements to disabled accessibility at Whitchurch High School and Central Square Public Realm detailed design works. Directorates have been reminded of the need to avoid slippage wherever possible by ensuring that their project plans and profiles of activity are robust.
8. Cabinet will be considering the Month 4 monitoring report at their meeting on 15 September 2016.

## **Budget Preparation**

9. Following the approval of the Budget Strategy report by Cabinet and Council in July 2016, directorates have spent the summer reviewing their savings proposals as part of establishing a balanced budget position for approval by Council in February 2017. The Budget Strategy report indicated a budget gap of £24.3 million in 2017/18 and £75.3 million over the period to 2019/20. Within those figures, directorate savings are expected to amount to some £43.035 million with

the balance accounted for through other strategy assumptions including increases in Council Tax.

10. The Cabinet wishes to continue its commitment to extensive public consultation and this has already commenced over the summer period through the inclusion in the Ask Cardiff Survey of general budget themes. This will pave the way for more detailed consultation in the autumn with public consultation expected to begin by early November 2016. This will be subject to any implications arising from the Provisional Settlement which is due on the 19 October.

### **Reason for Recommendations**

11. To inform Audit Committee of the current financial context for the Council.

### **Legal Implications**

12. No direct legal implications arise from this report.

### **Financial Implications**

13. There are no direct implications arising from this information report.

### **RECOMMENDATIONS**

14. To note the financial information provided and the process being adopted in respect of budget preparation for 2017/18 and the medium term.

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**  
**September 2016**

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## **AUDIT COMMITTEE: 19 SEPTEMBER 2016**

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### **DRAFT STATEMENT OF ACCOUNTS 2015/16**

### **REPORT OF THE CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 5.2**

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### **PORTFOLIO: CORPORATE AFFAIRS**

#### **Reason for this Report**

1. To provide Audit Committee Members with an update following the audit of the draft accounts by Wales Audit Office (WAO), prior to submission to Council.

#### **Background**

2. The Statement of Accounts in Appendix 1 presents the accounts for the City & County of Cardiff and the Cardiff and the Vale Pension Fund for the financial year 2015/16. They remain draft pending completion of the Audit. Regulations require the Responsible Finance Officer to sign the accounts by the 30 June, and that the audited accounts are approved by Council by the 30 September.
3. The draft accounts were presented to the Audit Committee in June and included a summary of the main points evident from the 2015/16 accounts. Subsequent to this, the accounts were presented to Wales Audit Office on 15 June 2016 for audit ahead of the statutory deadline of 30 June 2016.
4. In addition, the accounts have been available for public inspection as required by sections 30 and 31 of the Public Audit (Wales) Act 2004 and Regulations 13,15 and 16, of the Accounts and Audit (Wales) Regulations, 2005 (as amended).
5. The final accounts are due to go to Council at the meeting on the 29 September 2016.

#### **Issues**

6. There are currently no misstatements which remain uncorrected. The attached appendixes include audit reports (ISA 260's) for the City of Cardiff Council and Cardiff and the Vale Pension Fund, which contain the main corrections deemed to be required to be brought to your attention. Whilst these and a number of other smaller grammatical and numerical amendments have been made, further amendments may

still be required up to the point at which the accounts are circulated for the Council meeting as the audit is still progressing.

### City of Cardiff Council Accounts

7. WAO intend to issue an unqualified audit report on the financial statements once they have been provided with the Letter of Representation, which is included at Appendix 2.
8. The WAO Audit of Financial Statements Report also highlights a number qualitative findings, as follows:
  - **We have no significant concerns about the qualitative aspects of your accounting practices and financial reporting but you need to clear old creditors balances from the ledger.** Overall we found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear. However, our testing did identify a number of prior years' creditors balances which hadn't been cleared when payments or adjustments had been made. Extended testing provided assurance that these balances were matched by debit entries to other codes and therefore the creditors balance in the accounts was materially correct. But, by not matching creditors and clearing, you increase the complexity of the year end reconciliation process and the testing required to verify figures in the accounts. You also increase the risk that transactions may be included which are not true creditors.
  - **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work.
  - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
  - **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
  - **We did not identify any material weaknesses in your internal controls**
  - **There are no 'other matters' specifically required by auditing standards to be communicated to those charged with governance.**

### Cardiff and Vale of Glamorgan Pension Fund Accounts

9. The accounts for the Cardiff and Vale of Glamorgan Pension Fund are included in the Statement of Accounts in Appendix 1 (pages 104 to 126) and have been audited by the Welsh Audit Office. The auditor's draft "Audit of Financial Statements Report" for the Pension Fund is attached as Appendix 3. WAO intend to issue an unqualified audit report and there are no misstatements which remain uncorrected. The report refers to the main corrections made by management. There were no qualitative issues arising this year.
10. WAO intend to issue an unqualified audit report on the financial statements once they have been provided with the Letter of Representation, which is included at Appendix 3.

11. WAO Audit of Financial Statements Report also highlights a number qualitative findings, as follows:

- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
- **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work.
- **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
- **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
- **We did not identify any material weaknesses in your internal controls**
- **There are no 'other' matters specifically required by auditing standards to be communicated to those charged with governance.**

### **Cardiff Harbour Authority Accounts**

No audit opinion is currently available, but will be included in the report to Council

### **Looking Forward**

12. Following the period of external audit it is pleasing to note that any recommended amendments and quantitative findings following a thorough audit are minimal for an authority the size and complexity of Cardiff. Officers of the Council have worked extremely closely with Wales Audit Office in support of their audit role.

13. Future years changes in the Statement of Accounts include:-

- Implementation of new accounting requirements such as transport infrastructure assets and associated judgements required to be made
- The need to continue to simplify and de-clutter accounts, with aim of supporting the reader of the accounts
- The need to minimise the period over which the accounts are prepared and also audited as a result of changes in legislation. This is to enable performance of the Council to be determined earlier and also ensure more effective use of resources that go into preparing these accounts.

14. The above items will need to be considered with Wales Audit Office during 2016/17 and beyond.

### **Legal Implications**

15. No direct legal implications arise from this report.

## **Financial Implications**

16. This report provides Audit Committee Members with a draft of the accounts to be submitted to Council for approval at its meeting on 29<sup>th</sup> September 2016. The report follows the external audit of the accounts and includes both qualitative findings and highlights any significant amendments made to the accounts following the audit. As the Council's Statutory Finance Officer it is pleasing that WAO have recognised the good standard of work achieved in the preparation of the accounts especially at a time when resources are constrained.

## **RECOMMENDATIONS**

17. That the Draft Statement of Accounts for 2015/16 be noted.

### **CHRISTINE SALTER**

Corporate Director Resources  
10 September 2016

The following appendices are attached:

Appendix 1 – Draft Statement of Accounts 2015/16



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**STATEMENT OF ACCOUNTS**

**2015/16**

**OF**

**THE COUNTY COUNCIL OF THE  
CITY AND COUNTY OF CARDIFF**





# Narrative Report

## 1.1 Narrative Report

### Introduction

This document presents the Statement of Accounts for The County Council of the City and County of Cardiff. These are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice 2015/16.

### The Financial Statements

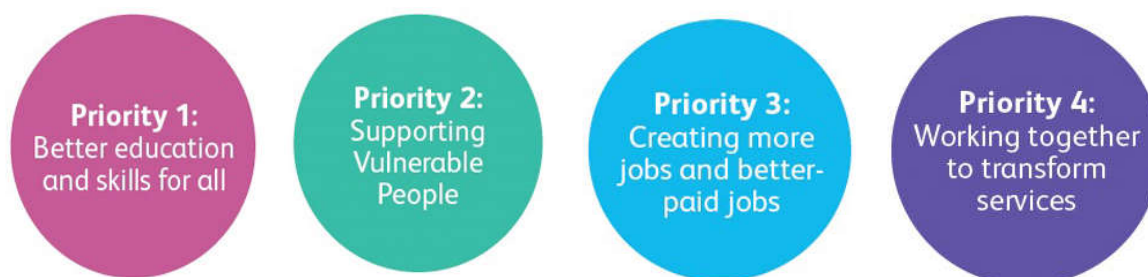
The financial statements, accompanied by a Statement of Responsibilities and the Auditor's Report, are set out on pages 19 to 149 and comprise:

- Accounting Policies, Critical Judgements and Assumptions
- Movement in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet
- Cash Flow Statement
- Notes to the Core Financial Statements
- Housing Revenue Account (HRA)
- Cardiff & Vale of Glamorgan Pension Fund Accounts
- Group Accounts
- Trust Funds

The Council is lead authority for three Joint Committees; the Glamorgan Archives, Prosiect Gwyrdd, and the Welsh Purchasing Consortium. The Council is also a member of the Central South Consortium Joint Education Service, Shared Regulatory Service and the Regional Adoption Service Joint Committee. The Council's share of the transactions and balances of these Joint Committees are incorporated in these financial statements. Separate financial statements for each Joint Committee are also available.

### Corporate Plan 2015-17

The Corporate Plan sets out what the Council will do, how we'll do it, and how we will monitor progress. The City of Cardiff Council faces a number of pressures which needed to be taken into account when developing the Corporate Plan. For instance, Cardiff is projected to have the fastest growing population of any city in the UK - this means a growing demand for key services and need to address a budget gap. Because of these pressures, we need to focus our energy and scarce resources on the areas that need them most, and so the Plan has four priorities.



In each priority area the Corporate Plan sets out demanding targets for important performance indicators which have been subject to a thorough and rigorous target setting exercise between Cabinet Members and Directors.

### Medium Term Financial Plan

Cost pressures and reductions in funding for Local Government have resulted in significant financial challenges for the Council.

## Narrative Report

The Council has faced a prolonged period of financial restraint having identified over £200 million in savings or additional income over the past ten years in order to balance the budget. The scale of recent savings coupled with the redirection of funds into areas which are protected by Welsh Government or are the source of significant demand pressure, set an extremely challenging starting position from which to move forward.

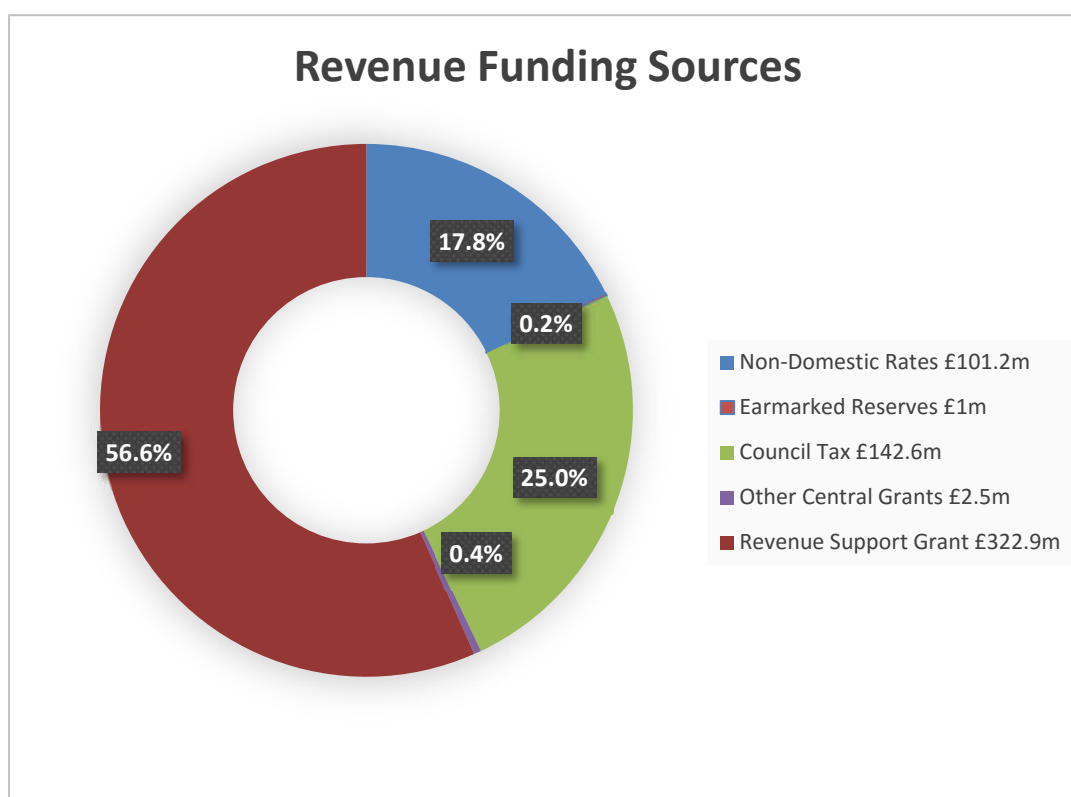
The economic climate and need to continue to demonstrate value for money will mean that such pressures will continue for a number of years as highlighted in the Council's Medium Term Financial Plan (MTFP). The 2016/17 Budget Report identified a budget reduction requirement of £73 million over the three year period covered by the MTFP, of which £25 million needs to be delivered in 2017/18. Whilst the gap identified is a lower reduction requirement than in recent years, it will still be a significant challenge to be addressed through a combination of further directorate budget savings, commercialisation of services, use of technology and alternative delivery structures to provide services and increases in the rate of Council Tax.

Members have received a number of briefings in respect of the financial resilience of the Council. A financial snapshot has been developed to aid discussions and identifies the key financial information from the Statement of Accounts alongside the in-year monitoring position and the medium term financial plan. This was included in the budget report to Council in February 2016.

### Financial Performance

#### Revenue Funding and Revenue Expenditure Outturn

The Council, at its meeting on 28 February 2015, set a cash limit budget of £570.219 million for 2015/16. The chart that follows displays the revenue expenditure budget funding sources, including the proportion of collected Council Tax that contributes towards the Council's expenditure.



# Narrative Report

## Directorate Outturn 2015/16

Directorate	Net Expenditure Budget £000	Net Expenditure Outturn £000	Variance (Under)/Over £000
City Operations	49,905	49,902	(3)
Communities, Housing & Customer Services	46,255	46,089	(166)
Corporate Management	29,355	29,727	372
Economic Development	2,327	2,119	(208)
Education & Lifelong Learning	234,606	234,480	(126)
Governance & Legal Services	4,415	4,411	(4)
Resources	15,852	15,600	(252)
Social Services	137,603	142,625	5,022
Capital Financing etc	35,845	35,845	0
<b>Subtotal</b>	<b>556,163</b>	<b>560,798</b>	<b>4,635</b>
General Contingency	4,000	0	(4,000)
Summary Revenue Account	9,756	8,296	(1,460)
Outcome Agreement Grant	0	(862)	(862)
Discretionary Rate Relief	300	291	(9)
<b>Total as per Outturn Report</b>	<b>570,219</b>	<b>568,523</b>	<b>(1,696)</b>

The final revenue outturn position indicates that the Council has maintained its spending within its overall net budget of £570.219 million in 2015/16 with an overall surplus of £1.696 million, after contributions to and from reserves.

In accordance with the 2015/16 budget report that was approved by Council in February 2015, £595,000 was utilised from the Council Fund Balance to fund the overall Council budget. Similarly, the 2016/17 budget report, approved by Council in February 2016, determined that a further £1m of the Council Fund Balance will be used to fund the 2016/17 Council budget.

The final revenue outturn position was a surplus of £1.696 million, after contributions to and from reserves. This represents a significant improvement to the budget monitoring positions reported throughout the year.

During the year the Council's monitoring process identified financial pressures in a number of directorates, notably Social Services, Corporate Management, Economic Development and City Operations. This reflected a range of factors including increased demographic pressures, shortfalls in income and the failure to fully achieve the savings targets set as part of the 2015/16 budget. As a result, the outturn position contained an overspend of £4.635 million relating to directorate budgets. Apart from Social Services and Governance & Legal Services, all directorates reported an improved position compared to the projections at month 9. The overspend on directorate budgets was offset by a £4 million contingency sum, together with savings in other areas including Council Tax collection, NDR refunds on Council properties, and additional income in relation to the 2015/16 Outcome Agreement Grant.

The Council Fund Balance brought forward at 1 April 2015 was £13.154 million. The balance at 31 March 2016 has increased by £2.101 million to £15.255 million. The £2.101 million increase comprises the £1.696 million surplus outlined above, plus the £1 million amount set aside to fund the 2016/17 budget, less the £595,000 used in-year to fund the 2015/16 budget.

## Narrative Report

### Revenue Outturn:

	Budget	Outturn	Variance
	£000	£000	£000
<i>Financing:</i>			
Revenue Support Grant (RSG)	(322,851)	(322,851)	0
Non-domestic Rates (NDR)	(101,253)	(101,253)	0
Council Tax attributable to the Council	(142,633)	(144,062)	(1,429)
Other central grants	(2,482)	(3,344)	(862)
Use of Earmarked Reserves & Council Fund Balance	(1,000)	(1,000)	0
<b>Total Funding</b>	<b>(570,219)</b>	<b>(572,510)</b>	<b>(2,291)</b>
<i>Net Expenditure</i>			
Net budgeted expenditure	570,219		(570,219)
Net deficit on services on Comprehensive Income & Expenditure Statement		304,349	304,349
Adjust deficit figure for:			
Items shown separately as financing (above)		572,510	572,510
Adjustments between accounting and funding bases under regulations for the Council Fund Balance and HRA (as per Movement in Reserves Statement)		(324,980)	(324,980)
Transfers (to)/from Earmarked Reserves (as per note 2)		18,935	18,935
Remove surplus on HRA		0	0
<b>Total Expenditure</b>	<b>570,219</b>	<b>570,814</b>	<b>595</b>
<b>Net (surplus)/deficit for year transferred to Council Fund Balance</b>			<b>(1,696)</b>

### Housing Revenue Account (HRA)

The net surplus for the year, prior to transfers to earmarked reserves, was £716,000. This included income from rents and charges for services totalling £67.636 million and repairs, maintenance, supervision and management costs totalling £40.627 million. Increased volume and demand for repairs to Council dwellings were offset by savings in a number of other areas including employees and insurance costs, contributing to the overall surplus. This surplus has been transferred to earmarked reserves for use in future years in tackling overcrowding and reinvesting in the housing stock. The HRA balance as at 31 March 2016 is £8.438 million.

During 2015/16, the Council made a one off payment of £187.392 million to exit the Housing Revenue Account Subsidy System (HRAS), which is recognised as capital expenditure and shown as an exceptional item in the Comprehensive Income & Expenditure Statement, within these accounts. The HRAS was a funding mechanism introduced many years ago by National Government whereby, in Cardiff's case, circa £15 million of net rental income received from dwellings rents had to be passed back to HM Treasury, via Welsh Government. Under the new self-financing regime, the Council can now retain and reinvest all income. However, it is required to make annual payments for additional interest and to set monies aside towards the repayment of loans taken out in order to make the one off payment.



## Narrative Report

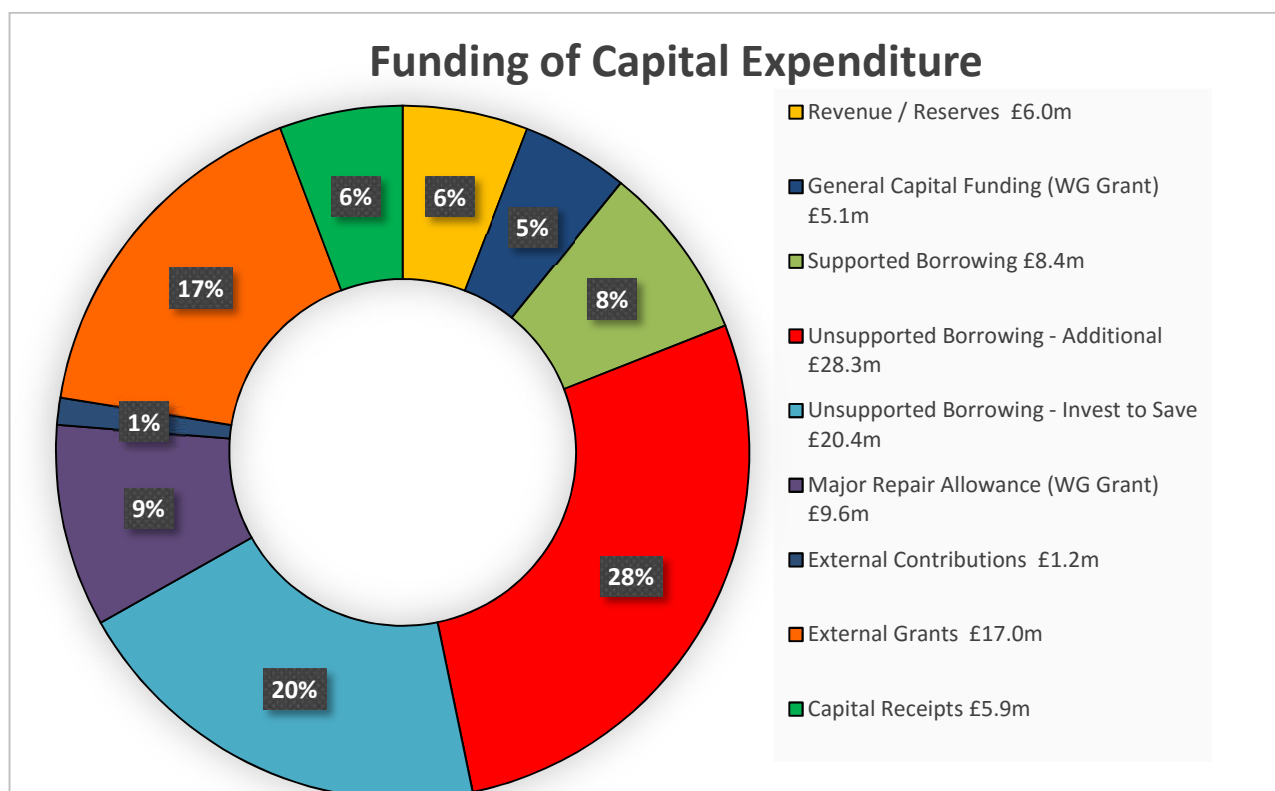
### Capital Expenditure

Capital expenditure represents money spent on improving, acquiring and enhancing assets that are used in the provision of services as well as a number of items determined by legislation. Expenditure totalled £289.3 million. This was £101.9 million after excluding the one off Housing Revenue Account settlement payment of £187.4 million to Welsh Government in order to exit the Housing Finance Subsidy System.

The main items of capital expenditure are described in the following table.

Schemes	Detail	£m
Housing Revenue Account Subsidy System Exit Payment	One off settlement payment to Welsh Government / HM Treasury in order to be able to retain all income receivable from Council dwellings rather than paying over circa £15 million p.a. Local Authorities in England exited the system in 2012. 'Buy out' was paid for by borrowing, with annual costs of servicing borrowing paid from future rental income.	187.4
Housing & Neighbourhood Regeneration	Public housing investment in the fabric of dwellings, estate and area regeneration, as well as energy efficiency schemes. Preparatory work across sites in the city as part of the Housing Partnership Programme to build new dwellings. Disabled adaptations grants, allowing people to live independently in their homes, and other environmental improvements including a comprehensive regeneration scheme for Clare Road/Penarth Road District Shopping Centre.	28.3
Education & Lifelong Learning	Includes completion of a new primary school at Pontprennau, purchase of land for new welsh medium primary school in Butetown and a contribution towards the Penarth Learning campus. Continued investment in a number of schools as part of the School Organisation Plan including replacement of high schools in the east and west of the City, as well as investment in condition of properties.	22.8
Highways & Transportation	Road and footpath resurfacing, road safety improvements, Street lighting energy efficiency, public transport and telematics. Windsor Road bridge replacement, cycling strategy implementation, investment in safe routes in communities, as well as other pedestrian and junction improvements.	11.5
Leisure facilities and Citizen Hubs	Refurbishment of Eastern Leisure Centre, investment in Insole Court and development of hubs in areas of need including the new STAR hub and pool.	11.9
Economic Development	A voucher scheme to implement superfast broadband and providing the developer of the Tramshed in Grangetown with a loan as part of vibrant and viable places initiative. Public realm and temporary works to allow closure of the bus station were incurred as well as purchase of NCP car park site to allow regeneration of Central Square.	12.3
Energy and Waste Management	Reducing the size of residual waste bins and a range of energy efficiency and energy generation measures such as Radyr Weir Hydro facility.	7.5
Capitalisation Direction – Service Reform	Permission received from Welsh Government to treat revenue costs as capital expenditure to be paid for from sale of property assets.	2.4
Other	Creation of Welsh language Centre, Investment in Parks, ICT, and expenditure to enable the efficient use of space in Council buildings.	5.2

The Council pays for its capital expenditure from a number of sources including borrowing money. Borrowing and any associated interest costs must ultimately be repaid from the existing and future income of the Council. Excluding the one off settlement payment, the following chart shows how the capital monies spent during the year were paid for:-



The impact of the low level of support from Welsh Government for capital resources has been that the Council has to find a greater share of its requirement to meet essential investment via unsupported borrowing. Unsupported borrowing was used to pay for £48.7 million of expenditure during 2015/16. The need to undertake borrowing also applies to future capital expenditure plans as set out in the Budget report of February 2016.

This is as a result of:

- implementing new schemes, completing existing projects and demand for funding to maintain assets.
- undertaking invest to save schemes on the assumption that the borrowing will be repaid from future revenue savings or revenue income.
- use of Council borrowing powers by Welsh Government as part of their contribution towards 21st Century Schools Programme.
- The new Housing Partnership Project which aims to build new Council houses for social housing rental. During 2015/16, a partnership agreement with Wates Living Space was entered into with sites to be developed over a 10 year period.

The Council also plans significant investment in new school buildings, regeneration of Central Square and creation of a new transport interchange. These schemes rely on the disposal of land to help meet the costs. The Council's successful bid along with its partners for the City Deal investment is also likely to require significant investment to be paid for by borrowing. Accordingly borrowing represents an ongoing risk in terms of increasing the Council's requirement for any such expenditure to be paid back from future revenue resources.

The Council must continue to review whether capital expenditure plans remain prudent and affordable by consideration of :-

- affordability indicators showing projection of the cost of borrowing and impact on the revenue budget
- the advice of the Section 151 Officer on affordability and risk to future income

## Narrative Report

- potentially setting limits for invest to save schemes particularly for any discretionary expenditure
- ability to accelerate a reduction in the Council's asset base within a limited timeframe to help pay for expenditure.

### Capital Receipts

The sale of property assets and other income treated as capital receipts generated usable capital receipts of £11.4 million. [Note 20](#) includes showing the main property disposals during the year. Receipts include the first £2 million tranche from the sale of the former central bus station site, land adjacent to County Hall £2.4 million, £1.3 million received for the disposal of the Council's joint venture investment in the Medicentre and £1.7 million from the sale of Council dwellings. Capital receipts not used to pay for capital expenditure or to repay debt, are carried forward in the useable capital receipts reserve to meet future capital expenditure. The useable capital receipts reserve increased by £4.1 million in the year.

### Movements in Property, Plant Equipment and Other Non-Current Assets

The previous sections on capital expenditure and receipts highlights some of the movements and [Note 20](#) of these accounts provides significant information for accounting purposes.

In terms of revaluations, operational properties excluding schools, Council dwellings and assets deemed surplus were re-valued during 2015/16 as part of a rolling programme of revaluation.

During the year, the Council reviewed its approach to the valuation of Council Dwellings which included recognising a separate land valuation, as well as a more accurate approach to determining valuations of types of stock held across the City. This has resulted in a net reduction in the Council dwellings valuation compared with the previous valuation and any historic expenditure since that date. The vacant possession value of Council Dwellings was deemed to be £1.3 billion as at 01/04/2015. However, in accordance with valuation requirements, the valuation is required to be adjusted downwards to show the economic cost of providing social housing to tenants at less than market rents. The valuation in the accounts is shown at 40% of the vacant possession value, adjusted by movements in accordance with the Council policies in respect to accounting for such assets.

Valuations of all assets involve a number of assumptions, however, movements in asset valuations as well as any accounting charges resulting from them have no impact on the council tax or rent as they are required to be neutralised from capital reserves.

In line with current guidance the value of infrastructure assets are required to be shown as the value of expenditure previously incurred on them from a point in time. CIPFA considers that current value (gross replacement cost adjusted for current condition) is a more appropriate measurement base for Highways Network Assets, with implementation required for next year's accounts. Highway Network Assets include, Roads, footpaths, highway structures such as bridges, lighting, drainage and associated land.

Whilst the change is intended to support the operational management of such assets, there is expected to be a significant requirement for estimation and judgement, with associated impact on accounting. Excluding land, the change in valuation basis is likely to increase the value of the assets shown in the accounts by over £2.0 billion along with an increase in the depreciation charged annually in the accounts reflecting the use of these assets in service delivery. These changes will not have an impact on Council tax or rent as depreciation accounting charges are required to be reversed out of the accounts. Accordingly a cost benefit approach to inclusion in the accounts will be taken.

### Treasury Management and Financial Instruments

#### Borrowing

The Council can borrow money to manage its daily cash flows and to pay for capital expenditure. The Council continues to use some of its temporary cash balances to pay for capital expenditure.

## Narrative Report

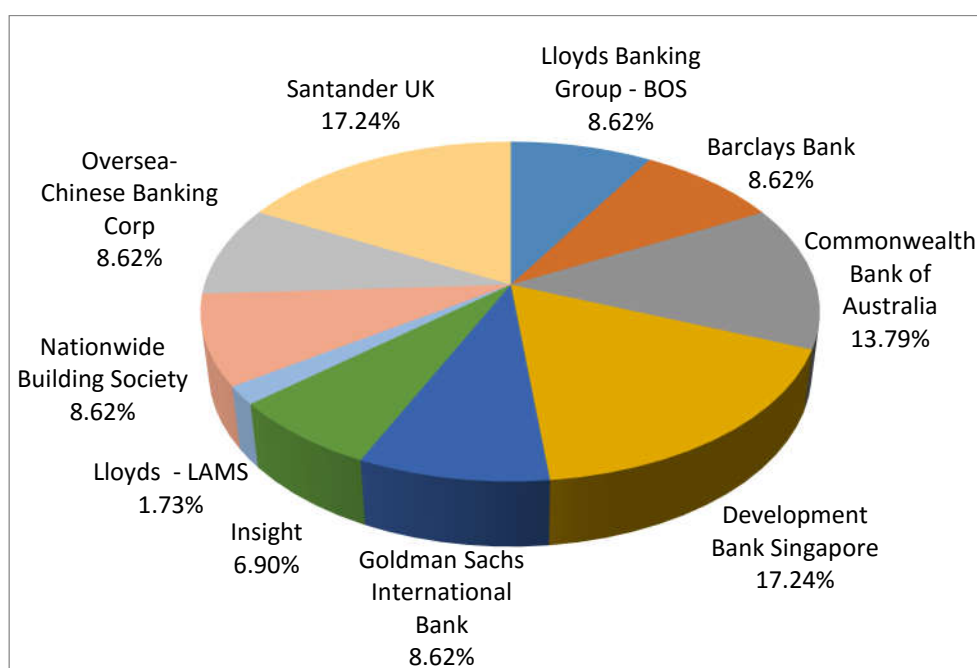
The Council has loans of £666.1 million of fixed interest loans at the end of the year, of which £612.8 million is owed to the Public Works Loan Board (PWLB) and £53.3 million is owed to other bodies, primarily financial institutions.

During the year external loans totalling £6.0 million were repaid and £201.6 million of new loans were raised, including £187.4 million to make the settlement payment to exit the Housing Revenue Account Subsidy System. The latter had to be borrowed from the PWLB at pre-determined rates set by HM Treasury. The impact of the above changes in borrowing resulted in the average rate on the Council's borrowing reducing during the year from 5.22% to 4.84% at 31 March 2016.

All loans are in the name of the Council and not separated for Housing Revenue Account or Council Fund purposes. Total interest payable on borrowing was £32.2 million during 2015/16, of which £13.0 million was deemed payable by the Housing Revenue Account.

### Investments

Investments for treasury management purposes of £58.0 million at 31 March 2016 are represented primarily by temporary cash balances, which are deposited for various maturities with financial institutions, shown in the chart below.



The balance of investments is at a point in time and will fluctuate daily depending on the timing of income and expenditure e.g. payments to suppliers, receipt of grants. The notes to the accounts provide further information on the Council's financial assets and liabilities and the nature and extent of risks involved.

In accordance with accounting requirements, the Council had assumed that loan principal and interest of £6.534 million owed at 21 December 2015 by Glamorgan County Cricket Club for the redevelopment of the stadium was 100% impaired. In March 2015, the Council approved a request from the club to write off 70% of sums due and restructure remaining sums in line with other major creditors. This restructuring and write off was completed on 21 December 2015. The Council continues to adopt a prudent approach to the repayment of principal due and given the risks of recovery of sums due that still remain the balance due of 30% (£1.960 million) remains 100% impaired, but is shown as a contingent asset in these accounts. Repayments of the principal are proposed to begin in 2019.

Whilst the Council's 100% shareholding in Cardiff Bus is not quoted on a recognised stock exchange, for accounting purposes, the Council is required to make an estimate of its fair value. This is done using inputs including Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) as well as a

## Narrative Report

multiplier of enterprise value. The value in the Balance Sheet at 31 March 2015 was shown as £13.563 million, a reduction from £15.781 million a year earlier. However, during this financial year, it was noticed that the calculation during 214/15 was incorrectly calculated using operating profit for the year rather than EBITDA for the year. This would have resulted in a valuation at 31 March 2015 of £18.295 million and so the accounts are restated for this item.

### Reserves

Movements on earmarked reserves are detailed in [note 2](#) to the core statements. Details of movements of other usable and unusable reserves are shown in [notes 30](#) and [31](#) to the core statements respectively. Total usable reserves at the commencement of the year amounted to £56.990 million, increasing to £81.707 million at 31 March 2016. The year end outturn position provided the opportunity to increase the level of reserves for use in connection with future commitments, in turn this has improved the Council's financial resilience position.

Summary Reserves Movements:

	£000	£000
<b>Usable Reserves at 1 April 2015</b>		<b>56,990</b>
Movements to/(from) earmarked reserves:		
Council Fund Earmarked Reserves	17,813	
Council Fund Balance	2,101	
Housing Revenue Account Balance	0	
Housing Revenue Account Earmarked Reserves	716	
Usable Capital Receipts	4,087	
		<b>24,717</b>
<b>Total Usable Reserves at 31 March 2016</b>		<b>81,707</b>

### Provisions

The Council sets aside money for liabilities or losses which are likely to be incurred, but in relation to which the exact amount and date of settlement may be uncertain. During 2015/16, total provisions decreased by £1.599 million to £38.811 million, which includes a number of movements. These include a net decrease in the insurance provision of £892,000 and a decrease in the Lamby Way Landfill provision of £419,000. In addition, a provision of £522,000 has been created in relation to potential maintenance costs in connection with the Council's occupancy of the Friary Centre. Details of the movement of individual provisions are shown in [note 27](#) to the Core Statements.

### Cardiff and Vale of Glamorgan Pension Fund

The Council administers the Fund on behalf of the two Local Authorities and other contributing bodies. In 2015/16 pension benefits payable by the Fund totalled £83.9 million and the contributions receivable from employers and employees totalled £83.9 million. Net losses on investments totalled £27.0 million and the Fund's assets decreased by £27.0 million (1.6%), from £1.68 billion to £1.65 billion. The valuation as at 31 March 2013 showed that the funding ratio of the Fund had improved since the previous valuation, with the market value of the Fund's assets at that date covering 82% of the pension liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable pay. The next valuation is due to take place during 2016 which could impact on the Council's contribution rate.

From 1 April 2014, a 23 year recovery plan has been in place to restore the value of assets to 100% of the liability in respect of service prior to the most recent valuation date.



# Narrative Report

## **Pensions Assets and Liabilities**

Further details are given in [note 19](#) to the Core Financial Statements.

The Council's Actuary has estimated that the Council's future liability in respect of pension benefits payable, compared to assets held, is £545.680 million at 31 March 2016.

## **Corporate Governance**

The Council maintains a Corporate Risk Register (CRR) which highlights the strategic risks facing the Council. In order to minimise the impact of the risks identified, the Council has adopted a Governance Framework which is consistent with the principles of the CIPFA/SOLACE Framework – Delivering Good Governance in Local Government. Further details of the Governance Framework and CRR are in the Annual Governance Statement on pages 150 to 175.

## **Acknowledgements**

Finally, I wish to thank staff within Financial Services, and their colleagues throughout the Council, who have worked on the preparation of these statements. I also wish to thank Directors, Assistant Directors and all senior managers for their assistance and co-operation throughout this process.

**Christine Salter**  
**Corporate Director Resources**  
**29 September 2016**

## 1.2 Guide to the Financial Statements

### **Movement in Reserves Statement (page 35)**

Shows the changes to the Council's reserves over the course of the year. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services. The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that reflect 'adjustments between accounting basis and funding basis under regulations'. The surplus or (deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the Council Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory Council Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

### **Comprehensive Income and Expenditure Statement (page 36)**

Records all of the Council's income and expenditure in the year of providing services. This is shown in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting costs. The taxation position is shown in the Movement in Reserves Statement.

### **Balance Sheet (page 38)**

This is a snapshot of the Council's assets, liabilities, cash balances and reserves at the year end date. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Pension Fund and Trust Fund balances are not included as these represent assets held in trust for third parties rather than in ownership of the Council.

### **Cash Flow Statement (page 40)**

The Cash Flow Statement shows the reason for changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as arising from operating activities, new investment or financing activities such as repayment of borrowing and other long term liabilities.

### **Housing Revenue Account (HRA) Income & Expenditure Account (page 99)**

A separate account that must be maintained to record income and expenditure arising from the provision of Council Housing. The Council charges rent and other service charges to cover expenditure in accordance with regulations.

### **Pension Fund Accounts (page 104)**

Shows the contributions received, payments to pensioners and the value of net assets of the Cardiff and Vale of Glamorgan Pension Fund, which the Council administers. The Fund also publishes a separate, more detailed report.

### **Group Accounts (page 127)**

Group Accounts are prepared in addition to the single entity accounts where local Authorities have material interests in subsidiary and associated companies and joint ventures. The Group Accounts have been prepared to include Cardiff City Transport Services and comprise the Movement in Reserves Statement; the Comprehensive & Income Expenditure Statement; the Balance Sheet; the Cash Flow statement and associated notes.

### **Trust Funds (page 148)**

Various bequests and donations are held in Trust Funds. Income generated from the investments is available for grants and awards in accordance with the objects of the relevant Trusts.

## 2.1 Statement of Responsibilities for the Financial Statements and Corporate Director Resources Certificate

### The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In 2015/16 that officer was Christine Salter, Corporate Director Resources who holds the statutory post of Section 151 Officer.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the statement of accounts

**Councillor Monica Walsh**  
**Lord Mayor**

**Date: 29 September 2016**

### The Corporate Director Resources responsibilities

The Corporate Director Resources is responsible for the preparation of the Council's financial statements in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 (the Code).

In preparing these financial statements, the Corporate Director Resources has:

- selected suitable accounting policies and then applied them consistently, except where policy changes have been noted in these accounts;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code.

The Corporate Director Resources has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

### The Corporate Director Resources Certificate

The financial statements for The County Council of the City and County of Cardiff give a true and fair view of the financial position of the Authority at 31 March 2016 and its income and expenditure for the year ended 31 March 2016.

**Christine Salter**  
**Corporate Director Resources**

**Date: 29 September 2016**

### **2.2 Proposed Audit Report of the Auditor General to the Members of the County Council of the City and County of Cardiff**

I have audited the accounting statements and related notes of:

- the County Council of the City and County of Cardiff; and
- the County Council of the City and County of Cardiff Group; and
- Cardiff and Vale of Glamorgan Pension Fund

for the year ended 31 March 2016 under the Public Audit (Wales) Act 2004.

The County Council of the City and County of Cardiff's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement.

The County Council of the City and County of Cardiff's Group accounting statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement.

The Cardiff and Vale of Glamorgan Pension Fund's accounting statements comprise the Fund Account and the Net Assets Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 based on International Financial Reporting Standards (IFRSs).

#### **Respective responsibilities of the responsible financial officer and the Auditor General for Wales**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 16, the responsible financial officer is responsible for the preparation of the statement of accounts, including the County Council of the City and County of Cardiff's Group accounting statements and the Cardiff and Vale of Glamorgan Pension Fund's accounting statements, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

#### **Scope of the audit of the accounting statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the County Council of the City and County of Cardiff; the County Council of the City and County of Cardiff Group and the Cardiff and Vale of Glamorgan Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

#### **Opinion on the accounting statements of County Council of the City and County of Cardiff**

In my opinion the accounting statements and related notes:

## Proposed Audit Report

- give a true and fair view of the financial position of the County Council of the City and County of Cardiff as at 31 March 2016 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

### **Opinion on the accounting statements of County Council of the City and County of Cardiff Group**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the County Council of the City and County of Cardiff Group as at 31 March 2016 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

### **Opinion on the accounting statements of Cardiff and Vale of Glamorgan Pension Fund**

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of the Cardiff and Vale of Glamorgan Pension Fund during the year ended 31 March 2016 and of the amount and disposition of the fund's assets and liabilities as at that date, other than liabilities to pay pensions and benefits after the end of the scheme year; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

### **Opinion on other matters**

In my opinion, the information contained in the Narrative Report is consistent with the accounting statements and related notes.

### **Matters on which I report by exception**

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

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

### **Certificate of completion of audit**

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

**For and on behalf of  
Huw Vaughan Thomas  
Auditor General for Wales  
24 Cathedral Road  
CARDIFF  
CF11 9LJ  
30 September 2016**



## 3.1 Accounting Policies, Critical Judgements and Assumptions

In accordance with the Accounts and Audit (Wales) Regulations 2014, this Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The accounts are prepared in accordance with proper accounting practices as contained in the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) and the Service Reporting Code of Practice 2015/16 (SERCOP), supported by International Financial Reporting Standards (IFRS).

### Accounting policies used when formulating the accounts

#### 1. Accounting policies issued but not yet adopted

The main change introduced by the Code, which will be required from 1 April 2016, relates to the adoption of the CIPFA Code of Practice on Transport Infrastructure Assets. This will require the Council to separately disclose its Highways Network Asset and measure it at Depreciated Replacement Cost (DRC), as opposed to Depreciated Historic Cost (DHC).

A prospective application will be required and, therefore, there is no impact upon the 2015/16 Statement of Accounts and no requirement to restate 2015/16 balances. The change will have a significant and material impact upon the valuation of Highway Network Assets included in the Statement of Accounts. Had this policy been adopted for the 2015/16 Statement of Accounts, it would have increased the value of the assets shown in the accounts (excluding land) by over £2 billion along with an increase in the depreciation charge. However these changes will have no impact on Council tax or rent as depreciation charges are required to be reversed out of the accounts. Accordingly, a pragmatic approach will be taken when considering inclusion in the accounts.

In addition, there are a number of minor amendments to International Financial Reporting Standards, but these are not expected to have any material impact on the accounts.

#### 2. Accruals of Income and Expenditure

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

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

#### 3. Cash and Cash Equivalents

Cash is represented by cash in hand, bank balances of cheque book schools and the net balance on all of the Council's other accounts, including petty cash accounts. Cash equivalents include Call Accounts and Money Market Funds that are repayable without penalty on notice of not more than 24 hours. In the

## Accounting Policies, Critical Judgements and Assumptions

Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

### 4. Contingent assets and liabilities

These are potential benefits or obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control. Contingent assets and liabilities are not recognised in the accounting statements but are disclosed in a note to the accounts.

### 5. Deferred Liabilities

Where the Authority receives income from developers and other organisations in respect of the future maintenance of assets, the amounts are held in the Balance Sheet as deferred liabilities until such time that the maintenance of the asset takes place.

Obligations under finance leases are treated as deferred liabilities and measured on the basis disclosed in accounting policy 20.

### 6. Disposals and Capital Receipts

When assets are disposed of or decommissioned, proceeds from disposals are credited and the carrying amount of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement in order to calculate a gain or loss on disposal.

Council Fund receipts from disposals greater than £10,000 are treated as capital receipts. Capital receipts are appropriated to the Capital Receipts Reserve from the Council Fund Balance in the Movement in Reserves Statement and can only be used to pay for capital expenditure or to reduce the Council's underlying need to borrow (the Capital Financing Requirement (CFR)). Where sums are due but not yet received they are treated as deferred capital receipts.

The written-off value of disposals is not a charge against council tax or rent, as amounts are appropriated to the Capital Adjustment Account from the Council Fund Balance in the Movement in Reserves Statement.

Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

### 7. Employee Benefits

#### Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees, and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that there is no impact upon Council Tax.

#### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy, and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement. Where termination benefits involve the enhancement of pensions, statutory provisions require the Council Fund balance to be charged with the amount payable by the Council to the Pension Fund or pensioner in the year. An accrual is made for the strain upon the Pension Fund and is included in the Balance Sheet as a long-term creditor, to the extent that it is repayable to the Pension Fund over 5 years. In the Movement in Reserves Statement, appropriations are made to or from the Pensions Reserve to neutralise the impact of this accrual on Council Tax.

# Accounting Policies, Critical Judgements and Assumptions

## Post-Employment Benefits

Employees of the County Council of the City and County of Cardiff are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by the Teachers Pensions Agency
- The Local Government Pension Scheme, administered by the County Council of the City and County of Cardiff.

The Council accounts for pension costs in the main accounting statements in accordance with International Accounting Standard 19 (IAS19). IAS19 requires recognition in the employer's accounts of the fact that although retirement benefits are not actually payable until an employee retires, the Authority's commitment to make those payments arises at the time that employees earn their future entitlements. The treatment of pension costs in the accounts depends on whether they are in respect of a defined benefit scheme or a defined contribution scheme.

## Defined Benefit Schemes

In defined benefit schemes the retirement benefits payable are based on pay and service, and the assets and liabilities of the scheme can be readily identified between the participating bodies in the scheme. The Local Government Pension Scheme is a defined benefit scheme.

Under IAS19, the cost charged to net cost of services is the cost of pension entitlements earned in the year rather than the cost of contributions paid into the Fund. This cost is known as the *current service cost* and is determined by the actuary. The *Net Pension Liability*, which represents the Authority's attributable share of the Pension Fund's assets and liabilities, is shown in the Balance Sheet.

The following accounting policies have been applied in determining the figures to be included in the Comprehensive Income and Expenditure Statement and Balance Sheet in respect of pensions costs for the Local Government Scheme:

- the attributable assets of the scheme have been valued at bid price
- the attributable liabilities have been measured on an actuarial basis using the projected unit method, which assesses the future liabilities discounted to their present value
- the surplus/deficit in the scheme has been calculated as the excess/shortfall in the value of the assets in the scheme over/below the present value of the scheme liabilities
- the current service cost has been based on the assumptions at the start of the year and the estimated pensionable pay over that year.
- the interest cost is based on the discount rate and the present value of the scheme liabilities at the beginning of the period; discount rates are based on the annualised yields on the iBoxx over 15 year AA rated corporate bond index.
- the net interest on the net defined benefit liability/asset is the interest on the present value of liabilities/assets and interest on the net changes in those liabilities/assets over the period, calculated using the discount rate at the start of the period.
- actuarial gains/losses have been calculated by updating values from the last actuarial valuation to reflect conditions at the balance sheet date
- past service costs cover items such as the provision of enhanced or discretionary benefits on retirement. The costs included in the accounts for 2015/16 are the full costs relating to early retirements granted in the year, which have been calculated as the special contributions payable into the fund, adjusted for the financial assumptions used under IAS19, to represent the approximate cost of the increase in benefits granted to members under IAS19.

## Defined Contribution Schemes

These are schemes where the employer pays fixed amounts into the scheme and has no obligation to contribute further amounts if the scheme does not have sufficient assets to pay employee benefits. Under IAS19, defined contribution schemes are accounted for by charging employer contributions to revenue as they become payable. The Teachers' Pension Scheme is a defined benefit scheme but as the Authority cannot identify its share of the underlying assets and liabilities in the scheme on a consistent basis; this scheme is to be accounted for as if it were a defined contribution scheme under IAS19.

## Accounting Policies, Critical Judgements and Assumptions

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

### 8. Events After the Balance Sheet Date

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

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

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

### 9. Exceptional Items

Exceptional items are material in terms of the Authority's overall expenditure and not expected to recur frequently or regularly. When they occur, they are included in the Comprehensive Income and Expenditure Statement as a separate line, if that degree of prominence is necessary to give a fair presentation of the accounts.

### 10. Financial Assets

Financial assets are classified into three types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- investments at fair value – assets that have a quoted market price and/or do not have fixed or determinable payments.
- fair value through profit and loss – assets that are held for trading

Where a fair value, price that would be received to sell an asset, is estimated and disclosed, either in the accounts or notes to them, inputs to the valuation techniques used to determine fair value are attributed to either of the following in the fair value hierarchy :-

Level 1 – quoted prices in active markets for identical assets that the authority can access at the measurement date

Level 2 – inputs other than quoted prices that are observable for the asset

Level 3 – unobservable inputs for the asset

**Loans and Receivables:** Initially measured at fair value and carried at their amortised cost. Where assets are identified as impaired, because of a likelihood, arising from a past event, that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

Credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset, multiplied by the effective rate of interest for the instrument. Interest that is due but unpaid at the end of the year is recognised in the Balance Sheet as a current asset.

**Investments at Fair Value:** available-for-sale assets are initially measured and carried at fair value. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses). Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Comprehensive Income and Expenditure Statement. The exception is where impairment losses have been incurred - these are debited to the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood, arising from a past event, that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses previously recognised.

Where the asset has fixed or determinable payments (e.g. interest), income is credited to the Comprehensive Income and Expenditure Statement for interest receivable based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments (e.g. dividends), income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

**Investments at Fair Value through Profit and loss:** These are initially measured and carried at fair value. Any movements in fair value, gains and losses that arise on de-recognition of the asset, and investment income is credited/debited to the Comprehensive Income and Expenditure Statement.

### 11. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. Interest that is due but is unpaid at the end of the year is recognised in the Balance Sheet as a current liability.

Where a fair value, price paid to transfer a liability, is estimated and disclosed, either in the accounts or notes to them, inputs to the valuation techniques used to determine fair value are attributed to either of the following in the fair value hierarchy :-

Level 1 – quoted prices in active markets for identical liabilities that the authority can access at the measurement date

Level 2 – inputs other than quoted prices that are observable for the liability

Level 3 – unobservable inputs for the liability

Premiums or Discounts incurred on the extinguishment of debt are charged immediately to the Comprehensive Income Expenditure Statement, with Regulation being used to mitigate the financial impact on the council taxpayer by an adjustment from the Financial Instruments Adjustment Account.

- Premiums are amortised to the Movement in Reserves Statement over the life of the replaced loan, replacement borrowing or other prudent period.
- Discounts are amortised to the Movement in Reserves Statement over the life of the replaced loan or 10 years (whichever is the shorter period).

Where restructuring of the loan portfolio involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and amortised to the Movement in Reserves Statement in accordance with statutory regulation.

Transaction costs, such as brokers' fees and commission in relation to managing the Authority's Financial Instruments, which are not considered material, are charged immediately to the Comprehensive Income and Expenditure Statement.



### 12. Foreign Currency Translation

When transactions are required to be undertaken in a foreign currency, they are converted at the prevailing rate on the day of the transaction. The Council does not invest or borrow in any currency other than sterling and undertakes very few transactions involving foreign currency.

### 13. Grants - Revenue

Grants and other contributions relating to revenue expenditure are accounted for on an accruals basis and recognised when:

- the Council has complied with the conditions for their receipt.
- there is reasonable assurance that the grant or contribution will be received.

The accounting treatment will vary depending on whether it is deemed that conditions inherent in the agreement have been complied with. Monies advanced as grants, for which conditions have not yet been satisfied, are carried in the Balance Sheet as Revenue Grants Receipts in Advance. When conditions have been satisfied, the grant or contribution is credited to the relevant service line (specific revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-specific revenue grants) in the Comprehensive Income and Expenditure Statement. Where there is no reasonable assurance that the conditions will be met, any cash received will not be recognised as a receipt of grant monies but as a repayment due to the awarding body. The cash received is held on the Balance Sheet as a liability.

Where the conditions of a revenue grant or contribution have been complied with but it is yet to be used to fund expenditure for the purpose stipulated in the grant agreement, it is set aside in an Earmarked Reserve.

### 14. Grants and Contributions – Capital

Grants and contributions that are applied in the year to fund capital schemes that are Revenue Expenditure Funded by Capital under Statute (REFCUS) are treated as revenue income and credited to the Comprehensive Income and Expenditure Statement to the relevant service line.

Capital Grants and Contributions applied in paying for other capital works are credited to the Taxation and Non-Specific Grant Income line in the Comprehensive Income and Expenditure Statement. Where a specific capital grant or contribution has been received but remains unapplied, this is deemed to represent a condition in that the unused element could be returned to the funder.

Capital grants and contributions are identified separately on the Balance Sheet. Contributions such as those arising from Town and Country Planning Act 1990 obligations usually come with conditions that the funding can be clawed back by the provider if not spent within a certain period of time or if not spent on a specific project. Such items are treated as Capital Grants Receipts in Advance.

The unapplied element of such grants or contributions would not be taken to the Comprehensive Income and Expenditure Statement when received and is treated as a creditor. Where a specific capital grant or contribution is applied, but is not yet received, this is taken to Comprehensive Income and Expenditure Statement when applied and is treated as a debtor.

Non-specific grants such as the General Capital Grant or Major Repair Allowance are recognised immediately in the Comprehensive Income and Expenditure statement. If such a non-specific grant remains unapplied at the end of the year, this element is held as Capital Grants unapplied.

### 15. Intangible Non-Current Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council is capitalised. In the case of computer software and licences, this will be capitalised where it relates to the enhancement or development of systems, expenditure on which is deemed to generate long-term economic benefits to the Authority in the form of savings and improvements in service delivery. Intangible assets are included in the Balance Sheet at historic cost net of amortisation, are reviewed for impairment and are re-valued only where they have a readily ascertainable market value. The assets are amortised to the relevant service line over the economic life of the investment to reflect the pattern of consumption of benefits

## Accounting Policies, Critical Judgements and Assumptions

Any amortisation, impairment, disposal gains or losses are not permitted to have an effect upon Council Fund Balance and are reversed in the Movement in Reserves Statement.

### 16. Interests in Companies and Other Entities

The Council has interests in companies and other entities. Subject to the level of materiality and exposure to risk, these are consolidated to produce Group Accounts. In the Council's own single entity accounts, the interests in such companies are recorded as financial assets in the Balance Sheet.

### 17. Inventories

Inventories are measured and held at the lower of cost or net realisable value. When such inventories are sold, exchanged or distributed, the carrying amount is recognised as an expense in the Comprehensive Income and Expenditure Statement.

### 18. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. Investment properties are measured at fair value, based on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The valuations are undertaken by officers of the Council's Strategic Estates department, who fall within the competence demands set out by the Royal Institution of Chartered Surveyors and who are valuers registered in accordance with the RICS Valuer Registration Scheme.

Fair Value is deemed to be the market value assessed for each asset reflecting highest and best use, echoing market conditions at the balance sheet date. The valuation method is term & reversion, with passing rents capitalised at appropriate yields and estimated reversionary rental values based on prevailing rents for similar properties. Local comparable rental evidence and market yields have been utilised for comparison purposes.

Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. Rentals received in relation to investment properties are credited to the relevant service line and result in a gain for the Council Fund Balance. However, revaluation and disposal gains and losses are not permitted to have an impact on the Council Fund Balance. The gains and losses are therefore reversed out of the Council Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

### 19. Joint Committees

The relevant proportion of the transactions and balances of Joint Committees are included within the Council's Comprehensive Income Expenditure Statement and Balance Sheet. These reflect the transactions and balances as per the draft accounts prepared for each Joint Committee.

### 20. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards, incidental to ownership, of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Leases are reviewed at inception and classed as finance or operating by reviewing arrangements such as:

- Transfer of ownership at the end of lease contract
- Option to purchase asset at price lower than fair value
- Lease term is for major part of economic life of asset
- Present value of minimum lease payments amounts to at least substantially all of the fair value of leased asset
- Leased assets are specialist and only lessee can use them without major modifications

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

# Accounting Policies, Critical Judgements and Assumptions

## The Authority as Lessee

### Finance Leases

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at fair value measured at the lease's inception. The asset recognised is matched by a liability for the obligation to pay the lessor.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Authority at the end of the lease period).

For plant and equipment the Authority has set a de-minimis level of £75,000 for leases to be recognised as finance leases.

The Authority is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are, therefore, substituted by a revenue contribution in the Council Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### Operating Leases

Payments for operating leases are charged to the relevant service line on an accruals basis. The charges are made evenly throughout the period of the lease.

## The Authority as Lessor

### Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement, as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the Council Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is transferred out of the Council Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is transferred out of the Council Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

## Accounting Policies, Critical Judgements and Assumptions

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the Council Fund Balance in the Movement in Reserves Statement.

### Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).

### 21. Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered, principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

### 22. Overheads and Support Services Costs

The costs of overheads and support services are allocated to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2015/16* (SERCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SERCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Net Cost of Services.

### 23. Prior Period Adjustments

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

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

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

### 24. Property, Plant, Equipment, Community and Heritage Assets

These assets are those that have physical substance used in the production or supply of goods or services, those intended to be held indefinitely and those for the promotion of culture and knowledge and expected to be used during more than one financial year.

## Accounting Policies, Critical Judgements and Assumptions

### Recognition:

Expenditure on the acquisition, creation or enhancement of such assets is capitalised on an accruals basis. All expenditure incurred on existing assets is assumed to result in enhancement of the asset and will be shown in the accounts as an addition to the asset. This, together with a 3-year rolling programme of revaluations, ensures that the values of land and buildings carried in the accounts are not materially misstated and ensures a sustainable cost/benefit approach to valuation and accounting for capital expenditure on land and buildings in the year.

Expenditure that maintains but does not add to an asset's potential to deliver benefits or service potential (i.e. repairs and maintenance) is charged to revenue as it is incurred.

The Council has a de-minimis policy of £1,000 with regards to the capitalisation of expenditure in connection with Council dwellings.

The Council recognises heritage assets where it may have incurred separately identifiable expenditure on their acquisition, or preservation at historic cost, or where it has information on the value of the asset.

The Council recognises Voluntary Aided, Voluntary Controlled and Foundation Schools on the Authority's Balance Sheet if it owns the land and can accordingly direct the use of the assets.

### Measurement:

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the specific asset into working condition for its intended use. The Council does not capitalise borrowing costs.

These assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure Assets – depreciated historical cost. Not all Highway Network Assets such as roads, structures and associated land are included in the Balance Sheet, as the balance sheet values reflect historic expenditure incurred on such assets from a point in time. Accordingly, the Balance Sheet does not represent the true value and size of infrastructure assets. This will change in future years, but until then the asset values presented in the accounts understate the real value of infrastructure assets held and used by the Council.
- Community Assets and Assets under Construction are included in the Balance Sheet at historic cost.
- Heritage Assets and their nature make determining a value for them complex. Valuations may lack reliability, there may be no market, providing an estimate of replacement cost may be difficult and the cost of determining a valuation for accounting purposes only may not be justified on cost benefit grounds. These difficulties are recognised by the Code and so many individual assets are not recorded in the accounts, but additional narrative disclosures are made about the nature and scale of such assets. Heritage assets are included at historic cost if included in the accounts and only measured at fair value where the benefits of doing so outweigh the costs.
- Council Dwellings – Existing Use Value for Social Housing (EUV-SH) This is the estimated amount for which a property should exchange, on the date of valuation, between a willing buyer and a willing seller, on the assumption that the property will continue to be let and used for social housing. The Council has used a discount factor of 40% (previously 41%) to adjust beacon values to existing use value.
- Surplus Assets are valued at Fair Value, based on highest and best use. The main types of assets held within this class include historic development land and buildings awaiting suitable open market disposal or use for identified schemes, sites held for the purpose of the Housing Partnership Programme Scheme, as well as former operational buildings awaiting disposal or alternative use.

All other assets are measured at Current Value. Where there is an active market for assets, Existing Use Value is used as the basis for determining current value. Where there is no market-based evidence, because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. For schools land and buildings, a detailed approach to DRC, known as Modern Equivalent Asset (MEA), is used, due to the much specialised nature of these assets. Non-property



## Accounting Policies, Critical Judgements and Assumptions

assets, such as plant and equipment, have short useful lives or low values (or both), and, therefore, depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at fair or current value are required to be revalued at least every five years. The Council must balance the requirement to ensure carrying amounts are not materially different from their fair or current value at the year-end, with the time, costs and resources involved in providing valuation services for accountancy purposes. It does this by:-

- Undertaking an annual impairment review of property with the Council's in-house valuation team to identify significant changes
- Using the experience and local knowledge of the in-house valuation team to provide valuation services to ensure financial services are made aware of all property issues affecting the Council
- Having an agreed rolling programme of revaluation which is shorter than the minimum 5 year cycle required by the Code in order to ensure there is sufficient, regular and consistent coverage of all classes of assets.

### Revaluation:

Where required by the Code, asset revaluations take place with an effective date of 1 April of the financial year and are undertaken by in-house professional valuers, all of whom are RICS registered.

Revaluations of the Council's property assets are undertaken on a 3 yearly rolling programme basis, at which point the revaluation takes into account the value and condition of the assets, relevant components and also de-recognition, where relevant. Where there is a major refurbishment of an asset, a new valuation will be sought in the year of completion and a revision is made to the useful life.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service line.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only; the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### Charges to Revenue for Non-Current Assets:

Service lines are debited with the following amounts to record the cost of holding assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Impairment losses on assets used by the service, where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

The Council is not required to raise Council Tax or rent to fund depreciation, impairment losses or amortisations. However, it is required to make a prudent provision from revenue towards the reduction in its overall requirement to borrow. Depreciation, impairment losses and amortisations are, therefore, replaced by this prudent provision in the Council Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### Impairment and Downward Revaluation:

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired in value, either due to a significant reduction in service potential, e.g. service delivery from that asset ceasing, or significant permanent market value reductions (downward revaluation). Where either type of loss is identified, they are accounted for by:

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

## Accounting Policies, Critical Judgements and Assumptions

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### Depreciation:

Depreciation is provided for on all Property, Plant and Equipment assets by an allocation of their depreciable amounts over their estimated useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land, heritage and community assets), as well as assets that are not yet available for use (i.e. assets under construction). For assets depreciated by the Council, it charges a full year's depreciation on capital expenditure incurred in the year.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets, and the depreciation that would have been chargeable based on their historical cost, being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Depreciation is calculated on the following bases:

Asset category	Initial Useful Life in years
Intangible Assets	3-5
Council Dwellings	50
Land	n/a
Buildings *	3-125
Vehicles, Plant, Furniture and Equipment	5-15
Infrastructure **	7-120
Community Assets, Investment Properties, Heritage Assets, Surplus Assets and Assets Held for Sale	n/a

\* Included within Buildings is City Hall with an initial useful life of 125 years

\*\* Included within Infrastructure is the Cardiff Bay Barrage, which is being depreciated over the design life of 120 years

### Component Accounting:

Where a single asset may have a number of different components, each having a different useful life, three factors are taken into account to determine whether a separate valuation of components is to be recognised in the accounts in order to provide an accurate figure for depreciation.

- Materiality with regards to the Council's financial statements. Componentisation will only be considered for individual non land assets that have a net book value of more than £1.5 million at the end of the financial year.
- Significance of component. For individual assets meeting the above threshold, where services within a building (Boilers / Heating / Lighting / Ventilation etc.), or items of fixed equipment (Kitchens / Cupboards) is a material component of the cost of that asset (> 30%), then those services/equipment will be valued separately on a component basis.
- Difference in rate or method of depreciation compared to the overall asset. Only those elements that normally depreciate at a significantly different rate from the non-land element as a whole, or that require a different method of depreciation will be identified for componentisation.

Assets that fall below the de-minimis levels, and the tests above, can be disregarded for componentisation on the basis that any adjustment to depreciation charges would not result in a material misstatement in the accounts.

Where assets are material and to be reviewed for significant components, it is recommended that the minimum level of apportionment for the non-land element of assets is:

- Plant and equipment and engineering services.

- Structure.

Professional judgement will be used in establishing materiality levels, the significance of components, useful lives, depreciation methods and apportioning asset values over recognised components.

### **25. Provisions**

Provisions are made when, as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount but the timing of the settlement is uncertain.

Provisions are charged as an expense to the appropriate service line in the year that the Authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision, which is held on the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and provisions that are no longer required are credited back to the relevant service line.

### **26. Revenue Expenditure Funded from Capital under Statute (REFCUS)**

Expenditure incurred during the year that may be capitalised under statutory provisions, but that does not result in the creation of a non-current asset, has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the Council Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

### **27. Reserves**

The Council sets aside amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the Council Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year. The reserve is then appropriated back into the Council Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure. Certain reserves are maintained to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and do not represent usable resources for the Authority.

### **28. Value Added Tax**

Value Added Tax payable is included as an expense only to the extent that is not recoverable from HMRC. VAT receivable is excluded from income.

# Accounting Policies, Critical Judgements and Assumptions

## Critical judgements in applying accounting policies

Accounting policies are only applied to material transactions of the Authority. In applying policies, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. Examples of critical judgements made in the Statement of Accounts are:

- Reducing levels of funding for local government require budget prioritisation and organisational development change to ensure resources are firmly aligned to priorities as outlined in the Corporate Plan. The Council continues to effectively manage its resources within this challenging environment. The continuing financial challenge will, over the medium term, have a significant impact on future operating structures and the assets used to deliver services. Consequently, the Council will put in place the necessary resources to ensure that a balanced budget can be delivered.
- It is assumed that where provision for doubtful debtors or impairment has not been made, all other deferred debtors and investment balances are recoverable and not impaired.
- The level of both Council and earmarked reserves held by the Council has been assessed by the Council's Section 151 Officer and is judged at present to be sufficient. Each request to establish an earmarked reserve is considered separately based on the evidence provided. It is the responsibility of the Section 151 Officer to advise Cabinet on the prudent level of reserves to hold and this is done following consideration and documentation of the risks the Council faces.
- All significant related parties are fully disclosed and figures included in the accounts produced by external organisations are robust and accurate.
- Provisions are made when clear and accurate information is available to do so. In the absence of this, creating a provision may be misleading and could have significant financial implications.
- It is assumed that the accounts for the year reflect all financial obligations under all contracts required to be met by the Council during the year and that the Council is compliant with all such obligations placed upon it.
- Where an accrual has been made for future pension strain liabilities as a result of voluntary severance, it is assumed that these costs are not included in calculation of the pensions liability carried out by the actuary.
- If information is misstated, omitted, incorrectly shown or not disclosed, it has the potential to influence or change the decisions or judgement taken by the majority of reasonable persons relying on the financial report or those charged with governance. The Council recognises that any materiality threshold should be based upon what will affect the users' decisions and not on the assessment of the preparers of the accounts. Materiality is a matter of professional judgement influenced by the characteristics of the entity and the perceptions as to who are, or are likely to be, the users of the financial report and their information needs. The Council gives consideration to a number of quantitative and qualitative factors in assessing whether a misstatement is material.

Where relevant, the notes to the accounts provide additional information on any risks and judgements.

## Accounting Policies, Critical Judgements and Assumptions

### Assumptions made about the future and other sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. Significant disclosures are already made in the accounts in relation to the assumptions about financial instruments. However the other items in the Authority's Balance Sheet for which, by their nature, there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainty	Effect if Actual Results Differ from Assumptions
Valuation of assets such as investments, land, property, plant, equipment and Investment in companies	Valuation involves assessment of a number of variables such as market conditions, useful life, cost of reconstruction, assessment of condition, use of a discount factor of 40% to adjust vacant possession values to existing use value for social housing etc. These assumptions are made by professional qualified in-house or external valuation providers or use of industry data in order to determine figures for the Statement of accounts and property transactions. Valuations are carried out within the Council by a qualified Chartered Surveyor, in accordance with the Practice Statements and Guidance notes set out in the Royal Institution of Chartered Surveyors (RICS) Valuation Standards (The Red Book) and any other relevant guidance. Where it is difficult to provide valuations e.g. valuations of the Council's shareholding in Cardiff City Transport Services Ltd, a guide such as multipliers of EBITDA are used.	Where required revaluations are carried out as part of a rolling programme. Any charges to services for non-current assets is required to be reversed out in the accounts, so this will not have an impact on Council Tax or rents. Any transactions involving disposals may be valued on a different basis and would be the subject of an open market disposal, with any revisions in value reflected in the Balance Sheet. Any change in the fair value of Cardiff City Transport Services Ltd as a result of the use of multipliers can be significantly variable, however has no impact on the level of Council Tax as changes are reflected by a corresponding amendment in the available for sale reserve. Changes in future accounting practice could mean changes in valuation basis of non-current assets and in which assets are required to be included on the Councils balance sheet and which are not. Any such changes will have no impact on the level of Council Tax or rent.
Provisions	The Authority makes a number of provisions for liabilities that it may face where a reasonable estimate of value can be made. In most cases these are subject to legal claims such as Insurance claims and other items as disclosed in the provisions note. Provisions relating to landfill sites, due to their significant value and long life are subject to a high level of estimation of future liabilities; this is detailed further in the provisions note.	The provisions are based on information known at the Balance Sheet date and best estimates and professional internal and external advice is used to determine value and number of provisions. The outcomes of such issues will have an impact on the Outturn of the Council in future years, however due to the uncertain nature of these events, are difficult to quantify.
Provisions in relation to arrears	At 31 March 2016, the Authority had amounts it was owed for items such as sundry debtors, Council Tax, Non Domestic Rates (NDR) and rents. After taking into account trends in past collection experience and other relevant	Improvements in collection will improve future reported Outturn position, however where customers are finding it difficult to pay for Council services, this will require increases in the level of provisions currently set aside.



## Accounting Policies, Critical Judgements and Assumptions

Item	Uncertainty	Effect if Actual Results Differ from Assumptions
	changes that may impact on collectability such as the economic climate, a level of impairment is assumed which may, or may not, be deemed to be sufficient.	
Debtors and Creditors	The level of debtors and creditors at the Balance Sheet date may need to be manually determined or estimated.	There is a risk of under/overstatement which would impact on current and future reported position of revenue Outturn or capital expenditure.
Employee leave benefits	The level of leave, flexi time and time in lieu owed to staff is based on a sample of staff and extrapolated to arrive at a figure for all employees. In calculating the accrual for school based teaching staff, the Council assumes that all are continuing in the profession after the date of the Balance Sheet.	The level of creditor accrual may be under or over estimated. This will have no impact on the reported Outturn position as statute allows the reversal of this figure to a reserve.
Pensions Liability	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 Authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions are difficult to measure as they interact in different ways.

## Movement in Reserves Statement

	Council Fund Balance £000	Council Fund Earmarked Reserves £000	HRA Balance £000	HRA Earmarked Reserves £000	Capital Receipts Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 31 March 2014 carried forward (Restated)</b>	<b>11,413</b>	<b>30,559</b>	<b>8,124</b>	<b>684</b>	<b>1,399</b>	<b>52,179</b>	<b>888,580</b>	<b>940,759</b>
<b>Movement in Reserves during 2014/15</b>								
Surplus or (deficit) on the provision of Services	(11,619)	0	4,696	0	0	(6,923)	0	(6,923)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	(51,290)	(51,290)
<b>Total Comprehensive Income and Expenditure</b>	<b>(11,619)</b>	<b>0</b>	<b>4,696</b>	<b>0</b>	<b>0</b>	<b>(6,923)</b>	<b>(51,290)</b>	<b>(58,213)</b>
Adjustments between accounting basis & funding basis under regulations (note 1)	16,625	0	(4,828)	0	(63)	11,734	(11,734)	0
<b>Net Increase/(Decrease) before Transfers to/(from) Earmarked Reserves</b>	<b>5,006</b>	<b>0</b>	<b>(132)</b>	<b>0</b>	<b>(63)</b>	<b>4,811</b>	<b>(63,024)</b>	<b>(58,213)</b>
Transfers to/(from) Earmarked Reserves (note 2)	(3,265)	3,265	446	(446)	0	0	0	0
Other Movements in Reserves	0	0	0	0	0	0	0	0
<b>Increase/(Decrease) in 2014/15</b>	<b>1,741</b>	<b>3,265</b>	<b>314</b>	<b>(446)</b>	<b>(63)</b>	<b>4,811</b>	<b>(63,024)</b>	<b>(58,213)</b>
<b>Balance at 31 March 2015 carried forward (Restated)</b>	<b>13,154</b>	<b>33,824</b>	<b>8,438</b>	<b>238</b>	<b>1,336</b>	<b>56,990</b>	<b>825,556</b>	<b>882,546</b>
<b>Movement in Reserves during 2015/16</b>								
Surplus or (deficit) on the provision of Services	(19,108)	0	(282,297)	0	0	(301,405)	0	(301,405)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	71,309	71,309
<b>Total Comprehensive Income and Expenditure</b>	<b>(19,108)</b>	<b>0</b>	<b>(282,297)</b>	<b>0</b>	<b>0</b>	<b>(301,405)</b>	<b>71,309</b>	<b>(230,096)</b>
Adjustments between accounting basis & funding basis under regulations (note 1)	39,022	0	283,013	0	4,087	326,122	(326,122)	0
<b>Net Increase/(Decrease) before Transfers to/(from) Earmarked Reserves</b>	<b>19,914</b>	<b>0</b>	<b>716</b>	<b>0</b>	<b>4,087</b>	<b>24,717</b>	<b>(254,813)</b>	<b>(230,096)</b>
Transfers to/(from) Earmarked Reserves (note 2)	(17,813)	17,813	(716)	716	0	0	0	0
<b>Increase/(Decrease) in 2015/16</b>	<b>2,101</b>	<b>17,813</b>	<b>0</b>	<b>716</b>	<b>4,087</b>	<b>24,717</b>	<b>(254,813)</b>	<b>(230,096)</b>
<b>Balance at 31 March 2016 carried forward</b>	<b>15,255</b>	<b>51,637</b>	<b>8,438</b>	<b>954</b>	<b>5,423</b>	<b>81,707</b>	<b>570,743</b>	<b>652,450</b>

# Comprehensive Income and Expenditure Statement

2014/15 Restated				Note	2015/16		
Gross Expenditure £000	Gross Income £000	2014/15 Net Expenditure £000			Gross Expenditure £000	Gross Income £000	2015/16 Net Expenditure £000
51,249	(17,958)	33,291	Central Services to the Public		47,725	(14,023)	33,702
58,205	(27,886)	30,319	Cultural & Related Services		59,698	(28,652)	31,046
58,066	(23,779)	34,287	Environmental & Regulatory Services		65,354	(35,041)	30,313
20,081	(19,905)	176	Planning Services		27,265	(23,349)	3,916
404,850	(98,971)	305,879	Children's & Education Services		404,374	(108,231)	296,143
64,252	(19,387)	44,865	Highways & Transport Services		64,534	(32,325)	32,209
69,971	(65,231)	4,740	Housing Revenue Account		161,634	(67,636)	93,998
181,640	(175,755)	5,885	Housing Services (Council Fund)		182,799	(177,143)	5,656
127,857	(25,777)	102,080	Adult Social Care		125,100	(22,556)	102,544
9,982	(2,004)	7,978	Corporate & Democratic Core		11,899	(396)	11,503
3,405	323	3,728	Non-Distributed Costs	3	3,656	3,798	7,454
0	0	0	Exceptional Item	3	187,392	0	187,392
<b>1,049,558</b>	<b>(476,330)</b>	<b>573,228</b>	<b>Net Cost of Services</b>	4	<b>1,341,430</b>	<b>(505,554)</b>	<b>835,876</b>
26,411	0	26,411	Police and Crime Commissioner for South Wales	6	27,880	0	27,880
256	0	256	Community Council Precepts	6	290	0	290
16,984	0	16,984	Levies & Contributions	6	16,798	0	16,798
1,586	(5,774)	(4,188)	(Gain)/loss on sale of non-current assets		10,618	(11,814)	(1,196)
<b>45,237</b>	<b>(5,774)</b>	<b>39,463</b>	<b>Other Operating Expenditure</b>		<b>55,586</b>	<b>(11,814)</b>	<b>43,772</b>
24,616	0	24,616	Interest Payable on debt	21	32,152	0	32,152
19,416	0	19,416	Interest on net defined benefit liability/(asset)	19	16,618	0	16,618
0	(1,091)	(1,091)	Interest & Investment Income		0	(1,272)	(1,272)
6,161	(12,391)	(6,230)	Change in fair value of Investment Properties		488	0	488
0	0	0	Other Investment Income		1,092	(1,282)	(190)
<b>50,193</b>	<b>(13,482)</b>	<b>36,711</b>	<b>Financing and Investment Income &amp; Expenditure</b>		<b>50,350</b>	<b>(2,554)</b>	<b>47,796</b>

## Comprehensive Income and Expenditure Statement

2014/15 Restated				Note	2015/16		
Gross Expenditure £000	Gross Income £000	2014/15 Net Expenditure £000			Gross Expenditure £000	Gross Income £000	2015/16 Net Expenditure £000
0	(28,165)	(28,165)	Recognised Capital Grants & Contributions		0	(25,304)	(25,304)
0	(326,291)	(326,291)	Revenue Support Grant	32	0	(322,851)	(322,851)
0	(109,695)	(109,695)	Non-Domestic Rates	9	0	(101,253)	(101,253)
779	(165,499)	(164,720)	Council Tax Income	8	1,834	(175,121)	(173,287)
0	(13,608)	(13,608)	Other Central Grants	32	0	(3,344)	(3,344)
<b>779</b>	<b>(643,258)</b>	<b>(642,479)</b>	<b>Taxation &amp; Non-Specific Grant Income</b>		<b>1,834</b>	<b>(627,873)</b>	<b>(626,039)</b>
		<b>6,923</b>	<b>(Surplus)/Deficit on Provision of Services</b>				<b>301,405</b>
		(937)	Revaluation Gains	31			(134,348)
		2,844	Revaluation Losses	31			73,310
		412	Impairment losses on non-current assets charged to the Revaluation Reserve	20			591
		(2,521)	(Surplus)/Deficit on revaluation of available for sale financial assets	31			1,484
		51,492	Actuarial (gains)/losses on pension assets/liabilities	19			(12,346)
		<b>51,290</b>	<b>Other Comprehensive Income &amp; Expenditure</b>				<b>(71,309)</b>
		<b>58,213</b>	<b>Total Comprehensive Income &amp; Expenditure</b>				<b>230,096</b>

## Balance Sheet

31 March 2015 Restated £000		Note	31 March 2016 £000
	<b>Property Plant &amp; Equipment:</b>	20	
569,012	Council Dwellings		529,464
765,665	Other Land and Buildings		744,171
14,989	Vehicles, Plant, Furniture & Equipment		15,446
308,666	Infrastructure		298,598
19,206	Community Assets		19,620
11,757	Assets under construction (AUC)		31,048
37,024	Surplus assets not held for sale		36,299
	<b>Heritage Assets</b>		
50,884	Heritage Assets	20	51,278
	<b>Investment Property</b>		
100,787	Investment Properties	20	110,471
	<b>Intangible Assets</b>		
4,346	Intangible assets including AUC	20	3,179
20,731	Long-term Investments		18,214
4,107	Long-term Debtors		6,081
<b>1,907,174</b>	<b>Total Long Term Assets</b>		<b>1,863,869</b>
42,122	Short-term Investments		54,215
3,040	Assets held for Sale	22	2,819
2,109	Inventories		2,139
91,045	Short-term Debtors	23	86,498
23,137	Cash and Cash Equivalents	24	17,352
<b>161,453</b>	<b>Total Current Assets</b>		<b>163,023</b>
(12,964)	Short-term Borrowing	21	(16,148)
(94,801)	Short-term Creditors	25	(85,297)
(2,830)	Pension Strain	28	(2,354)
(9,011)	Provisions	27	(10,486)
(1,024)	Deferred Liabilities	29	(986)
<b>(120,630)</b>	<b>Total Current Liabilities</b>		<b>(115,271)</b>
(464,808)	Long-term Borrowing	21	(659,408)
(31,399)	Provisions	27	(28,325)
(7,217)	Deferred Liabilities	29	(6,617)
(10,095)	Capital Contributions Receipts in Advance	32	(9,933)
(3,734)	Revenue Grants Receipts in Advance	32	(2,526)
(2,160)	Capital Grants Receipts in Advance	32	(1,791)



## Balance Sheet

31 March 2015 Restated £000		Note	31 March 2016 £000
(6,252)	Pensions Strain	28	(4,891)
(539,786)	Net Pensions Liability	19	(545,680)
<b>(1,065,451)</b>	<b>Total Long-Term Liabilities</b>		<b>(1,259,171)</b>
<b>882,546</b>	<b>NET ASSETS</b>		<b>652,450</b>
	<b>Financed by:</b>		
13,154	Council Fund Balance		15,255
33,824	Council Fund Earmarked Reserves		51,637
8,438	Housing Revenue Account Balance		8,438
238	Housing Revenue Account Earmarked Reserves		954
1,336	Capital Receipts Reserve		5,423
<b>56,990</b>	<b>Usable Reserves</b>	30	<b>81,707</b>
201,371	Revaluation Reserve		254,122
1,164,708	Capital Adjustment Account		856,975
87	Deferred Capital Receipts		2,049
18,295	Available for Sale Financial Instruments Reserve		16,811
(2,367)	Financial Instruments Adjustment Account		0
(548,868)	Pensions Reserve		(552,925)
(7,670)	Accumulated Absences Adjustment Account		(6,289)
<b>825,556</b>	<b>Unusable Reserves</b>	31	<b>570,743</b>
<b>882,546</b>	<b>TOTAL RESERVES</b>		<b>652,450</b>

## Cash Flow Statement

2014/15 £000		Note	2015/16 £000
<b>6,923</b>	<b>Net (Surplus) /Deficit on the provision of services</b>		<b>301,405</b>
(89,240)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	34	(187,743)
19,305	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	34	(172,729)
<b>(63,012)</b>	<b>Net cash flows from operating activities</b>		<b>(59,067)</b>
(1,112)	Interest Received		(1,196)
24,728	Interest Paid		30,034
(86,628)	Net cash flow from other operating activities		(87,905)
<b>67,618</b>	<b>Investing activities</b>		<b>273,925</b>
70,700	Purchase of property, plant and equipment, investment property and intangible assets		87,384
29,047	Purchase of short-term and long-term Investments		31,146
9,922	Other payments for investing activities		199,989
(5,774)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets		(9,814)
(33,754)	Capital Grants		(31,744)
(2,523)	Capital Contributions		(1,504)
0	Proceeds from short-term and long-term investments		(1,282)
0	Other receipts from investing activities		(250)
<b>14,018</b>	<b>Financing activities</b>		<b>(209,073)</b>
(5,700)	Cash receipts from short-term and long-term borrowing		(201,611)
0	Other receipts from financing activities		(13,454)
0	Cash payments for the reduction of outstanding liabilities relating to finance leases		0
7,820	Repayments of short-term and long-term borrowing		5,992
11,898	Other payments for financing activities		0
<b>(18,624)</b>	<b>Net (increase)/ decrease in cash and cash equivalents</b>		<b>5,785</b>
<b>41,761</b>	<b>Cash and cash equivalents at the beginning of the reporting period</b>		<b>23,137</b>
<b>23,137</b>	<b>Cash and cash equivalents at the end of the reporting period represented by:</b>		<b>17,352</b>
182	Cash		233
11,051	Bank (including cheque book schools)		13,108
11,904	Short-term deposits with banks and building societies		4,011

# Notes to the Core Financial Statements

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## Notes to the Core Financial Statements

### 1. Adjustments between Accounting Basis and Funding Basis under Regulations

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

2015/16	Usable Reserves			Movement in Unusable Reserves £000
	Council Fund Balance	Housing Revenue Account	Capital Receipts Reserves	
	£000	£000	£000	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation and impairment of Non-Current Assets	44,012	12,134	0	(56,146)
Revaluation losses of Non-Current Assets	21,688	108,260	0	(129,948)
Reverse previous impairment on revaluation	(6,843)	(345)	0	7,188
Amortisation of Intangible Assets	1,104	120	0	(1,224)
Movements in the market value of Investment Properties	488	0	0	(488)
Movement in the value of Held for Sale Assets	904	0	0	(904)
Capital grants and contributions applied	(15,122)	(10,181)	0	25,303
Revenue expenditure funded from capital under statute	4,879	187,392	0	(192,271)
Amount of Non-Current Assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	5,938	522	0	(6,460)
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Statutory provision for the financing of capital investment	(23,664)	(7,912)	0	31,576
Statutory repayment of debt (Finance Lease liabilities)	0	0	0	0
Capital expenditure charged against the Council Fund and HRA balances	(1,136)	(4,818)	0	5,954
Use of the Capital Receipts Reserves to finance new capital expenditure	0	0	(5,857)	5,857
Credit for disposal costs that qualify to be met from the resulting capital receipts	0	32	(32)	0
Capital receipts set aside for the repayment of debt	48	0	(1,433)	1,385
<b>Adjustments involving the Revaluation Reserve</b>				
Amount of Non-Current Assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement/Recoupment of Grant/Other	(3,741)	(2,380)	11,371	(5,250)
<b>Adjustments involving the Financial Instruments Adjustment Account</b>				
Amortisation of Premiums and Discounts	(2,400)	33	0	2,367
<b>Adjustments involving the Pensions Reserve:</b>				
Net retirement benefits as per IAS19	57,077	2,814	0	(59,891)
Employer's contributions to the Pension Scheme	(39,020)	(2,630)	0	41,650
Pension strain future years	(1,781)	(56)	0	1,837
<b>Adjustments involving the Accumulating Compensated Absences Adjustment Account</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on	(1,409)	28	0	1,381

## Notes to the Core Financial Statements

2015/16	Usable Reserves			Movement in Unusable Reserves
	Council Fund Balance	Housing Revenue Account	Capital Receipts Reserves	
	£000	£000	£000	
an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.				
<b>Adjustments involving the Deferred Capital Receipts Reserve</b>				
Transfers to the Capital Receipts Reserve upon receipt of cash	0	0	38	(38)
Transfers to the Deferred Capital Receipts Reserve in relation to gain/loss on disposal	(2,000)	0	0	2,000
<b>Total Adjustments</b>	<b>39,022</b>	<b>283,013</b>	<b>4,087</b>	<b>(326,122)</b>

### Comparative Movements in 2014/15

2014/15	Usable Reserves			Movement in Unusable Reserves
	Council Fund Balance	Housing Revenue Account	Capital Receipts Reserves	
	£000	£000	£000	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation and impairment of Non-Current Assets	47,830	14,475	0	(62,305)
Revaluation losses of Non-Current Assets	780	1,380	0	(2,160)
Reverse previous impairment on revaluation	(950)	(1)	0	951
Amortisation of Intangible Assets	801	45	0	(846)
Movements in the market value of Investment Properties	(6,310)	80	0	6,230
Movement in the value of Held for Sale Assets	504	0	0	(504)
Capital grants and contributions applied	(16,685)	(11,480)	0	28,165
Revenue expenditure funded from capital under statute	396	353	0	(749)
Amount of Non-Current Assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	268	1,145	0	(1,413)
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Statutory provision for the financing of capital investment	(23,374)	(2,899)	0	26,273
Statutory repayment of Debt (Finance Lease liabilities)	0	0	0	0
Capital expenditure charged against the Council Fund and HRA balances	(1,819)	(3,761)	0	5,580
Use of the Capital Receipts Reserves to finance new capital expenditure	0	0	(4,753)	4,753
Credit for disposal costs that qualify to be met from the resulting capital receipts	0	35	(35)	0
Capital Receipts set aside for the repayment of debt	113	0	(1,231)	1,118
<b>Adjustments involving the Revaluation Reserve</b>				



## Notes to the Core Financial Statements

2014/15	Usable Reserves			Movement in Unusable Reserves £000
	Council Fund Balance	Housing Revenue Account	Capital Receipts Reserves	
	£000	£000	£000	
Amount of Non-Current Assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement/Recoupment of Grant/Other	(1,802)	(3,964)	5,939	(173)
<b>Adjustments involving the Financial Instruments Adjustment Account</b>				
Amortisation of Premiums and Discounts	(340)	(2)	0	342
<b>Adjustments involving the Pensions Reserve:</b>				
Net retirement benefits as per IAS19	55,881	1,290	0	(57,171)
Employer's contributions to the Pension Scheme	(40,396)	(1,507)	0	41,903
Pension strain future years	844	(14)	0	(830)
<b>Adjustments involving the Accumulating Compensated Absences Adjustment Account</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.	884	(3)	0	(881)
<b>Adjustments involving the Deferred Capital Receipts Reserve</b>				
Transfers to the Capital Receipts Reserve upon receipt of cash	0	0	17	(17)
<b>Total Adjustments</b>	<b>16,625</b>	<b>(4,828)</b>	<b>(63)</b>	<b>(11,734)</b>

### 2. Earmarked Reserves

This note sets out the amount set aside from the Council Fund and HRA balances in earmarked reserves to fund future expenditure plans and the amounts used from earmarked reserves to meet Council Fund and HRA expenditure in 2015/16.

	Balance	Contributions		Balance
	31 March 2015 £000	From Revenue £000	To Revenue £000	31 March 2016 £000
<b>SCHOOLS BALANCES</b>				
Schools Reserves	(613)	4,011	(1,671)	1,727
Cathays HS – Maintenance of Playing Field	3	0	0	3
Primary/Special Schools Repairs	95	509	(582)	22
	<b>(515)</b>	<b>4,520</b>	<b>(2,253)</b>	<b>1,752</b>
<b>SCHOOLS RESERVES</b>				
Schools Formula Funding	1,687	1,001	(760)	1,928
Out of School Childcare	111	25	(17)	119
Schools Catering	544	160	0	704
Schools Organisational Plan*	4,006	10,157	(6,040)	8,123
Special Educational Needs Unit	102	0	0	102
	<b>6,450</b>	<b>11,343</b>	<b>(6,817)</b>	<b>10,976</b>
<b>OTHER EARMARKED RESERVES</b>				
Apprenticeship	482	0	(55)	427

## Notes to the Core Financial Statements

	Balance	Contributions		Balance
	31 March 2015 £000	From Revenue £000	To Revenue £000	31 March 2016 £000
Bereavement Services	21	227	(205)	43
Building Control Fee Earning	381	213	0	594
Bute Park Match Funding	228	0	(25)	203
Cardiff Academy Training	95	50	0	145
Cardiff Dogs Home Legacy	33	85	0	118
Cardiff Enterprise Zone	2,929	624	(38)	3,515
Cardiff Insurance	4,245	1,542	(3)	5,784
Central Market Minor Works	1	41	0	42
Central Transport Service	166	402	0	568
City Deal	150	18	(55)	113
City Wide Management and Initiatives	45	479	(45)	479
Community Based Transitional	474	0	0	474
Community Safety	30	51	0	81
Connect to Cardiff Refurbishment	120	0	(110)	10
Corporate Events and Cultural Services	0	680	0	680
Discretionary Rate Relief	100	0	0	100
Emergency Management, Safeguarding and Prevent	125	148	(61)	212
Employee Changes	81	1,632	(81)	1,632
Energy Conservation	208	500	(190)	518
Energy/Carbon Reduction	789	0	(339)	450
Equal Pay	282	0	0	282
Flatholm	24	0	0	24
Fraud Detection	193	0	0	193
Harbour Authority	697	10	(63)	644
Highways Local Government Borrowing Initiative	1,047	1,047	(1,047)	1,047
HMO Licensing	63	0	0	63
Homelessness*	1,188	364	0	1,552
House Mortgage	29	0	0	29
Housing Options Centre *	694	501	(136)	1,059
Housing Support*	1,382	348	(326)	1,404
ICT Holding Account	206	582	(4)	784
Inspectorate Support	336	0	(28)	308
Integrated Partnership Strategy	31	0	0	31
Invest to Save	350	0	0	350
Joint Equipment Store	126	69	0	195
Kitchen Improvement	332	125	0	457
Legal Services	260	200	0	460
Local Lend a Hand Mortgage Scheme	132	45	0	177
Local Plan	170	0	(72)	98
Major Projects	1,705	0	(484)	1,221
Members Development	45	50	(14)	81
Municipal Election	293	351	(45)	599

## Notes to the Core Financial Statements

	Balance	Contributions		Balance
	31 March 2015 £000	From Revenue £000	To Revenue £000	31 March 2016 £000
Non-Domestic Rates Due Diligence	60	0	0	60
Organisational Development Programme	1,232	106	(61)	1,277
Parking & Enforcement	69	4,957	(4,656)	370
Projects, Design & Development - Impact on Design	75	62	0	137
Public Service Board Initiative	46	0	0	46
Property Asset Management	22	107	0	129
Registration Service Improvement	46	0	0	46
Resources	992	664	(75)	1,581
Scrutiny Development & Training	72	10	0	82
Social Care Technology	761	0	0	761
Waste Management/Prosiect Gwyrdd	2,020	1,704	(1,154)	2,570
Welfare Reform	1,608	1,799	0	3,407
Workshops Asset Maintenance	12	0	0	12
Youth and Community Education	259	190	0	449
	<b>27,562</b>	<b>19,983</b>	<b>(9,372)</b>	<b>38,173</b>
<b>CARDIFF'S SHARE OF RESERVES OF JOINT COMMITTEES</b>				
Central South Consortium	170	0	(28)	142
Glamorgan Archives	98	0	(1)	97
Prosiect Gwyrdd	37	24	0	61
Regional Adoption Service	0	50	0	50
Shared Regulatory Service	0	386	0	386
Welsh Purchasing Consortium	22	0	(22)	0
	<b>327</b>	<b>460</b>	<b>(51)</b>	<b>736</b>
<b>Total Council Fund Reserves</b>	<b>33,824</b>	<b>36,306</b>	<b>(18,493)</b>	<b>51,637</b>
<b>HOUSING REVENUE ACCOUNT (HRA) RESERVES</b>				
Repairs & Building Maintenance Services	0	516	0	516
IT Reserve	238	0	0	238
Tackling Overcrowding	0	200	0	200
<b>Total HRA Reserves</b>	<b>238</b>	<b>716</b>	<b>0</b>	<b>954</b>
<b>TOTAL EARMARKED RESERVES</b>	<b>34,062</b>	<b>37,022</b>	<b>(18,493)</b>	<b>52,591</b>

\* Reserves that had previously been temporarily utilised to fund voluntary severance costs have now been fully repaid.

Details are given below for reserves in excess of £500,000.

The **Schools' Balances** figure of £1.727 million debit consists of two elements. Under Local Management of Schools regulations, schools are able to carry forward surpluses and deficits. These are committed to be spent on schools and are not available to the Council for general use. As at 31 March 2016 Schools' own balances, including the balances of nursery schools amounted to a surplus of £2.522 million for **individual schools** (£1.287 million in 2014/15 surplus). However, a deficit balance of £794,000 (£1.9 million in 2014/15) exists, which is the amount of severance and exit costs paid out in 2014/15 remaining to be paid back by schools over the next two financial years. In addition, the Council has established reserves to allow for contingencies affecting schools. Details of individual school balances will be available from 30 September 2016 on the Council's Schools Budget Forum website.

## Notes to the Core Financial Statements

**Schools Formula Funding Reserve** - to deal with costs arising from schools that are unable to be met from the funding formula budget.

**Schools Organisational Plan Reserve** - to fund the capital charges and other costs associated with schools reorganisation resulting from investment in the Schools Organisation Plan and 21<sup>st</sup> Century Schools.

**Building Control Fee Earning Reserve** – represents historic surpluses relating to the ringfenced building control account which will be used to smooth the effects of any future deficits.

**Cardiff Enterprise Zone Reserve** - to support economic regeneration in the vicinity of Cardiff Central Station and to create a new capital city gateway based around a modern public transport interchange.

**Cardiff Insurance Reserve** - to protect the Council from potential future liabilities based on current insurance policies.

**Central Transport Service Reserve** - to fund initiatives and costs in connection with the Council's vehicle fleet management.

**Corporate Events & Cultural Services Reserve** – to fund costs associated with events within Cardiff and any cultural initiatives.

**Employee Changes Reserve** - to meet the costs associated with Voluntary Severance and other employee costs.

**Energy Conservation Reserve** - to fund initiatives in connection with energy conservation.

**Harbour Authority Project & Contingency Fund** - to fund initiatives and one-off costs in connection with the Cardiff Harbour Authority.

**Highways Local Government Borrowing Initiative Reserve** - to fund future years' revenue borrowing costs arising from the Welsh Government Local Government Borrowing Initiative for Highways.

**Homelessness Reserve** - to deal with pressures on homelessness in the city. Further pressures are predicted due to the effects of welfare reforms and the introduction of universal credits.

**Housing Options Centre Reserve** - to fund the capital financing loan charges incurred in building the new Housing Options Centre.

**Housing Support Reserve** - to support initiatives and projects aimed at maintaining people's independence in their own homes.

**ICT Holding Account Reserve** – to fund initiatives and costs in connection with the Council's use of technology.

**Major Projects Reserve** - to support the costs of major projects.

**Municipal Election Reserve** – to fund costs associated with future Council elections.

**Organisational Development Programme Reserve** - to review the shape and scope of the organisation, the way in which services are delivered, and to implement a new organisational model in order to respond to the current financial challenges. The Organisational Development Programme Reserve provides support to the projects within this programme through the funding of any additional resources, expertise or professional advice that may be required.

## Notes to the Core Financial Statements

**Resources Reserve** - brings together existing earmarked reserves across the Directorate and includes various initiatives such as Office Rationalisation, Human Resources and Enterprise Architecture. It will also be used to enable future flexibility and support in respect of financial resilience.

**Waste Management/Prosiect Gwyrdd Reserve** - to mitigate the financial impact associated with the volatility of waste tonnages.

**Welfare Reform Reserve** - to fund costs arising in connection with potential future welfare reform and the Council Tax Reduction Scheme.

**Cardiff's share of reserves of Joint Committees** - represents the Council's percentage share of the accumulated balances and reserves of the Joint Committees of which it is a member.

**Repairs & Building Maintenance Reserve (HRA)** - to fund costs arising in connection with repairs to Council dwellings.

### Parking & Enforcement Reserve

This reserve is generated from surpluses achieved from Civil Parking Enforcement (CPE). The use of any surplus is governed by Section 55 of the Road Traffic Regulations Act 1984 which specifies that the surplus may be used to fund operational costs including subsidising the enforcement service, supporting public passenger transport services, transport planning and road safety, maintaining off-street car parks and highway and environmental maintenance and improvements.

2014/15 £000		2015/16 £000
	<b>Income</b>	
(3,917)	On-street pay car parking fees	(4,271)
(2,077)	Penalty charge notices	(2,085)
(254)	Residents parking permits	(309)
(667)	Off-Street car parking fees	(805)
(848)	Moving Traffic Offences	(2,840)
(54)	Other income	(2)
<b>(7,817)</b>	<b>Total Income</b>	<b>(10,312)</b>
	<b>Expenditure</b>	
1,341	Operational costs and Traffic Regulation Orders	1,484
2,602	Enforcement service	3,871
<b>3,943</b>	<b>Total Expenditure</b>	<b>5,355</b>
<b>(3,874)</b>	<b>Civil Parking Enforcement Net (Surplus)/Deficit</b>	<b>(4,957)</b>
	Appropriations to Parking Reserve:	
<b>121</b>	<b>Balance 1 April 2015</b>	<b>69</b>
3,874	Contributions from CPE	4,957
(3,926)	Contributions to revenue*	(4,656)
<b>69</b>	<b>Balance 31 March 2016</b>	<b>370</b>

\* Eligible expenditure totalling £4.656 million was drawn down from the reserve leaving a balance of £370,000 at the 31 March 2016. The budgeted drawdown of £4.656 million was used to support a range of Council services including on-going support and improvements to transport, parking, highways and environmental services.



### 3. Non-Distributed Costs and Exceptional Items

Non-Distributed Costs (NDC) amount includes expenditure of £3.419 million in relation to IAS 19 past service costs, £4.084 million in relation to accommodation and income of £49,000 income in relation to Carbon Reduction.

The Exceptional Item in 2015/16 amounts to £187.392 million and relates to the Council's settlement payment to Welsh Government to facilitate the exit of the HRA Subsidy System. Whilst this means that the Council will no longer have to pay over part of its rental income to Welsh Government in the form of a subsidy payment, the Council will have to pay additional costs for the borrowing undertaken to fund this payment. This includes additional costs for interest and also setting aside from any income additional amounts for reducing the amount borrowed and outstanding. Any financial benefit from this transaction on an ongoing basis is proposed to be re-invested into the housing stock.

### 4. Amounts reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice 2015/16. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across Directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

The service analysis, HRA and Harbour figures in the first two columns of the reconciliation to subjective analysis tables on pages 52 to 53 are based on the reported Outturn for Council Fund services which was reported to the Cabinet Meeting of the Council in June 2016. The Outturn for the Housing Revenue Account (HRA) is reported separately at the same meeting. These figures include some depreciation charges and the corresponding reversing entry which is required in order to neutralise the impact on Council Tax.

#### Not included in Net Cost of Services

Certain types of income and expenditure which are included in the reported Outturn are required to be excluded from the Net Cost of Services and shown as either corporate amounts or included in the unusable reserves. These include the following:

- Employers pension contributions
- Appropriations to earmarked reserves and balances
- Direct revenue financing costs
- Voluntary revenue provision made by Directorates
- Transfers to capital reserves included in HRA and Harbour revenue accounts
- Interest payable and receivable
- Precepts and levies

#### Amounts not reported to management for decision making

Items included in the above classification mainly cover adjustments that are required under the Code.

The following are reversed out in the statutory adjustment accounts ensuring that they do not impact on Council tax:

- Adjustments required under IAS19 in respect of accounting for pension costs and accruing for untaken leave.
- Other items including the reclassification of certain operating lease rentals into finance leases; elimination of agency expenditure and income; a reclassification between income and expenditure.

Other items include:

- The Council's share of the transactions of those Joint Committees of which it is a member are required to be added into its Comprehensive Income and Expenditure Statement on a line-by-line basis instead of being shown as a contribution to each Joint Committee.
- Additional capital journals that are input as 'technical adjustments' after the reported Outturn is determined.

## Notes to the Core Financial Statements

### Adjustment for recharges

The presentation of figures in the Council's Outturn report is based on the cash limit budgets of Directorates. Support service recharges are largely shown in the directorate that is responsible for the expenditure. However, some internal income is netted off against expenditure.

In the Comprehensive and Income Expenditure Statement all internal recharging between Directorates is eliminated.

### Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of Directorate income and expenditure relate to amounts included in the Comprehensive Income and Expenditure Statement.

2014/15 £000		2015/16 £000
583,547	Net expenditure in Service Area Analysis (including Harbour)	568,523
(314)	Services not included in Service Area Analysis (HRA)	0
(16,893)	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	388,983
6,888	Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(121,630)
0	Amounts in respect of presentation of internal recharges	0
<b>573,228</b>	<b>Net Cost of Services in Comprehensive Income &amp; Expenditure Statement</b>	<b>835,876</b>

The income and expenditure of the Council's principal Directorates recorded in the budget reports for 2015/16 is as follows:

	Social Services £000	Education* £000	City Operations £000	Economic Development £000	Communities, Housing & Customer Services £000	Resources £000	Other Service Areas (including Harbour) £000	Total £000
Fees, charges and other service income	(6,011)	(23,094)	(46,757)	(30,442)	(7,403)	(6,239)	(5,488)	<b>(125,434)</b>
Government grants	(13,530)	(53,781)	(28,058)	(930)	(178,878)	(14,905)	(11,001)	<b>(301,083)</b>
<b>Total Income</b>	<b>(19,541)</b>	<b>(76,875)</b>	<b>(74,815)</b>	<b>(31,372)</b>	<b>(186,281)</b>	<b>(21,144)</b>	<b>(16,489)</b>	<b>(426,517)</b>
Employee expenses	32,738	229,958	50,223	12,116	23,347	30,639	8,957	<b>387,978</b>
Other service expenses	127,347	77,957	66,801	20,915	209,044	20,164	83,222	<b>605,450</b>
Support service recharges	1,521	3,439	7,693	459	(20)	(14,059)	2,579	<b>1,612</b>
<b>Total Expenditure</b>	<b>161,606</b>	<b>311,354</b>	<b>124,717</b>	<b>33,490</b>	<b>232,371</b>	<b>36,744</b>	<b>94,758</b>	<b>995,040</b>
<b>Net Expenditure</b>	<b>142,065</b>	<b>234,479</b>	<b>49,902</b>	<b>2,118</b>	<b>46,090</b>	<b>15,600</b>	<b>78,269</b>	<b>568,523</b>

\*Staff employed at Voluntary Aided/Foundation schools are not employees of the Authority. However, within the figures above they have been included as if they were.

## Notes to the Core Financial Statements

Comparative data for 2014/15 is as follows:

	Social Services £000	Education* £000	City Operations £000	Economic Development £000	Communities, Housing & Customer Services £000	Resources £000	Other Service Areas (including Harbour) £000	Total £000
Fees, charges and other service income	(6,359)	(28,590)	(45,493)	(28,773)	(15,810)	(7,477)	(4,978)	(137,480)
Government grants	(12,947)	(50,225)	(13,443)	(917)	(180,359)	(15,752)	(11,123)	(284,766)
<b>Total Income</b>	<b>(19,306)</b>	<b>(78,815)</b>	<b>(58,936)</b>	<b>(29,690)</b>	<b>(196,169)</b>	<b>(23,229)</b>	<b>(16,101)</b>	<b>(422,246)</b>
Employee expenses	36,902	233,386	58,372	12,516	29,351	33,247	9,447	413,221
Other service expenses	123,010	70,650	59,133	20,301	213,272	22,891	82,175	591,432
Support service recharges	1,977	5,537	7,947	495	578	(14,265)	(1,129)	1,140
<b>Total Expenditure</b>	<b>161,889</b>	<b>309,573</b>	<b>125,452</b>	<b>33,312</b>	<b>243,201</b>	<b>41,873</b>	<b>90,493</b>	<b>1,005,793</b>
<b>Net Expenditure</b>	<b>142,583</b>	<b>230,758</b>	<b>66,516</b>	<b>3,623</b>	<b>47,031</b>	<b>18,644</b>	<b>74,393</b>	<b>583,547</b>

\*Staff employed at Voluntary Aided/Foundation schools are not employees of the Authority. However, within the figures above they have been included as if they were.

## Notes to the Core Financial Statements

### Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2015/16	Directorate analysis (including Harbour) £000	HRA £000	Not included in Net Cost of Services £000	Allocation of recharges £000	Not reported to management for decision making £000	Net Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(106,399)	(67,139)	(4,587)	166,029	(187,091)	<b>(199,187)</b>	0	<b>(199,187)</b>
Interest & investment income	(999)	(72)	1,067	0	4	0	(1,462)	<b>(1,462)</b>
Income from Council Tax	0	0	0	0	0	0	(173,288)	<b>(173,288)</b>
Government grants & contributions	(301,083)	(643)	29,095	0	(33,736)	<b>(306,367)</b>	(452,751)	<b>(759,118)</b>
Capital Financing reversals (Net)	(18,036)	(32)	18,068	0	0	0	0	0
Gain/loss on disposal of non-current assets	0	0	1,479	0	(1,479)	0	(1,196)	<b>(1,196)</b>
<b>Total Income</b>	<b>(426,517)</b>	<b>(67,886)</b>	<b>45,122</b>	<b>166,029</b>	<b>(222,302)</b>	<b>(505,554)</b>	<b>(628,697)</b>	<b>(1,134,251)</b>
Employee expenses	387,977	17,247	0	(12,129)	17,949	<b>411,044</b>	0	<b>411,044</b>
Other service expenses	505,832	17,750	(728)	(84,819)	110,836	<b>548,871</b>	0	<b>548,871</b>
Support service recharges	1,612	6,458	(19,032)	(61,893)	72,855	0	0	0
Depreciation, amortisation, impairment & REFCUS	0	0	0	(7,188)	388,703	<b>381,515</b>	0	<b>381,515</b>
Interest payments	19,137	13,015	(32,152)	0	0	0	32,152	<b>32,152</b>
Interest on net defined benefit liability/asset	0	0	(16,610)	0	16,610	0	16,618	<b>16,618</b>
Precepts & levies	16,798	0	(16,798)	0	0	0	44,968	<b>44,968</b>
Change in fair value of investment properties	0	0	(488)	0	488	0	488	<b>488</b>
Capital financing	63,684	13,416	(77,479)	0	379	0	0	0
<b>Total expenditure</b>	<b>995,040</b>	<b>67,886</b>	<b>(163,287)</b>	<b>(166,029)</b>	<b>607,820</b>	<b>1,341,430</b>	<b>94,226</b>	<b>1,435,656</b>
<b>(Surplus)/deficit on provision of services</b>	<b>568,523</b>	<b>0</b>	<b>(118,165)</b>	<b>0</b>	<b>385,518</b>	<b>835,876</b>	<b>(534,471)</b>	<b>301,405</b>

## Notes to the Core Financial Statements

2014/15	Directorate analysis (including Harbour) £000	HRA £000	Not included in Net Cost of Services £000	Allocation of recharges £000	Not reported to management for decision making £000	Net Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(109,208)	(64,674)	2,097	168,892	(183,915)	<b>(186,808)</b>	0	<b>(186,808)</b>
Interest & investment income	(165)	(65)	68	0	162	<b>0</b>	(1,091)	<b>(1,091)</b>
Income from Council Tax	0	0	0	0	0	<b>0</b>	(164,720)	<b>(164,720)</b>
Government grants & contributions	(284,766)	(748)	12,262	0	(16,270)	<b>(289,522)</b>	(477,759)	<b>(767,281)</b>
Capital Financing reversals (Net)	(28,107)	(481)	23,224	0	5,364	<b>0</b>	0	<b>0</b>
Change in fair value of investment properties	0	0	(80)	0	80	<b>0</b>	(6,230)	<b>(6,230)</b>
Gain/loss on disposal of fixed assets	0	0	(4,189)	0	4,189	<b>0</b>	(4,188)	<b>(4,188)</b>
<b>Total Income</b>	<b>(422,246)</b>	<b>(65,968)</b>	<b>33,382</b>	<b>168,892</b>	<b>(190,390)</b>	<b>(476,330)</b>	<b>(653,988)</b>	<b>(1,130,318)</b>
Employee expenses	413,221	10,487	0	(14,723)	15,253	<b>424,238</b>	0	<b>424,238</b>
Other service expenses	498,663	37,910	(1,870)	(96,608)	122,359	<b>560,454</b>	0	<b>560,454</b>
Support service recharges	1,140	5,789	(2,111)	(56,611)	51,793	<b>0</b>	0	<b>0</b>
Depreciation, amortisation, impairment & REFCUS	0	0	0	(950)	65,816	<b>64,866</b>	0	<b>64,866</b>
Interest payments	19,818	4,806	(4,806)	0	(19,818)	<b>0</b>	24,616	<b>24,616</b>
Interest on net defined benefit liability/asset	0	0	0	0	0	<b>0</b>	19,416	<b>19,416</b>
Precepts & levies	16,984	0	0	0	(16,984)	<b>0</b>	43,651	<b>43,651</b>
Capital financing	55,967	6,662	(17,707)	0	(44,922)	<b>0</b>	0	<b>0</b>
<b>Total expenditure</b>	<b>1,005,793</b>	<b>65,654</b>	<b>(26,494)</b>	<b>(168,892)</b>	<b>173,497</b>	<b>1,049,558</b>	<b>87,683</b>	<b>1,137,241</b>
<b>(Surplus)/deficit on provision of services</b>	<b>583,547</b>	<b>(314)</b>	<b>6,888</b>	<b>0</b>	<b>(16,893)</b>	<b>573,228</b>	<b>(566,305)</b>	<b>6,923</b>



## Notes to the Core Financial Statements

### 5. Harbour Authority & Associated Activities

Income, expenditure and assets relating to functions transferred to the Council following the winding up of Cardiff Bay Development Corporation (CBDC) on 31 March 2000 are included within the Council's overall accounts. However a separate set of accounts are required to be prepared in accordance with the Harbours Act 1964 and can be seen from page 187. It should be noted that the Harbour Authority accounts have been prepared on a Companies Act 2006 basis and not in accordance with the Code.

### 6. Precepts and Levies

	2014/15 £000	2015/16 £000
<b>Precepts</b>		
Police and Crime Commissioner for South Wales	26,411	27,880
Community Councils:		
Lisvane	34	34
Pentyrch	80	85
Radyr	79	108
St Fagans	18	18
Old St Mellons	26	26
Tongwynlais	19	19
	<b>26,667</b>	<b>28,170</b>
<b>Levies &amp; Contributions</b>		
South Wales Fire & Rescue Service	16,650	16,507
Natural Resources Wales	171	141
Cardiff Port Health Authority	158	144
Newport Health Authority	5	6
	<b>16,984</b>	<b>16,798</b>

### 7. Participation in Joint Committees

During 2015/16 the Council was lead Authority (\*) for three Joint Committees and a member authority of three others. The table below shows the revenue contributions made to these Committees:

Committee	Purpose	2014/15 £000	2015/16 £000
Glamorgan Archives*	Management and administration of the Glamorgan Records Office (GRO)	218	218
Prosiect Gwyrdd*	To manage residual waste treatment facility	26	49
Welsh Purchasing Consortium*	Deliver joint, collaborative contracts and frameworks for procurement of goods and services	12	0
Central South Consortium Joint Education Service	To provide a regional approach to improvement in schools	1,550	1,571
Regional Adoption Service	To develop and improve adoption services and share best practice	0	393
Shared Regulatory Service	To provide a shared regulatory service to Bridgend, Cardiff and the Vale of Glamorgan	0	5,100
<b>Total</b>		<b>1,806</b>	<b>7,331</b>

The Council has included its share of the transactions and balances of each Joint Committee in its 2015/16 accounting statements on a line-by-line basis.

## Notes to the Core Financial Statements

### 8. Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into nine valuation bands estimating 1 April 2003 values for this specific purpose. Charges are calculated by taking the amount of income required for the council and the Police and Crime Commissioner for the forthcoming year and dividing this amount by the council tax base. The council tax base is the number of properties in each band adjusted to a proportion to convert the number to a band D equivalent, totalled across all bands and adjusted for discounts. Cardiff's Council Tax base for 2015/16 was 139,500 (138,759 for 2014/15).

The amounts for a band D property in Cardiff during 2015/16 were as follows:

<b>Band D Council Tax:</b>	<b>2014/15</b>	<b>2015/16</b>
	<b>£</b>	<b>£</b>
Cardiff Council	974	1,022
Police and Crime Commissioner for South Wales	190	200
<b>TOTAL</b>	<b>1,164</b>	<b>1,222</b>

The above amount (£1,222) is multiplied by the proportion specified for the particular band (see following table) to give the individual amount due. Community Council precepts are then added in each of the six Community Council areas.

<b>Band</b>	A	B	C	D	E	F	G	H	I
<b>Multiplier</b>	6/9	7/9	8/9	1	11/9	13/9	15/9	18/9	21/9

Analysis of the net proceeds from council tax:

	<b>2014/15</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
Council Tax collectable	(165,499)	(175,121)
Provision for non-payment of Council Tax	779	1,834
<b>Net proceeds from Council Tax</b>	<b>(164,720)</b>	<b>(173,287)</b>

The net proceeds from Council Tax figure of £173.287 million includes precepts of £28.170 million and a transfer to the bad debt provision of £1.055 million. This remaining balance of £144.062 million is the Council Tax attributable to the Council, as part of the Council's Outturn for 2015/16.

The following table shows the cumulative provision for non-payment of Council Tax held at the Balance Sheet date.

<b>31 March</b>		<b>31 March</b>
<b>2015</b>		<b>2016</b>
<b>£000</b>		<b>£000</b>
(5,596)	Council Tax Bad Debt Provision	(4,915)

### 9. Non-Domestic Rates (NDR)

NDR is organised on a national basis. The Welsh Government specifies an amount for the rate (48.2p in 2015/16 and 47.3p in 2014/15) and, subject to the effects of transitory arrangements; local businesses pay rates calculated by multiplying their rateable value by that amount. The Council is responsible for collecting rates due from ratepayers in its areas but pays the proceeds into the NDR pool administered by the Welsh Government. The sums collected are redistributed back to local Authorities on the basis of a fixed amount per head of population.

The NDR income of £193.334 million for 2015/16 (£178.576 million for 2014/15) was based on a total rateable value of £476.309 million for 2015/16 (£467.399 million for the year 2014/15).

## Notes to the Core Financial Statements

Analysis of the net proceeds from non-domestic rates:

	2014/15 £000	2015/16 £000
Non-Domestic Rates collectable	178,576	193,334
Cost of collection allowance	(879)	(886)
Provision for non payment of NDR	(4,305)	(3,774)
<b>Payment into national pool</b>	<b>173,392</b>	<b>188,674</b>
<b>Redistribution from national pool</b>	<b>(109,695)</b>	<b>(101,253)</b>

### 10. Agency Income & Expenditure

The Council acts as an agent on behalf of the following in the provision of goods and services:-

#### Welsh Government

- Non Domestic Rates collection. A net debtor of £8.773 million at 31 March 2016 (£22.227 million at 31 March 2015) is included in the balance sheet which represents the amount by which the cash paid over to Welsh Government exceeds the amount collected from ratepayers.
- Houses into Homes Loans - provide loans to bring back unused properties into homes. At 31 March 2016 the Welsh Government had provided £3.236 million of funding of which £2.040 million is outstanding as loans provided. The balance available for new loans was £1.196 million (£68,000 at 31 March 2015).
- Home Improvement loans - provide loans for home improvements. At 31 March 2016 the Welsh Government had provided £1.062 million of funding. No loans have been issued by the Council to date. This was a new allocation in 2015/16.

#### South Wales Trunk Road Agency

The total reimbursement received by the Council was £445,000 in 2015/16 (£538,000 in 2014/15).

### 11. Remuneration

**11.1.** The Accounts and Audit (Wales) Regulations 2014 require the ratio of the remuneration of the Chief Executive to the median remuneration of all the body's employees. The multiple between the median full time equivalent earnings and the Chief Executive in 2015/16 was 1:8. The median full time equivalent earnings for 2015/16 was £20,849.

**11.2.** The Accounts and Audit (Wales) Regulations 2014 also requires that the number of employees, whose remuneration is over £60,000 per annum be disclosed within bands of £5,000. The following table includes all staff that falls within this category including teaching staff and those whose remuneration is disclosed in more detail in [note 11.3](#).

The figures include all taxable remuneration received in the year, including in some cases, severance payments and Returning Officer fees but exclude employers pension contributions and any expenses that are not chargeable to UK income tax.

The figures also include individuals directly employed by the governing bodies of several Voluntary-Aided, Voluntary-Controlled and Foundation Schools, rather than by the Council. The employee costs relating to these individuals are included with the Authority's Net Cost of Services and, therefore, these individuals are included in the table below.

## Notes to the Core Financial Statements

Remuneration band £	Number of Employees	
	2014/15	2015/16
60,000-64,999	90	46
65,000-69,999	28	44
70,000-74,999	8	14
75,000-79,999	15	4
80,000-84,999	6	10
85,000-89,999	6	3
90,000-94,999	8	3
95,000-99,999	0	3
100,000-104,999	2	0
105,000-109,999	2	2
110,000-114,999	1	1
115,000-119,999	10	1
120,000-124,999	1	8
125,000-129,999	0	1
130,000-134,999	0	0
135,000-139,999	1	0
140,000-144,999	1	0
145,000-149,999	0	1
150,000-154,999	1	0
155,000-159,999	0	0
160,000-164,999	0	0
165,000-169,999	1	0
170,000-174,999	0	2
175,000-179,999	1	0
180,000-184,999	0	0

**11.3.** Further disclosure is required in respect of the individual remuneration details of senior employees (Directors, Assistant Directors and Heads of Service) whose salary is £60,000 or more per annum but less than £150,000, identified by job title. Employees whose salary is £150,000 or more on an annualised basis are required to be identified by name. These figures also contain the cost of the additional contributions the Authority is required to make to the Pension Fund in respect of the individuals who are leaving the Authority. In the table this has been called Enhancement of Retirement Benefits but this is also known as the Pension Strain cost.

No bonuses have been paid during 2015/16 (2014/15 - £nil)

The following persons fell within this definition for 2015/16:

## Notes to the Core Financial Statements

2015/16  Post title	R Salary, fees and allowances	R Taxable benefits	Compensation for loss of employment			Employers pension contribution (23.9% of salary)	R Total
			Received via payroll (taxable) (a) R	Received via creditors (non taxable) R	Enhancement of Retirement Benefits R		
Paul Orders, Chief Executive	170,000	0	0	0	0	38,930	208,930
Corporate Director Resources & Section 151 Officer (a)	130,000	0	0	0	0	29,770	159,770
Assistant Director Children's Services (Commenced 27/04/2015) (b)	129,800	0	0	0	0	0	129,800
Director Education & Lifelong Learning	120,000	55	0	0	0	27,480	147,535
Director Social Services, Director Children's Services (c)	120,000	47	0	0	0	27,480	147,527
Director Communities, Housing & Customer Services	120,000	0	0	0	0	27,480	147,480
Director Economic Development	120,000	0	0	0	0	27,480	147,480
Director City Operations, Director Strategic Planning, Highways, Traffic & Transport (d)	120,000	0	0	0	0	27,480	147,480
Director Governance & Legal Services, County Clerk & Monitoring Officer (e)	110,000	0	31,000	30,000	0	24,287	195,287
Assistant Director Education & Lifelong Learning	81,989	64	0	0	0	18,776	100,829
Assistant Director Housing & Communities	81,989	0	0	0	0	18,776	100,765
Assistant Director Customer Services & Communities	81,989	0	0	0	0	18,776	100,765
Assistant Director Environment	81,989	0	0	0	0	18,776	100,765
Chief HR Officer	81,989	0	0	0	0	18,417	100,406
County Solicitor (Leaving Date 12/09/2015) (f)	60,129	0	0	2,138	0	12,366	74,633
Interim Assistant Director Adult Services (Commenced 05/08/2015) (g)	53,523	0	0	0	0	12,257	65,780
Head of Service, Finance (Commenced 10/08/2015) (h)	52,426	0	0	0	0	12,087	64,513
Chief Officer Change & Improvement (Leaving Date 20/09/2015) (i)	38,922	0	0	0	0	8,913	47,835
Director Sport, Leisure & Culture (Leaving Date 24/07/2015) (j)	37,742	2	0	19,594	169,553	8,643	235,534
Director Environment (Leaving Date 24/07/2015) (k)	36,361	4	0	7,125	0	8,643	52,133
Director Health & Social Care (Leaving Date 24/07/2015) (l)	36,135	40	0	10,688	82,861	8,643	138,367
Head of Performance & Partnerships (Commenced 15/02/2016) (m)	10,317	0	0	0	0	2,363	12,680
Interim Monitoring Officer (Commenced 01/03/2016) (n)	6,800	0	0	0	0	1,557	8,357



## Notes to the Core Financial Statements

- a) In addition to the remuneration fees detailed in the table above, Corporate Director Resources received fees relating to Returning Officer duties of £16,437 (£13,080 in 2014/15).
- b) During 2015/16 agency invoices of £129,800 (Nil in 2014/15) were received for service as Assistant Director Children Services, payments made were £119,900.
- c) Director Social Services from 16/06/2015. Annualised salary of £120,000. Director Children's Services until 15/06/2015. Annualised salary of £120,000.
- d) Director City Operations from 16/06/2015. Annualised salary of £120,000. Director Strategic Planning, Highways, Traffic & Transport until 15/06/2015. Annualised salary of £120,000.
- e) Director Governance & Legal Services from 16/06/2015 until 29/02/2016. Annualised salary of £120,000. Clerk & Monitoring Officer until 15/06/2015. Annualised salary of £120,000.
- f) County Solicitor left the Authority on 12/09/2015. Annualised salary of £120,000.
- g) Operational Manager Learning Disabilities was appointed Interim Assistant Director Adult Services commencing 05/08/2015. Annualised salary of £81,600.
- h) Head of Service, Finance commenced 10/08/2015. Annualised salary of £81,600.
- i) Chief Officer Change & Improvement left the Authority on 20/09/2015. Annualised salary of £81,600.
- j) Director Sport, Leisure & Culture left the Authority on 24/07/2015. Annualised salary of £120,000.
- k) Director Environment left the Authority on 24/07/2015. Annualised salary of £120,000.
- l) Director Health & Social Care left the Authority on 24/07/2015. Annualised salary of £120,000.
- m) Head of Performance & Partnerships commenced 15/02/2016. Annualised salary of £81,600.
- n) Operational Manager Legal Manager Litigation was appointed Interim Monitoring Officer commencing 01/03/2016. Annualised salary of £81,600.

### Comparative Data for 2014/15

2014/15  Post title	Salary, fees and allowances £	Taxable benefits £	Compensation for loss of employment		Employers pension contribution (23.9% of salary) £	Total £
			Received via payroll (taxable) (a) £	Received via creditors (non taxable) £		
Paul Orders, Chief Executive	166,937	0	0	0	38,228	205,165
Corporate Director Resources & Section 151 Officer (a)	127,658	0	0	0	29,233	156,891
Director Children's Services	118,551	20	0	0	26,985	145,556
Director Education & Lifelong Learning	117,990	59	0	0	26,985	145,034
Director Health & Social Care	118,008	8	0	0	26,985	145,001
Director Environment	117,962	42	0	0	26,985	144,989
Director Communities, Housing & Customer Services	117,838	0	0	0	26,985	144,823
Director Sport, Leisure & Culture	117,838	0	0	0	26,985	144,823
County Clerk & Monitoring Officer	117,838	0	0	0	26,985	144,823
Director Strategic Planning, Highways, Traffic & Transport	117,838	0	0	0	26,985	144,823
County Solicitor	117,838	0	0	0	26,985	144,823
Director Economic Development	117,378	0	0	0	26,880	144,258
Assistant Director Environment	78,559	399	0	0	17,990	96,948

## Notes to the Core Financial Statements

2014/15	Salary, fees and allowances	Taxable benefits	Compensation for loss of employment		Employers pension contribution (23.9% of salary)	Total
			Received via payroll (taxable) (a)	Received via creditors (non taxable)		
Post title						
Assistant Director Housing & Communities	78,559	0	0	0	17,990	96,548
Assistant Director Customer Services & Communities	78,559	0	0	0	17,990	96,548
Chief Officer Change & Improvement	78,559	0	0	0	17,990	96,548
Chief HR Officer	78,252	0	0	0	17,920	96,172
Assistant Director Education & Lifelong Learning (Commenced 01.09.2014) (a)	45,405	0	0	0	10,398	55,803

- a) In addition to the remuneration fees detailed in the table above, Corporate Director Resources received fees relating to Returning Officer duties of £13,080 (£1,957 in 2013/14).
- b) Assistant Director Education & Lifelong Learning commenced 01/09/2014. Annualised Salary £77,838.

As the result of a one-off budget saving implemented for 2014/15 all Council officers' salaries were reduced by 1.8% in 2014/15. Therefore none of the officers identified above achieved their normal annualised salaries in 2014/15. Normal annualised salaries for the officers identified above would have been as follows:

- Chief Executive - £170,000
- Corporate Director Resources - £130,000
- Directors, County Clerk & Monitoring Officer, County Solicitor - £120,000
- Assistant Directors & Chief Officers - £80,000

### 11.4 Exit Packages

The numbers of exit packages with total cost per band and the total cost of the compulsory and other redundancies for 2014/15 and 2015/16 are set out in the following tables. The total costs of the exit packages identified are made up of two elements. The first element is the one off payment made to an individual as compensation for loss of employment through either Voluntary or Compulsory Redundancy, the second element is the pension strain cost. In comparing year-on-year figures, it should be noted that, following a review of the voluntary severance scheme, the multiplier used against the statutory scheme reduced from 3 to 1.5, as of 1 April 2015.

2015/16	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total cost of exit packages in each band
Exit package cost band (including special payments)				
£0 - £20,000	27	100	127	857,681
£20,001 – £40,000	2	28	30	824,167
£40,001 – £60,000	2	8	9	445,424
£60,001 – £80,000	0	2	3	187,296
£80,001 – £100,000	1	1	2	190,626
£100,001 – £150,000	0	0	0	0

## Notes to the Core Financial Statements

2015/16 Exit package cost band (including special payments)	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	£ Total cost of exit packages in each band
£150,001 – £200,000	1	0	1	189,147
<b>Total</b>	<b>33</b>	<b>139</b>	<b>172</b>	<b>2,694,341</b>

2014/15 Exit package cost band (including special payments)	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	£ Total cost of exit packages in each band
£0 - £20,000	36	295	331	2,841,328
£20,001 – £40,000	21	215	236	6,512,672
£40,001 – £60,000	2	46	48	2,363,107
£60,001 – £80,000	1	15	16	1,123,442
£80,001 – £100,000	0	12	12	1,088,877
£100,001 – £150,000	2	7	9	1,067,185
<b>Total</b>	<b>62</b>	<b>590</b>	<b>652</b>	<b>14,996,611</b>

### 11.5 Members Allowances

The total amount of Members' Allowances (including basic and special responsibility) paid in 2015/16 was £1,293,164 (£1,289,268 in 2014/15). As required by the Code this figure includes all remuneration paid to members including basic and special allowances, care allowances, and expenses which are directly reimbursed.

### 12. Health Act 1999 Pooled Funds and Similar Arrangements

The Cardiff and Vale Joint Equipment Store is a Section 33 partnership agreement between Cardiff and Vale of Glamorgan local Authorities and the Cardiff and Vale University Health Board for the provision of an integrated community equipment service serving the combined Cardiff and Vale region. The agreement came into effect on 1 January 2012. The Authority's transactions are included in the Social Care line of the Comprehensive Income and Expenditure Statement. Income and expenditure for the pooled budget arrangements for the year ending 31 March 2016 is as follows:

2014/15 £000		2015/16 £000
	<b>Expenditure</b>	
1,639	Equipment	1,685
124	Contribution to Overheads	124
<b>1,763</b>	<b>Total Expenditure</b>	<b>1,809</b>
	<b>Funding</b>	
1,194	Cardiff and Vale University Health Board	1,214
418	Cardiff Council	405
277	Vale of Glamorgan Council	259
<b>1,889</b>	<b>Total Funding</b>	<b>1,878</b>
<b>126</b>	<b>Surplus transferred to JES Partnership Reserve</b>	<b>69</b>

## Notes to the Core Financial Statements

### 13. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

**Central Government** has effective control over the general operations of the Council. It is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. housing benefits). Grants received from government departments are set out in the subjective analysis in [note 32](#) on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2016 are shown in [note 32](#).

**Members of the Council** have direct control over the Council's financial and operating policies. The total members' allowances paid in 2015/16 is shown in [note 11](#). Members' interests in other organisations have been identified by an inspection of the Members' and Officers' Declaration of Interest Register. During 2015/16, goods and services totalling £7,054,814 were commissioned from companies in which members had an interest (£8,065,836 in 2014/15). Grants totalling £1,798,344 (£2,627,448 in 2014/15) were paid to voluntary organisations in which members had an interest.

**Officer's emoluments** are shown in [note 11](#) to the Core Financial Statements. In 2015/16 no goods and services of £1,423 were commissioned from companies in which Chief Officers had an interest. (£nil in 2014/15).

**Subsidiary Companies** - the Council has three subsidiary companies, Cardiff City Transport Services Ltd. (Cardiff Bus), Cardiff Business Technology Centre (CBTC) and Cardiff Business Council. Details of transactions with these companies are shown in [note 26](#) to the Core Financial Statements.

**Cardiff Medicentre** was a joint venture between the Council, Cardiff University, the Welsh Government and Cardiff and Vale University Health Board. Details of transactions with Medicentre are shown in [note 26](#) to the Core Financial Statements. The Council disposed of its interest in the Medicentre on 31 March 2016.

**Pension Fund** contributions paid to the Pension Fund are shown in [note 19](#) to the Core Statements.

**Precepts and Levies** – details of precepts collected on behalf of other organisations and an analysis of amounts levied on the Council by other bodies can be found in [note 6](#) to the Core Financial Statements. This includes the precept for the Police and Crime Commissioner for South Wales. In addition to this, the Council made payments of £135,000 to Police and Crime Commissioner for South Wales during 2015/16 (£197,000 in 2014/15).

#### Related Party Balances

The following balances were held in respect of related parties:

31 March 2015			31 March 2016	
Debtors £000	Creditors £000		Debtors £000	Creditors £000
30,604	(5,675)	Central Government Grants	18,415	(5,484)
29	(117)	Cardiff City Transport Services Ltd	0	(87)
144	(55)	Medicentre/CBTC/Cardiff Business Council	1	0
3	0	Chief Officers and above – outstanding car loan balances	1	0
0	0	Precepting Bodies	0	0
185	(26)	Companies in which members' interests declared/other	204	(5)

## Notes to the Core Financial Statements

### 14. External Audit Costs

	2014/15 £000	2015/16 £000
Fees payable to Wales Audit Office for external audit services	421	400
Fees payable to Wales Audit Office for the certification of grant claims and returns	118	84
<b>Total</b>	<b>539</b>	<b>484</b>

### 15. Trading Accounts Summary

The following table summarises the results of the Council's trading activities in those areas where it is operating in a commercial environment. The following figures have been compiled in accordance with the requirements of the 2015/16 Code and SERCOP. Net capital charges, which include depreciation and impairment, are shown separately.

	2014/15	2015/16			
	Restated	Income	Net Capital	Other	Trading
	Trading (Surplus) /Deficit £000	£000	Charges £000	Expenditure £000	(Surplus) /Deficit £000
Bereavement & Registration	220	(3,318)	1,661	3,201	<b>1,544</b>
Cardiff Castle	(357)	(3,414)	(83)	2,853	<b>(644)</b>
Commercial Catering	(38)	(1,500)	0	1,270	<b>(230)</b>
Land & Buildings & Workshops	(3,076)	(5,732)	2,087	1,953	<b>(1,692)</b>
Leisure Centres	7,279	(5,663)	3,769	9,953	<b>8,059</b>
New Theatre	1,019	(5,022)	577	5,513	<b>1,068</b>
Non Housing Building Maintenance	(282)	(12,852)	0	12,345	<b>(507)</b>
Non Schools Cleaning	163	(5,603)	0	5,467	<b>(136)</b>
Schools Catering	593	(9,864)	(77)	9,989	<b>48</b>
St. David's Hall	2,323	(6,481)	1,390	7,781	<b>2,690</b>
Other Trading Accounts*	5,803	(13,948)	1,267	18,067	<b>5,386</b>
<b>Total</b>	<b>13,647</b>	<b>(73,397)</b>	<b>10,591</b>	<b>78,392</b>	<b>15,586</b>

\* Other trading accounts totalled 14 in 2015/16 (15 in 2014/15).

Community Maintenance Services is no longer treated as a trading account and the Education and Non-Schools Cleaning were merged in 2015/16.

### 16. Leasing

#### Authority as Lessee

#### Operating leases

Operating leases exist in respect of properties, vehicles and other items of equipment. The following sums were charged to revenue in 2015/16:



## Notes to the Core Financial Statements

	2014/15 Restated £000	2015/16 £000
Property leases	1,886	1,553
Other leases	1,371	2,365

The Council was committed at 31 March 2016 to making payments of £3.700 million under operating leases in 2016/17 (£2.912 million at 31 March 2015 for 2015/16) comprising the following elements:

	2014/15		2015/16	
	Property Leases £000	Other Leases £000	Property Leases £000	Other Leases £000
Leases expiring within 1 year	8	433	0	131
Leases expiring between 2 and 5 years	583	797	518	1,979
Leases expiring after 5 years	1,091	0	905	167

### Finance Leases

There were no finance leases at 31 March 2016 (none in 2014/15) and there are no future obligations under finance leases.

### Authority as Lessor

#### Operating Leases

Operating leases exist in respect of land and buildings and the Council received revenue of £6.352 million in 2015/16 (£5.903 million in 2014/15)

The Council was committed as at 31 March 2016 to receiving income of £5.856 million (£5.377 million as at 31 March 2015) under operating leases for Land & Buildings comprising the following elements:

	2014/15 £000	2015/16 £000
Leases expiring within 1 year	863	221
Leases expiring between 2 and 5 years	641	1,171
Leases expiring after 5 years	3,873	4,464

### Finance Leases

The Council does not provide any leases of this type.

### 17. Investment Properties

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

	2014/15 £000	2015/16 £000
Rental income from investment property	(5,166)	(5,511)
Direct operating expenses arising from investment property	1,911	1,861
<b>Net (gain) / loss</b>	<b>(3,255)</b>	<b>(3,650)</b>

Subject to compliance with any regulatory requirements, the Council can realise the value inherent in its investment property and has the right to income and the proceeds of disposal. Subject to the terms and conditions of individual lease arrangements, the Authority does have contractual obligations to repair, maintain or enhance certain properties.

### 18. Prudent Revenue Provision

The Council is required to set aside in the year from its Non housing and Housing Revenue Account budgets, a prudent amount for the repayment of borrowing historically undertaken to pay for capital expenditure. The amount is set having regard to Welsh Government Guidance and a policy agreed by Council as part its budget proposals each year. This amount reduces the Council's underlying need to borrow, the Capital Financing Requirement (CFR).

Depreciation, impairment charges and finance lease charges included in the Comprehensive Income and Expenditure Statement are accounting charges. These are reversed and replaced by the prudent revenue provision via an appropriation to/from the Capital Adjustment Account in the Movement in Reserves Statement.

	2014/15 £000	2015/16 £000
Non Housing revenue provision	23,374	23,664
Housing Revenue Account provision	2,899	7,912
<b>Prudent revenue provision</b>	<b>26,273</b>	<b>31,576</b>

The increase in the provision for HRA is in relation to borrowing undertaken to meet the settlement payment to exit the housing subsidy system.

### 19. Pensions

#### Participation in Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments and this commitment needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two different pension schemes both of which provide members with benefits related to pay and service:

- Teachers' Pension Scheme
- The Local Government Pension Scheme

#### The Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme unless they opt out, administered by the Teacher's Pension Agency on behalf of the Department for Education. The scheme is defined benefit scheme and although it is unfunded, Teachers pensions use a notional fund as a basis for calculating the employer's contribution rate paid by Local Education Authorities. However, it is not possible for the Authority to identify a share of the underlying liabilities of the scheme attributable to its own employees and so for the purposes of the Statement of Accounts it is accounted for on the same basis as a defined contribution scheme, i.e. the cost charged to Net Cost of Services in the year is the cost of the employer's contributions to the scheme.

In 2015/16 the Council paid £17.499 million in respect of teachers' pension costs, which represents 15.5% of teachers' pensionable pay (£15.917 million representing 14.1% of teachers' pensionable pay in 2014/15) In addition, the Authority is responsible for the costs of any additional benefits awarded on early retirement outside of the Teachers' scheme. These benefits are fully accrued in the pension's liability for unfunded liabilities.

#### The Local Government Pension Scheme

The Council's non-teaching employees are automatically enrolled unless they choose to opt out of joining the Cardiff and Vale of Glamorgan Pension Fund, for which the Council acts as Administering Authority. This is a defined benefit scheme based on career-average pensionable salary. Both the Authority and

## Notes to the Core Financial Statements

the employees pay contributions into the fund, calculated at a level intended to balance the pensions' liabilities with the pensions' assets.

The Local Government Pension Scheme is a funded scheme i.e. it has assets as well as liabilities. In addition, the Council has unfunded pension liabilities in respect of its commitment to make payments directly to certain pensioners arising from arrangements made in earlier years to award enhanced benefits.

The disclosures below relate to the funded liabilities within the Cardiff and Vale of Glamorgan Pension Fund ('the Fund') and, where applicable, certain unfunded benefits provided by the Employer as referred to above.

### Transactions relating to retirement benefits

The main accounting statements have been compiled in accordance with IAS19 and for the Local Government Pension Scheme, include the cost to the Authority of pension entitlements earned in the year rather than the cost of contributions paid into the Fund. The cost of entitlements earned, which is known as the Current Service Cost has been recognised in the Net Cost of Services in the Comprehensive Income and Expenditure Statement.

However, the charge that is required to be made against Council Tax in respect of pensions is to be based on the cash payable to the pension fund during the year. To achieve this, IAS 19 costs are reversed out in the Movement in Reserves Statement and replaced with the employers' contribution payable during the year.

The following table sets out the requisite transactions that have been made in the Comprehensive Income and Expenditure Statement and Movement in Reserve Statement during the year:

	2014/15			2015/16		
	Funded scheme £000	Unfunded liabilities £000	Total £000	Funded scheme £000	Unfunded liabilities £000	Total £000
<b>Comprehensive Income Expenditure Statement (CI&amp;E Statement)</b>						
<b>Net Cost of Services:</b>						
Current Service Cost	34,857	0	<b>34,857</b>	40,082		<b>40,082</b>
Past Service Costs	2,778	120	<b>2,898</b>	2,666	720	<b>3,386</b>
<b>Financing &amp; Investment Income &amp; Expenditure</b>						
Interest on net defined benefit liability/(asset)	17,876	1,540	<b>19,416</b>	15,548	1,180	<b>16,618</b>
<b>Net charge to C I&amp;E Statement</b>	<b>55,511</b>	<b>1,660</b>	<b>57,171</b>	<b>58,186</b>	<b>1,900</b>	<b>60,086</b>
<b>Movement in Reserves Statement</b>						
Reversal of net charges made for retirement benefits in accordance with IAS19	(55,511)	(1,660)	<b>(57,171)</b>	(58,186)	(1,900)	<b>(60,086)</b>
<b>Actual amount charged against Council Tax in respect of pensions for the year</b>						
Employers contributions payable to the scheme	38,403	0	<b>38,403</b>	38,535	0	<b>38,535</b>
Payments in respect of	0	3,500	<b>3,500</b>		3,310	<b>3,310</b>

## Notes to the Core Financial Statements

	2014/15			2015/16		
	Funded scheme £000	Unfunded liabilities £000	Total £000	Funded scheme £000	Unfunded liabilities £000	Total £000
unfunded pensions liabilities *						
	<b>38,403</b>	<b>3,500</b>	<b>41,903</b>	<b>38,535</b>	<b>3,310</b>	<b>41,845</b>

\* Included in this figure are enhanced benefits awarded to teachers for which the Council is responsible and some unfunded liabilities which are administered by Rhondda Cynon Taff (RCT) Council on behalf of the Council.

### Contributions for year ending 31 March 2017

Local Government Scheme - employer's regular contributions to the Fund for the accounting period ending 31 March 2017 are estimated to be £36.61 million. Additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period.

Unfunded liabilities - in the accounting period ending 31 March 2017 the Council expects to pay £3.31 million directly to beneficiaries.

### Basis for estimating assets and liabilities

The latest actuarial valuation of the County Council of the City and County of Cardiff's liabilities in the Cardiff and Vale of Glamorgan Pension Scheme took place as at 31 March 2013. The latest actuarial valuation of unfunded benefits took place as at 31 March 2016.

The principal assumptions used by the independent qualified actuaries in updating the latest valuation for IAS19 purposes were:

#### (a) Principal financial assumptions

	31 March 2015 % pa	31 March 2016 % pa
Rate of inflation - RPI	2.9	2.9
Rate of inflation - CPI	1.8	1.8
Rate of general increase in salaries *	2.8	2.8
Rate of increase to pensions in payment**	1.8	1.8
Rate of increase to deferred pensions	1.8	1.8
Discount rate for scheme liabilities	3.2	3.4

\*This has been set as 1.0% p.a. above the CPI inflation assumption which is consistent with the assumption used at the 2013 valuation

\*\* In excess of Guaranteed Minimum Pension increases in payment where appropriate

#### (b) Mortality assumptions

	31 March 2015		31 March 2016	
	Men	Women	Men	Women
Future lifetime from age 65:-				
Currently age 65	23.8	26.7	23.8	26.8
Currently age 45	25.8	29.0	25.9	29.1

#### (c) Take-up option to convert annual pension into retirement lump sum

Each member is assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum pre 2008 service) is 75% of the permitted maximum.

## Notes to the Core Financial Statements

### Asset Allocation

The approximate split of assets for the Fund as a whole is shown in the following table. The asset allocation in the fund are notional and the assets are assumed to be invested in line with the investments of the Fund set out below for the purposes of calculating the return to be applied to those notional assets. The Fund is large and largely liquid and as a consequence there will be no significant restriction on realising assets if the situation arises.

The Authority does not invest in property or assets related to itself. It is possible, however, that assets may be invested in shares relating to some of the private sector employers participating in the Fund if it forms part of the balanced investment strategy.

	31 March 2015	31 March 2016		
	Approx. split of assets %	Quoted %	Unquoted %	Total %
Equities	77.4	70.1	5.0	75.1
Property	5.9	7.3	0	7.3
Government Bonds	6.8	8.1	0	8.1
Corporate Bonds	7.9	7.2	0	7.2
Cash	1.7	2.3	0	2.3
Other *	0.3	0.0	0	0.0
<b>Total</b>	<b>100</b>	<b>95.0</b>	<b>5.0</b>	<b>100</b>

\*Other holdings may include hedge funds, currency holdings, asset allocation futures and other financial instruments. It is assumed that these will get a return in line with equities.

### Reconciliation of funded status to balance sheet

	31 March 2015			31 March 2016		
	Funded scheme £000	Unfunded liabilities £000	Total £000	Funded scheme £000	Unfunded liabilities £000	Total £000
Notional value of assets	1,027,052	0	<b>1,027,052</b>	1,014,120	0	<b>1,014,120</b>
Present value of liabilities	(1,528,588)	(38,250)	<b>(1,566,838)</b>	(1,513,150)	(46,650)	<b>(1,559,800)</b>
<b>Net pension asset/(liability)</b>	<b>(501,536)</b>	<b>(38,250)</b>	<b>(539,786)</b>	<b>(499,030)</b>	<b>(46,650)</b>	<b>(545,680)</b>

### Assets and Liabilities in relation to Retirement Benefits

Changes to the present value of liabilities during the accounting period:

	31 March 2015			31 March 2016		
	Funded scheme £000	Unfunded liabilities £000	Total £000	Funded scheme £000	Unfunded liabilities £000	Total £000
Opening present value of liabilities	(1,344,170)	(38,450)	<b>(1,382,620)</b>	(1,528,588)	(38,250)	<b>(1,566,838)</b>
Current service cost	(34,858)	0	<b>(34,858)</b>	(40,082)	0	<b>(40,082)</b>
Interest cost	(56,995)	(1,540)	<b>(58,535)</b>	(48,345)	(1,180)	<b>(49,525)</b>
Contributions by participants	(9,882)	0	<b>(9,882)</b>	(9,802)	0	<b>(9,802)</b>



## Notes to the Core Financial Statements

Remeasurements in Other Comprehensive Income (OCI)	(128,181)	(1,640)	<b>(129,821)</b>	69,957	(9,810)	<b>60,147</b>
Net benefits paid out *	48,276	3,500	<b>51,776</b>	46,376	3,310	<b>49,686</b>
Past service cost	(2,778)	(120)	<b>(2,898)</b>	(2,666)	(720)	<b>(3,386)</b>
<b>Closing present value of liabilities</b>	<b>(1,528,588)</b>	<b>(38,250)</b>	<b>(1,566,838)</b>	<b>(1,513,150)</b>	<b>(46,650)</b>	<b>(1,559,800)</b>

\* Includes changes to the actuarial assumptions.

### Changes to the fair value of assets during the accounting period:

	<b>31 March 2015 Restated £000</b>	<b>31 March 2016 £000</b>
Opening fair value of assets	909,593	1,027,052
Interest income on assets	39,119	32,908
Remeasurement gains/(losses) on assets	78,330	(47,801)
Contributions by employer	38,407	38,538
Contributions by participants	9,883	9,802
Net benefits paid out *	(48,280)	(46,379)
<b>Closing fair value of assets</b>	<b>1,027,052</b>	<b>1,014,120</b>

\* The figures for net benefits paid out consists of net cash-flow out of the Fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums.

### Re-measurements in Other Comprehensive Income (OCI)

	<b>31 March 2015</b>		<b>31 March 2016</b>	
	<b>Funded Scheme £000</b>	<b>Unfunded Liabilities £000</b>	<b>Funded Scheme £000</b>	<b>Unfunded Liabilities £000</b>
Return on plan assets (in excess of) / below that recognised in net interest	(78,330)	0	47,801	0
Actuarial (gains)/losses due to change in financial assumptions	136,019	2,000	(56,824)	(1,000)
Actuarial (gains)/losses due to changes in demographic assumptions	0	0	0	0
Actuarial (gains)/losses due to liability experience	(7,838)	(360)	(13,133)	10,810
Actuarial (gains)/losses arising on inherited pension assets and liabilities	0	0	0	0
<b>Total amount recognised in OCI</b>	<b>49,851</b>	<b>1,640</b>	<b>(22,156)</b>	<b>9,810</b>

### Actual return on assets

	<b>31 March 2015 £000</b>	<b>31 March 2016 £000</b>
Interest income on assets	39,119	32,908
Remeasurement gain/(loss) on assets	78,330	(47,801)
<b>Actual return on assets</b>	<b>117,449</b>	<b>(14,893)</b>

## Notes to the Core Financial Statements

### Analysis of amount recognised in the Comprehensive Income & Expenditure Statement

	31 March 2015			31 March 2016		
	Funded Scheme £000	Unfunded Liabilities £000	Total gain /(loss) in CI&E £000	Funded Scheme £000	Unfunded Liabilities £000	Total gain /(loss) in CI&E £000
<b>Total Actuarial Gain/(Loss)</b>	(49,852)	(1,640)	(51,492)	22,156	(9,810)	12,346

### History of total gains and losses recognised in the Comprehensive Income & Expenditure Statement

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Total gain/(loss) –funded scheme	(132.77)	(47.19)	263.70	(49.85)	22.16
Total gain/(loss) –unfunded liabilities	(3.04)	(2.56)	2.76	(1.64)	(9.81)
<b>Cumulative gain/(loss)</b>	<b>(516.25)</b>	<b>(566.00)</b>	<b>(299.54)</b>	<b>(351.03)</b>	<b>(338.68)</b>

### History of asset values, present value of liabilities and surplus/(deficit)

	31 March 2012 £000	31 March 2013 £000	31 March 2014 £000	31 March 2015 £000	31 March 2016 £000
Fair value of assets	711,530	818,465	906,610	1,027,052	1,014,120
Present value of funded liabilities	(1,303,680)	(1,482,889)	(1,341,187)	(1,528,588)	(1,513,150)
Present value of unfunded liabilities	(41,850)	(42,890)	(38,450)	(38,250)	(46,650)
<b>Surplus/(deficit)</b>	<b>(634,000)</b>	<b>(707,314)</b>	<b>(473,027)</b>	<b>(539,786)</b>	<b>(545,680)</b>

### History of experience gains and losses

	Year ending 31.3.12 £m	Year ending 31.3.13 £m	Year ending 31.3.14 £m	Year ending 31.3.15 £m	Year ending 31.3.16 £m
Experience gains/(losses) on funded assets	(37.93)	67.92	47.95	78.33	(47.80)
Experience gains/(losses) on funded liabilities	(8.24)	1.55	34.60	8.21	13.39
Experience gains/(losses) on unfunded liabilities	(0.94)	0.08	0.04	(0.36)	10.81

### Sensitivity Analysis

The results shown above are sensitive to the assumptions used. In each case, only the assumption mentioned is altered; all other assumptions remain the same. Sensitivity of unfunded benefits is not included on materiality grounds. This analysis is shown in the tables below:

#### Discount rate assumption

Adjustment to discount rate	+0.1% p.a. £000	-0.1% p.a. £000
Present value of total obligation	1,481,370	1,537,490
% change in present value of total obligation	-1.8%	1.9%
Projected service cost	37,450	39,870
Approximate % change in projected service cost	-3.1%	3.2%

## Notes to the Core Financial Statements

### Rate of general increase in salaries

<b>Adjustment to salary increase rate</b>	<b>+0.1% p.a. £000</b>	<b>-0.1% p.a. £000</b>
Present value of total obligation	1,516,560	1,501,860
% change in present value of total obligation	0.5%	-0.5%
Projected service cost	38,650	38,650
Approximate % change in projected service cost	0.0%	0.0%

### Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption

<b>Adjustment to pension increase rate</b>	<b>+0.1% p.a. £000</b>	<b>-0.1% p.a. £000</b>
Present value of total obligation	1,530,030	1,488,610
% change in present value of total obligation	1.4%	-1.4%
Projected service cost	39,870	37,450
Approximate % change in projected service cost	3.2%	-3.1%

### Post retirement mortality assumption

<b>Adjustment to mortality age rating assumption</b>	<b>-1 year £000</b>	<b>+1 year £000</b>
Present value of total obligation	1,547,550	1,470,660
% change in present value of total obligation	2.5%	-2.6%
Projected service cost	39,890	37,400
Approximate % change in projected service cost	3.2%	-3.2%

The Council does not have information on the maturity profile of the defined benefit obligation.

## Notes to the Core Financial Statements

### 20. Non-Current Assets

#### Non-Current assets valuation

Non-Current assets are valued as per the accounting policies shown on pages 19 to 34.

2015/16	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	P, P & E under construction £000	Total Property, Plant & Equipment £000
<b>Cost or Valuation</b>								
At 1 April 2015	604,426	805,389	41,388	575,174	19,206	37,024	11,757	<b>2,094,364</b>
Additions	16,866	18,251	4,739	11,284	389	2,103	25,540	<b>79,172</b>
Impairment (losses)/reversals to RR *	0	(591)	0	0	0	0	0	<b>(591)</b>
Impairment (losses) / reversals to SDPS **	(3,247)	(809)	0	0	0	(102)	(544)	<b>(4,702)</b>
Derecognition - disposals	(815)	(4,200)	(9,605)	0	0	(3,200)	0	<b>(17,820)</b>
Reclassified (to)/from Held for Sale	0	(1,842)	0	0	0	(410)	0	<b>(2,252)</b>
Other reclassifications	422	(2,317)	656	886	25	3,751	(5,705)	<b>(2,282)</b>
Revaluation increases /(decreases) to RR*	63,820	(14,001)	0	0	0	(415)	0	<b>49,404</b>
Revaluation increases /(decreases) to SDPS**	(143,710)	(25,998)	0	0	0	(2,452)	0	<b>(172,160)</b>
<b>At 31 March 2016</b>	<b>537,762</b>	<b>773,882</b>	<b>37,178</b>	<b>587,344</b>	<b>19,620</b>	<b>36,299</b>	<b>31,048</b>	<b>2,023,133</b>
<b>Depreciation</b>								
At 1 April 2015	35,414	39,724	26,399	266,508	0	0	0	<b>368,045</b>
Depreciation charge	8,298	16,905	4,862	22,238	0	0	0	<b>52,303</b>
Depreciation written out on impairment	0	(60)	0	0	0	0	0	<b>(60)</b>
Derecognition - disposals	0	(47)	(9,529)	0	0	0	0	<b>(9,576)</b>
Depreciation written out to SDPS **	0	(1,136)	0	0	0	0	0	<b>(1,136)</b>
Reclassifications	0	0	0	0	0	0	0	<b>0</b>
Depreciation written out on revaluation	(35,414)	(25,675)	0	0	0	0	0	<b>(61,089)</b>
<b>At 31 March 2016</b>	<b>8,298</b>	<b>29,711</b>	<b>21,732</b>	<b>288,746</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>348,487</b>
<b>Net Book Value:</b>								
<b>At 31 March 2016</b>	<b>529,464</b>	<b>744,171</b>	<b>15,446</b>	<b>298,598</b>	<b>19,620</b>	<b>36,299</b>	<b>31,048</b>	<b>1,674,646</b>
<b>At 31 March 2015</b>	<b>569,012</b>	<b>765,665</b>	<b>14,989</b>	<b>308,666</b>	<b>19,206</b>	<b>37,024</b>	<b>11,757</b>	<b>1,726,319</b>

\* RR = Revaluation Reserve

\*\* SDPS = Surplus or deficit on Provision of Services

## Notes to the Core Financial Statements

### Comparative Movements in 2014/15

2014/15	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	P, P & E under construction £000	Total Property, Plant & Equipment £000
<b>Cost or Valuation</b>								
At 1 April 2014	589,754	772,948	44,172	557,909	18,734	55,403	24,036	<b>2,062,956</b>
Additions	17,777	24,410	3,966	16,785	472	785	8,795	<b>72,990</b>
Impairment (losses)/reversals to RR *	0	(21)	0	0	0	(389)	0	<b>(410)</b>
Impairment (losses) / reversals to SDPS **	(1,770)	(6,144)	(16)	0	0	(260)	0	<b>(8,190)</b>
Derecognition - disposals	(1,335)	(214)	(6,753)	0	0	(25)	0	<b>(8,327)</b>
Reclassified (to)/from Held for Sale	0	(1,294)	0	0	0	(2,210)	0	<b>(3,504)</b>
Other reclassifications	0	15,487	19	480	0	(13,237)	(21,074)	<b>(18,325)</b>
Revaluation increases /(decreases) to RR*	0	217	0	0	0	(1,796)	0	<b>(1,579)</b>
Revaluation increases /(decreases) to SDPS**	0	0	0	0	0	(1,247)	0	<b>(1,247)</b>
<b>At 31 March 2015</b>	<b>604,426</b>	<b>805,389</b>	<b>41,388</b>	<b>575,174</b>	<b>19,206</b>	<b>37,024</b>	<b>11,757</b>	<b>2,094,364</b>
<b>Depreciation</b>								
At 1 April 2014	23,361	25,656	28,779	243,043	0	0	0	<b>320,839</b>
Depreciation charge	12,106	14,567	4,373	23,465	0	0	0	<b>54,511</b>
Depreciation written out on impairment	0	(35)	0	0	0	0	0	<b>(35)</b>
Derecognition -disposals	(53)	(67)	(6,753)	0	0	0	0	<b>(6,873)</b>
Depreciation written out to SDPS **	0	(397)	0	0	0	0	0	<b>(397)</b>
Reclassifications	0	0	0	0	0	0	0	<b>0</b>
Depreciation written out on revaluation	0	0	0	0	0	0	0	<b>0</b>
<b>At 31 March 2015</b>	<b>35,414</b>	<b>39,724</b>	<b>26,399</b>	<b>266,508</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>368,045</b>
<b>Net Book Value:</b>								
<b>At 31 March 2015</b>	<b>569,012</b>	<b>765,665</b>	<b>14,989</b>	<b>308,666</b>	<b>19,206</b>	<b>37,024</b>	<b>11,757</b>	<b>1,726,319</b>
<b>At 31 March 2014</b>	<b>566,393</b>	<b>747,292</b>	<b>15,393</b>	<b>314,866</b>	<b>18,734</b>	<b>55,403</b>	<b>24,036</b>	<b>1,742,117</b>

\* RR = Revaluation Reserve

\*\* SDPS = Surplus or deficit on Provision of Services



## Notes to the Core Financial Statements

### Property, Plant & Equipment

The table below highlights some of the main assets included within Property, Plant & Equipment:

Allotment Gardens	Indoor Market
Caravan Park	Libraries/Hubs
Cardiff Bay Barrage	New Theatre
Cardiff Castle	Parks & Public Open Spaces
Cardiff International Swimming Pool	Play Centres
Cardiff International Sports Stadium	Roads, footpaths, structures and highway infrastructure
Cardiff International White Water Centre	Road Safety Centre & Cycle Track
Cardiff Story Museum	Schools buildings and land where owned
Cemeteries	Sports and Leisure Centres
Council Dwellings	St David's Hall
Crematorium	Storey Arms Outdoor Pursuits Centre
Day Centres	Surface Car Parks
Depots and Industrial Workshops	Traveller Sites
Eastern Park & Ride	Administrative and Civic Buildings
Family Centres	Vehicles, Plant, Furniture & Equipment
Horse Riding School	Youth and Community Halls

### Heritage Assets

2014/15 £000		2015/16 £000
50,789	<b>Balance at 1 April</b>	50,884
95	Additions	348
0	Other Reclassifications	46
<b>50,884</b>	<b>Balance at 31 March</b>	<b>51,278</b>

Heritage assets are defined as assets of historic, artistic or scientific importance that are maintained principally for their contribution to knowledge and culture at either a national or local level. This requires their identification, recognition and disclosure in the accounts where relevant practicable and material.

The Council has tangible heritage assets which consists mainly of the following three main categories:-

- public art
- scheduled ancient monuments for which it is responsible
- paintings, artefacts and civic regalia

The notes below indicate the treatment of each of the above three categories in these accounts.

**Public Art** - There are over 100 pieces of public art owned by the Council across the City, including freestanding artworks and significant pieces integrated into the design of buildings. These assets are not identified or valued separately in the Council's Balance Sheet as conventional valuation approaches lack sufficient reliability and the costs of obtaining valuations for these items would be disproportionate to the benefits. Details of these assets are held within the Cardiff Public Art Register, which is available on the Council's internet site [www.cardiff.gov.uk](http://www.cardiff.gov.uk) under the Resident, Planning, City Design and Public Art section.

**Scheduled Ancient Monuments** - The Council is responsible or part responsible for 17 of the 28 scheduled ancient monuments in the City. These are required to be protected for their contribution to knowledge and culture and include prehistoric burial sites and mounds, castles and forts, religious sites, defence structures as well as other sites of industrial significance. Unless expenditure has been incurred

## Notes to the Core Financial Statements

on these assets previously, these sites are not included in the Council's accounts at historic cost or value. Given the unique and often diverse nature of these assets, conventional valuation approaches lack sufficient reliability and the costs of obtaining valuations for these items would be disproportionate to the benefits.

**Paintings, artefacts and civic regalia** - The Council has a collection of paintings, artefacts and civic regalia, much of which is related to local interest. The main items in terms of number and value are collections at the castle reflecting its historic significance and interpretation for visitors. Other items held at public buildings have been accumulated over a number of years. These items are included in the balance sheet at an insurance valuation of £35.9 million undertaken externally as at 1 April 2013, by Mr AN Schoon, Antiques and Fine Art Valuer.

### Council policy on acquisitions, disposals, care and conservation

Where resources allow, the Council will seek to create, acquire and preserve heritage resources for the benefits of its citizens in partnership with other public and private sector bodies using grant and other funding opportunities. Acquisitions are rare, although public art is often commissioned as part of regeneration schemes.

For assets held at the castle, acquisition, disposal and care is undertaken in accordance with the museum accreditation scheme.

The statutory requirements placed upon the owners of Scheduled Ancient Monuments are likely to make the disposal of assets within Council ownership unviable. Before any work, alteration or controlled archaeological excavations are undertaken, consent is obtained from the Welsh Government.

The following table lists Heritage Assets and their treatment in the Council's accounts

Heritage Category	Item	Nature / Type	Identified separately in Balance Sheet (Yes/No)	Valuation Basis of any asset or expenditure incurred
Public Art	Various – Per Public Art Register	Statues, Street Art	No	n/a
	Animal Wall	Statues	Yes	Historic Cost
	Welsh National War Memorial	Statue / Monument	Yes	Historic Cost
Scheduled Ancient Monuments	Wenallt Camp	Castle, Fort, Camp – Pre Roman	No	n/a
	Caerau Fort	Castle, Fort, Camp – Iron Age	No	n/a
	Ely Roman Villa	Domestic – Roman	No	n/a
	Penylan Roman Site	Remains – Roman	No	n/a
	Morganstown Castle Mound	Castle, Fort, Camp – Medieval	No	n/a
	Dominican Friary	Religious – Medieval	Yes	Historic Cost
	Llandaff Cathedral Bell Tower	Religious – Medieval	No	n/a
	Old Bishops Palace	Religious – Medieval	No	n/a
	Sea Wall Rumney	Sea Defences – Post Medieval	No	n/a
	Leckwith Bridge	Bridge – Post Medieval	No	n/a
Wreck of the Louisa	Industry – Post Medieval	No	n/a	
Coal Discharger	Industry – Post Medieval	No	n/a	

## Notes to the Core Financial Statements

Heritage Category	Item	Nature / Type	Identified separately in Balance Sheet (Yes/No)	Valuation Basis of any asset or expenditure incurred
	Melingriffith Water Pump	Industry – Post Medieval	Yes	Historic Cost
	Gun Batteries – Flatholm Island	Defence – Post Medieval	No	n/a
	Coastal and Aircraft Defences – Flatholm Island	Defence – Modern	No	n/a
	Cardiff Castle and Roman Fortress	Castle, Fort, Camp – Roman	Yes	Historic Cost
Paintings Artefacts and Civic Regalia	Various, primarily at Castle also at City Hall Mansion House and County Hall	Furniture, paintings, ornaments, jewellery, ceramics etc.	Yes	Valuation for Insurance Purposes
Other	Flatholm Island	Local Nature Reserve, Site of Special Scientific Interest and Special Protection Area	Yes	Historic Cost
	Graving Docks - Harbour	Post Medieval vessel servicing facilities	Yes	Historic Cost
	In library Stock and held at National Library	First editions, Book of Aneirin	No	n/a

### Investment Properties

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

2014/15 £000		2015/16 £000
75,625	<b>Balance at 1 April</b>	100,787
726	Additions	8,713
(121)	Disposals	(617)
0	Reclassified (to)/ from Held for Sale	(301)
18,326	Other Reclassifications	2,377
(117)	Revaluation increases /(decreases) to RR*	(66)
6,348	Revaluation increases /(decreases) to SDPS**	(422)
<b>100,787</b>	<b>Balance at 31 March</b>	<b>110,471</b>

\*Revaluation Reserve

\*\* Surplus/Deficit on Provision of Services

## Notes to the Core Financial Statements

### Intangible Assets

Movements in Intangible assets during 2015/16 are summarised as follows:

	Other Intangible Assets £000	Intangible AUC £000	Total £000
<b>Cost or Valuation</b>			
At 1 April 2015	4,523	3,112	7,635
Additions	98	377	475
Other reclassifications	1,790	(1,931)	(141)
Impairment (Losses) / reversals to SDPS	0	(277)	(277)
<b>At 31 March 2016</b>	<b>6,411</b>	<b>1,281</b>	<b>7,692</b>
<b>Amortisation</b>			
At 1 April 2015	3,289	0	3,289
Amortisation	1,224	0	1,224
<b>At 31 March 2016</b>	<b>4,513</b>	<b>0</b>	<b>4,513</b>
<b>Net Book Value:</b>			
<b>At 31 March 2016</b>	<b>1,898</b>	<b>1,281</b>	<b>3,179</b>
<b>At 31 March 2015</b>	<b>1,234</b>	<b>3,112</b>	<b>4,346</b>

Comparative Movements in 2014/15:

	Other Intangible Assets £000	Intangible AUC £000	Total £000
<b>Cost or Valuation</b>			
At 1 April 2014	4,523	2,668	7,191
Additions	0	444	444
Other reclassifications	0	0	0
<b>At 31 March 2015</b>	<b>4,523</b>	<b>3,112</b>	<b>7,635</b>
<b>Amortisation</b>			
At 1 April 2014	2,443	0	2,443
Amortisation	846	0	846
<b>At 31 March 2015</b>	<b>3,289</b>	<b>0</b>	<b>3,289</b>
<b>Net Book Value:</b>			
<b>At 31 March 2015</b>	<b>1,234</b>	<b>3,112</b>	<b>4,346</b>
<b>At 31 March 2014</b>	<b>2,080</b>	<b>2,668</b>	<b>4,748</b>

## Notes to the Core Financial Statements

### Capital Expenditure and Capital Financing

Capital expenditure incurred in the year is shown in the following table, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by borrowing, it results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be paid for. Prudent provision for the repayment of external borrowing reduces the CFR.

2014/15 £000		CFR exc. landfill 2015/16 £000	Landfill CFR 2015/16 £000	Total CFR 2015/16 £000
<b>513,068</b>	<b>Opening Capital Financing Requirement</b>	<b>496,301</b>	<b>25,689</b>	<b>521,990</b>
	<b>Capital Expenditure:</b>			
72,991	Property, Plant and Equipment	78,705	0	<b>78,705</b>
95	Heritage Assets	348	0	<b>348</b>
0	Assets Held for Sale	0	0	<b>0</b>
726	Investment Properties	8,753	0	<b>8,753</b>
444	Intangible Assets	474	0	<b>474</b>
50	Loans	590	0	<b>590</b>
8,208	Expenditure on REFCUS	200,432	0	<b>200,432</b>
	<b>Sources of Finance:</b>			
(4,754)	Capital Receipts	(5,857)	0	<b>(5,857)</b>
(35,624)	Government grants and other contributions	(33,034)	0	<b>(33,034)</b>
(5,580)	Direct revenue contributions and reserves	(5,954)	0	<b>(5,954)</b>
(27,634)	Prudent revenue and capital provision for loan repayment	(31,924)	(1,156)	<b>(33,080)</b>
<b>521,990</b>	<b>Closing Capital Financing Requirement</b>	<b>708,834</b>	<b>24,533</b>	<b>733,367</b>
	<b>Explanation of movements in year:</b>			
(7,248)	Increase / (Decrease) in underlying need to borrow (supported by government financial assistance)	(7,264)	0	(7,264)
16,170	Increase / (Decrease) in underlying need to borrow (unsupported by government financial assistance)	219,797	(1,156)	218,641
<b>8,922</b>	<b>Increase in Capital Financing Requirement</b>	<b>212,533</b>	<b>(1,156)</b>	<b>211,377</b>

Increases in the Capital Financing Requirement will need to be repaid by making prudent provision for repayment of expenditure from future years HRA and Council Fund budgets.



## Notes to the Core Financial Statements

### Revenue Expenditure funded from Capital under Statute (REFCUS)

The following amounts were treated as capital expenditure to be paid for from capital resources. It includes expenditure on items that do not result in the creation or enhancement of an asset for the Council or where specific approval has been received from Welsh Government to treat such expenditure as capital expenditure and meet from resources that can only be used to pay for capital expenditure. In 2015/16 it included the one off settlement payment of £187.4 million to exit the Housing Revenue Account Subsidy system, as well as a Capitalisation direction that allowed the Council to meet revenue costs of service reform from capital receipts.

	2014/15 £000	2015/16 £000
Expenditure:		
Housing Improvement Grants	5,219	6,645
Buildings not owned by Cardiff Council	886	2,293
Capitalisation Direction - Service Reform	0	2,435
Capitalisation Direction - Housing Revenue Account Subsidy System Settlement Payment	0	187,392
Grants awarded (not Housing Grants)	2,103	1,667
<b>Charged to Income and Expenditure Statement</b>	<b>8,208</b>	<b>200,432</b>
Funded by:		
Grants and Contributions	(7,460)	(8,161)
Borrowing, Receipts and Other Capital Resources	(748)	(192,271)
	<b>(8,208)</b>	<b>(200,432)</b>

### Non-Current Asset Disposals

The main disposals during the year are identified below:-

- Sale of land Schooner Way adjacent to County Hall
- Sale Central Bus Station site
- Sale of Council Dwellings
- Sale of land at International Sports Village
- Sale of former Dome community centre, Pentwyn
- Sale of former Dorothy Lewis care home
- Sale of former vehicle maintenance depot – Clare Road
- Sale of 26 Hampton Court Road – Former Caretakers House
- Sale of former Johnston's Buildings - City Centre

### Significant capital expenditure contractual commitments

At 31 March 2016 the figure for significant capital expenditure commitments scheduled for completion in 2016/17 and future years is £26.222 million (£32.767 million 2014/15) and includes the following:

	£000
Phase 1 Public Realm Ceiling – Central Square	8,620
STAR Community Hub	2,779
Adamsdown Primary School Refurbishment and Extension	2,179
Public Housing – Secure by Design Fire Doors	1,992
South Morgan and Edinburgh Court Refurbishment	1,873
Eastern Leisure Centre Refurbishment	1,847
Trowbridge Mawr Refurbishment Phase 2	1,763
Sandown Court Sheltered Housing Refurbishment	1,542
Ysgol Y Wern Extension	1,318
A469/A470 Bus Corridor	1,255
Llandaff North Hub Conversion of Library / Day Centre	1,054

## Notes to the Core Financial Statements

### 21. Financial Instruments

#### Financial Instrument Balances

The following categories of Financial Instruments (Assets and Liabilities) are included in the Balance Sheet. They arise as a result of the Council's Treasury Management activities as well as Financial Instruments issued to further service objectives. Further detail and where applicable a fair value, are shown in the sections below along with the method of determining fair value in accordance with accounting policies for Financial assets and Liabilities. Debtors and Creditors, with the exception of car loans, are shown separately in the respective notes rather than as financial instruments:-

	31 March 2015 Restated			31 March 2016		
	Long Term £000	Short Term £000	Total £000	Long Term £000	Short Term £000	Total £000
<b>Investments/Financial Assets</b>						
Loans & Receivables at amortised cost	2,803	65,738	<b>68,541</b>	2,250	71,953	<b>74,203</b>
Investments at Fair Value	19,730	0	<b>19,730</b>	17,214	0	<b>17,214</b>
<b>Total</b>	<b>22,533</b>	<b>65,738</b>	<b>88,271</b>	<b>19,464</b>	<b>71,953</b>	<b>91,417</b>
<b>Borrowings/Financial Liabilities</b>						
Financial Liabilities at Amortised Cost	<b>(464,808)</b>	<b>(12,964)</b>	<b>(477,772)</b>	<b>(659,408)</b>	<b>(16,148)</b>	<b>(675,556)</b>

#### Investments / Financial Assets

##### Loans and receivables include:

- **Cash and bank including temporary investments** of £72 million. £58 million is deposited for various maturities with financial institutions.
- **Car loans** to eligible Council staff. Loans are repaid with interest, over a specified period, not greater than five years, as set out in a loan agreement.
- **Loans to Organisations** include a £1 million loan repayable to Cardiff Bus for investment in vehicles and depot facilities. Loan of £910,000 to various companies including £500,000 towards the redevelopment of the Tramshed in Grangetown.

	Valuation Method - Level	31 March 2015		31 March 2016	
		Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Cash and Cash Equivalents	Cost	23,137	23,137	17,352	17,352
Deposits with banks and building societies	Level 2	42,088	42,108	53,093	53,138
Local Authority Mortgage Scheme	Level 2	1,042	1,109	1,042	1,076
Assisted Car Purchase Loans	Cost	900	900	726	726
Loan to Cardiff Bus	Cost	1,000	1,000	1,000	1,000
Loans to External Organisations / Subsidiary	Cost	374	374	990	990
<b>Financial assets</b>		<b>68,541</b>	<b>68,628</b>	<b>74,203</b>	<b>74,282</b>

##### Investments at Fair value include:

- The Council's 100% shareholding in Cardiff City Transport Services Limited. The Council's shareholding is not listed on any quoted market, however accounting rules require a fair value to be estimated. The estimate value in 2014/15 accounts has been restated to £18.295 million from £13.563 million. The valuation is estimated using inputs other than quoted prices (Level 2), with the inputs being Earnings Before Interest Tax Depreciation and Amortisation (EBITDA), as well

## Notes to the Core Financial Statements

as estimates of a Multiplier to determine an enterprise value. These variables can fluctuate dependent on the company's performance and economic climate and so any accounting valuation may vary significantly from year to year. Accordingly, any valuation should be used with caution. Any change in value is offset by a corresponding movement to the 'Available for Sale Financial Instruments Reserve'; hence there is no impact on Council Tax payable. The fair value of the investment at 31 March 2016 is estimated to be £16.8 million (£18.3 million 2014/15).

- The Council's Medicentre shareholding of 44.5%, included in the 2014/15 accounts is £1.1 million and was sold in 2015/16. This is shown in the accounts at cost. Various minority equity holdings in companies are included either at cost or at quoted prices where available.

### Borrowings / Financial Liabilities include:

- Borrowing is undertaken to fund the long term capital expenditure requirements of the Council and any short term cash flow requirements. It includes Lender Option Borrower Option Loans which allow the lender to change the rate of interest at specified periods, allowing the Council to either accept the new rate or repay the loan before the contractual maturity date. The date of maturity for such instruments is assumed to be the contractual period to maturity rather than the next date that the lender could request a change in the rate. The carrying amounts below also include accrued interest payable at 31 March 2016 and the additional borrowing in 2015/16 to make the Housing Revenue Account Subsidy exit settlement payment.

	Valuation Method - Level	31 March 2015		31 March 2016	
		Carrying amount	Fair value	Carrying amount	Fair value
		£000	£000	£000	£000
Public Works Loan Board Loans	Level 2	(423,181)	(599,216)	(620,098)	(839,641)
Lender Option Borrower Option Loans	Level 2	(51,636)	(61,610)	(51,634)	(63,468)
Market loans, Bonds and Temporary Balances	Level 2	(2,955)	(3,092)	(3,824)	(3,655)
<b>Financial liabilities</b>		<b>(477,772)</b>	<b>(663,918)</b>	<b>(675,556)</b>	<b>(906,764)</b>

The fair value of borrowing and financial liabilities is more than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date.

Fair value calculations use the following assumptions:

- For PWLB debt, the transfer or fair value shown in the table is based on new borrowing rates from the PWLB for equivalent loans at 31 March 2016. An exit price fair value of £984.718 million is also calculated using early repayment discount rates which are lower than equivalent loan rates. The Authority has no contractual obligation to pay these penalty costs and would not incur any additional cost if the loans run to their planned maturity date.
- For other market debt and investments the discount rate used is the rate available for an instrument with the same terms from a comparable lender.
- No early repayment or impairment is recognised.

### Financial Instrument Gains/Losses

The following table shows the gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to Financial Instruments:

## Notes to the Core Financial Statements

	Financial Liabilities		Financial Assets				Total	
	Liabilities at Amortised Cost		Loans & Receivables		Investments at Fair Value			
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
	£000	£000	£000	£000	Restated £000	£000	£000	£000
Interest Expense	24,616	32,152	0	0	0	0	24,616	32,152
Impairment Losses	0	0	0	0	0	0	0	0
<b>Interest Payable &amp; Similar Charges</b>	<b>24,616</b>	<b>32,152</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>24,616</b>	<b>32,152</b>
Interest / Dividend Income	0	0	(832)	(1,039)	0	0	(832)	(1,039)
<b>Interest and Investment Income</b>	<b>0</b>	<b>0</b>	<b>(832)</b>	<b>(1,039)</b>	<b>0</b>	<b>0</b>	<b>(832)</b>	<b>(1,039)</b>
(Surplus) / Loss on Disposal	0	0	0	0	0	(190)	0	(190)
(Surplus) / Loss on Revaluation	0	0	0	0	(2,521)	1,484	(2,521)	1,484
<b>(Surplus) / Loss arising on revaluation or Disposal of financial assets</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(2,521)</b>	<b>1,294</b>	<b>(2,521)</b>	<b>1,294</b>
<b>Net (gain) / loss for the year</b>	<b>24,616</b>	<b>32,152</b>	<b>(832)</b>	<b>(1,039)</b>	<b>(2,521)</b>	<b>1,294</b>	<b>21,263</b>	<b>32,407</b>

Gains and losses include interest payable on borrowing, amounts receivable on investments including a dividend of £250,000 from Cardiff Bus, gain on disposal of investments and also movements from estimating changes in value of investments at fair value.

### Nature and Extent of Risks arising from Financial Instruments

The Authority's activities in relation to financial instruments whether for treasury management purposes or service objectives expose it to a variety of risks. In undertaking its treasury management activities, the overriding objective is to minimise the risk of adverse consequences or loss, whilst at the same time not unduly constraining investment returns or unnecessarily incurring interest costs. Given the nature of investments, a trade-off between security, liquidity and yield cannot be avoided i.e. there is risk of default. This risk is enhanced when loans to external organisations are provided for service delivery objectives and indicators of significant impairment are considered at the balance sheet date.

Treasury management risks include credit and counterparty, liquidity and refinancing, interest rate, market value, exchange rate, fraud and regulatory risk. The Council has Treasury Management Practices to address and mitigate these risks. It has adopted the CIPFA Treasury Management Code of Practice and sets indicators to control key financial instrument risks.

Further details in relation to key risks are disclosed in the following sections where relevant.

### Credit Risk

Risk that other parties may fail to pay amounts due to the Authority. It arises from lending of temporary cash balances as part of the Council's Treasury Management Activities, from exposure to the Authority's customers and from organisations to whom a loan has been provided.

The following table summarises the Council's main exposures to credit risk.

## Notes to the Core Financial Statements

Credit Risk	Likelihood of Default	31 March 2015 £000	31 March 2016 £000																											
Deposits – banks, buildings societies	<p>Deposits are placed only with banks and building societies that have Fitch minimum criteria of F1 (i.e. highest credit quality). Lending is restricted to a maximum amount and duration for each financial institution, also taking into account extent of public ownership and sovereign rating. Ratings are regularly reviewed.</p> <p>A risk of non-recoverability applies to all of the Authority's deposits which require rigorous monitoring of credit risk and credit criteria. The Council uses treasury management advisors who assist in monitoring credit risk of counterparties. To date, the Authority has not experienced default of any institution and as the counterparty exposure following table shows this is not deemed to be a significant factor for investments held. Accordingly no provisions or losses are to be recognised.</p>	65,079	70,334																											
Local Authority Mortgage Scheme (LAMS)	The Council has placed a £1 million indemnity with Lloyds Bank as part of this scheme. The Authority will only incur a loss if a house is repossessed and sale proceeds are insufficient to cover the debt. No defaults have occurred to date and an earmarked reserve for this purpose, should this be the case.	1,000	1,000																											
Car Loans	Repayments in respect of car loans are recovered directly from employees pay and indemnity insurance is a condition of the loan. Default experience is minimal.	900	726																											
Loans to External Bodies	Includes primarily loans to SME's £910,000 and loan to Cardiff Bus £1 million. Repayments on loans are dependent on financial and operating performance, which are monitored closely for large amounts. Where there is deemed to be a risk of non-repayment a provision or impairment is considered.	1,380	1,910																											
Customers	<p>The Authority does not generally allow credit for customers and provision is made for non-payment based on the age profile of outstanding debt, adjusted for large invoices known to have been settled after balance sheet date and any other material factors that could affect the ultimate sum collectable.</p> <p>The bad debt provision for 2015/16 was based on the adjusted age profile disclosed in the following table.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">2014/15</th> <th style="text-align: center;">2015/16</th> </tr> <tr> <th></th> <th style="text-align: center;">£000</th> <th style="text-align: center;">£000</th> </tr> </thead> <tbody> <tr> <td>Less than 1 year</td> <td style="text-align: center;">10,708</td> <td style="text-align: center;">14,180</td> </tr> <tr> <td>1 – 2 years</td> <td style="text-align: center;">734</td> <td style="text-align: center;">593</td> </tr> <tr> <td>2 – 3 years</td> <td style="text-align: center;">553</td> <td style="text-align: center;">426</td> </tr> <tr> <td>3 – 4 years</td> <td style="text-align: center;">133</td> <td style="text-align: center;">448</td> </tr> <tr> <td>4 – 5 years</td> <td style="text-align: center;">153</td> <td style="text-align: center;">100</td> </tr> <tr> <td>Over 5 years</td> <td style="text-align: center;">298</td> <td style="text-align: center;">372</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: center;"><b>12,579</b></td> <td style="text-align: center;"><b>16,119</b></td> </tr> </tbody> </table> <p>Other debt such as grant income due from government bodies and year-end accruals of income is considered to be 100% collectable and provision against non-payment is not usually considered necessary.</p>		2014/15	2015/16		£000	£000	Less than 1 year	10,708	14,180	1 – 2 years	734	593	2 – 3 years	553	426	3 – 4 years	133	448	4 – 5 years	153	100	Over 5 years	298	372	<b>Total</b>	<b>12,579</b>	<b>16,119</b>	12,599	16,119
	2014/15	2015/16																												
	£000	£000																												
Less than 1 year	10,708	14,180																												
1 – 2 years	734	593																												
2 – 3 years	553	426																												
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<b>Total</b>	<b>12,579</b>	<b>16,119</b>																												
<b>Total</b>		<b>80,958</b>	<b>90,089</b>																											



## Notes to the Core Financial Statements

### Counterparty Exposure at 31 March 2016

Counterparty	Country	Fitch Long Term	Investment £000
Bank of Scotland plc	UK	A+	5,000
Barclays Bank	UK	A	5,000
Commonwealth Bank of Australia	Australia	AA-	8,000
Development Bank Singapore	Singapore	AA-	10,000
Goldman Sachs International Bank	UK	A	5,000
Insight - Money Market Fund	Domiciled in Ireland	AAA	4,000
Lloyds - LAMS	UK	A+	1,000
Nationwide Building Society	UK	A	5,000
Oversea-Chinese Banking Corp	Singapore	AA-	5,000
Santander UK plc	UK	A	10,000
<b>Total</b>			<b>58,000</b>

Using historic data adjusted for current financial market conditions and based on the level of counterparty exposure at 31 March 2016, the probability of any default is 0.022% or £12,760.

### Liquidity and Refinancing Risk

This is the possibility that the Authority may not have funds available to meet its commitments to make payments or have to refinance a financial liability at disadvantageous interest rates or terms. The Council has ready access to funds from the financial markets and Public Works Loan Board in order to raise finance to meet its commitments. Within its Treasury Management Strategy, limits are set on the proportion of its fixed rate loans maturing during specified periods. The amounts of fixed rate debt maturing in any period are disclosed in the following table:

31 March 2015 £000	Loans Outstanding	31 March 2016 £000
418,077	Public Works Loans Board	612,826
51,000	Lender Option Borrower Option	51,000
1,468	Market Debt / Bonds	2,348
<b>470,545</b>	<b>Total</b>	<b>666,174</b>
5,737	Under 12 months	6,766
6,726	12 months and within 24 months	5,594
10,941	24 months and within 5 years	5,680
15,150	5 years and within 10 years	20,276
86,306	10 years and within 20 years	144,214
80,602	20 years and within 30 years	164,000
133,049	30 years and within 40 years	178,689
93,034	40 years and within 50 years	123,955
34,000	50 years and within 60 years	12,000
5,000	60 years and within 70 years	5,000
<b>470,545</b>	<b>Total</b>	<b>666,174</b>

The total values in the above table can be reconciled to the carrying amount of all financial liabilities carried at amortised cost by the addition of accrued interest of £7.914 million and miscellaneous short term borrowing of £1.468 million.

## Notes to the Core Financial Statements

Currently, £24 million of the Lender Option Borrower Option loans are subject to the lender having the right to change the rate of interest payable every six months. The Council has the right to refuse the change, triggering early repayment and the need to re-finance. Details are shown in the following table:-

£m	Potential Repayment Date	Option Frequency	Full Term Maturity
6	01/09/2016	6 months	23/05/2067
6	21/05/2016	6 months	21/11/2041
6	21/05/2016	6 months	21/11/2041
6	21/05/2016	6 months	23/05/2067
5	05/01/2018	5 years	17/01/2078
22	21/11/2020	5 years	23/11/2065

In respect of trade and other payables, the Council aims to make payment within 10 days in respect of undisputed invoices.

### Interest Rate Risk

The possibility that financial loss might arise for the Authority as a result of changes in interest rates.

The main impacts of interest rate movements are set out below:-

Variable affected by interest rate fluctuations	Impact of Variation	Actions to mitigate interest rate risk
Interest earned on variable rate investments	Interest rate rises will increase income credited to the Comprehensive Income and Expenditure Statement, while reductions may result in less income than budgeted.	<ul style="list-style-type: none"> <li>Production and Council approval of a Treasury Management Strategy at the start of each financial year, setting limits for fixed and variable rate exposure.</li> <li>Interest rate forecasts based on advice from treasury management advisors are built into the budget and monitored regularly throughout the year.</li> <li>By borrowing fixed rate, the Council aims to minimise the revenue impact of interest fluctuations to provide stability for planning purposes. Council borrowing is primarily at fixed rather than variable rates.</li> </ul>
Interest paid on variable rate borrowings	If interest rates rise, lenders may exercise options to increase rates in a Lender Option Borrower Option loan potentially increasing the interest expense charged to the Comprehensive Income and Expenditure Statement, should the Council accept the higher rate.	
Fair value of fixed rate financial assets	Interest rate rises will cause fair value to fall. This will not impact on the Comprehensive Income and Expenditure Statement or Balance Sheet values for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value.	
Fair value of fixed rate financial liabilities	Fair value will fall if interest rates rise. This will not impact on the Comprehensive Income and Expenditure Statement or Balance Sheet values for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value.	

To give an indication of the Authority's sensitivity to interest rate change, the table indicates the estimated impact on the Comprehensive Income and Expenditure Statement had interest rates during 2015/16 been on average 1% higher with all other variables held constant.

Interest Rate Risk Income and Expenditure Account	£000
Increase in interest payable on borrowings	(301)
Interest in interest receivable on investments	338
<b>Impact on Income and Expenditure Statement</b>	<b>37</b>

## Notes to the Core Financial Statements

Increase in interest transferred to HRA	(58)
Increase in interest transferred to other balances and accounts	(65)
<b>Net Income / (Expenditure)</b>	<b>(86)</b>

<b>Changes in Fair Value</b>	<b>£000</b>
Decrease in Fair Value of Fixed Rate Investments	163
Decrease in Fair Value of Fixed Rate Borrowings	134,981

The impact of a 1% fall in interest rates may not have exactly the opposite effect, since financial instruments with calls may not be exercised by the lender or borrower.

### Foreign exchange risk

The Authority's exposure to loss arising from movements in exchange rates is minimal. Borrowing and investments are carried out only in sterling.

### Price Risk

This is the possibility of the Council having financial gains or losses from movements in prices of financial instruments. Whilst the Council's approved Treasury Management policy allows investments in financial instruments such as bank certificates of deposit and Government bonds, the Council invests primarily in those instruments where the sum returned on maturity is the same as the initial amount invested. For service investment purposes, the Council has equity holdings of £157,000 which are quoted on a recognised stock exchange at 31 March 2016.

The Council's 100% shareholding in Cardiff City Transport Services Ltd is not quoted on a recognised exchange and thus not subject to gains or losses from market price movements. A general shift of 5% in the fair value (positive or negative) would result in a £839,000 gain or loss being recognised in the Movement in Reserves Statement.

## 22. Held for Sale Assets

2014/15 £000		2015/16 £000
380	<b>Balance at 1 April</b>	3,040
(10)	De-recognition	(1,751)
3,504	Reclassified to/(from) Held for Sale	2,553
(330)	Revaluation increases /(decreases) to RR*	(119)
(504)	Revaluation increases /(decreases) to SDPS**	(904)
<b>3,040</b>	<b>Balance at 31 March</b>	<b>2,819</b>

\*Revaluation Reserve

\*\* Surplus/Deficit on Provision of Services

## 23. Debtors

31 March 2015 Restated £000		31 March 2016 £000
53,746	Central Government Bodies	43,059
7,008	Other Local Authorities	13,242
4,883	NHS Bodies	4,691
38	Public Corporations & Trading Funds	34
25,370	Other Entities and Individuals	25,472
<b>91,045</b>	<b>Total Debtors Net of Impairments</b>	<b>86,498</b>

## Notes to the Core Financial Statements

### 24. Cash and Cash Equivalents

31 March 2015 £000		31 March 2016 £000
182	Cash	233
11,051	Bank (including cheque book schools)	13,108
11,904	Short-term deposit with banks and building societies	4,011
<b>23,137</b>	<b>Total Cash and Cash Equivalents</b>	<b>17,352</b>

Included within the bank figure above are bank balances of chequebook schools totalling £859,000 (£1.644 million in 2014/15).

In addition to the above, at 31 March 2016 the Council held £883,000 (£1.114 million at 31 March 2015) on behalf of third parties, mainly Adult Services social care clients. This amount is not included on the balance sheet as this money does not belong to the Council.

### 25. Creditors

31 March 2015 £000		31 March 2016 £000
(11,252)	Central Government Bodies	(13,498)
(6,576)	Other Local Authorities	(11,518)
(860)	NHS Bodies	(1,424)
(12)	Public Corporations & Trading Funds	(9)
(76,101)	Other Entities and Individuals	(58,848)
<b>(94,801)</b>	<b>Total Creditors</b>	<b>(85,297)</b>

### 26. Interests in other companies and other organisations

The Council had interests in 3 subsidiary companies and one joint venture during 2015/16. The interest in Cardiff City Transport Services Ltd is consolidated into the Council's group accounts, on pages 127 to 147. The interests in the other organisations are considered immaterial in terms of both the turnover and the net assets of the group. The Council does not depend upon these organisations for statutory service provision and it is not considered that they expose the Authority to a material level of commercial risk. They have therefore been excluded from the consolidation in 2015/16.

#### Cardiff City Transport Services Ltd. (Cardiff Bus)

Cardiff City Transport Services Limited is a private limited company with a share capital £4.618 million, which is wholly owned by the Council. Cardiff City Transport Services Ltd. was set up in accordance with the provisions of the Transport Act 1985 to run the Council's municipal bus operation and started operations in October 1986. The company's operating results for 2015/16 as summarised below:

	Year to 31 March 2015 Restated £000	Year to 31 March 2016 £000
Turnover and other income	(34,016)	(30,643)
Operating and other expenditure	31,358	30,279
<b>Net (Profit) / Loss before Taxation</b>	<b>(2,658)</b>	<b>(364)</b>
Less: Taxation	594	0
<b>(Profit) / Loss after Taxation</b>	<b>(2,064)</b>	<b>(364)</b>

## Notes to the Core Financial Statements

A summary of the company's financial position is as follows:

	31 March 2015 Restated £000	31 March 2016 £000
Bus and other operating assets	19,940	21,882
Current Assets	6,717	6,071
Less Current Liabilities	(4,991)	(4,782)
Creditors: Amounts falling due after more than one year	(4,292)	(6,252)
Provisions & Long term liabilities	(1,576)	(1,308)
Deferred Taxation	(1,232)	(863)
Pension Liability	(3,753)	(2,233)
<b>Total Assets less liabilities</b>	<b>10,813</b>	<b>12,515</b>
Represented by:		
Share Capital	4,618	4,618
Profit and Loss account	6,718	6,860
IAS19 Pension Reserve	(3,753)	(2,233)
Revaluation Reserve	3,230	3,270
<b>Net Worth</b>	<b>10,813</b>	<b>12,515</b>

In 2015/16 the Council made payments totalling £9.308 million to Cardiff Bus (£10.004 million in 2014/15), of which £8.655 million related to concessionary fares payments (£9.140 million in 2014/15). The Council also received income of £326,000 (£463,000 in 2014/15). During 2015/16 Cardiff Bus paid a dividend of £250,000 to the Council (£nil in 2014/15).

At 31 March 2016, Cardiff Bus had inter-company balances with the Council as follows: debtors £87,000 (£117,000 in 2014/15) and creditors £0 (£29,000 in 2014/15).

The accounts for year ended 31 March 2016 have not yet been audited. The company's auditors are Deloitte.

### Cardiff Business Technology Centre Ltd. (CBTC Ltd.)

CBTC is a company limited by guarantee, which is wholly owned by the Council. The Council's guarantee to CBTC Ltd is to pay costs not exceeding £10 in the event of the company being wound up. The company's principal activity is to promote and assist in the development of new and existing high technology companies through the provision of business/incubator premises with a high level of support services. The most recent operating results are shown as follows:

	Year to 31 March 2015 £000	Year to 31 March 2016 £000
Net (Profit)/Loss before taxation	(59)	(79)
Less: Taxation	2	11
<b>(Profit)/Loss for year after taxation</b>	<b>(57)</b>	<b>68</b>

## Notes to the Core Financial Statements

A summary of the company's financial position is as follows:

	31 March 2015 £000	31 March 2016 £000
Total assets less current liabilities	956	850
Creditors: falling due after more than one year	(7)	(7)
Provision for taxation	(6)	(4)
<b>Total Assets less liabilities</b>	<b>943</b>	<b>839</b>
Represented by:		
Retained Profit	223	269
Revaluation Reserve	720	570
<b>Net Worth</b>	<b>943</b>	<b>839</b>

During 2015/16 the Council received income of £36,000 (£36,000 in 2014/15) from CBTC Ltd. At 31 March 2016 CBTC Ltd. Owed the Council £792 (£125,965 at 31 March 2015) and was owed £0 (£10,851 at 31 March 2015).

The company's auditors are Gerald Thomas & Co. An unqualified audit opinion has been issued in respect of the accounts for the year ended 31 March 2016.

### Cardiff Business Council

Cardiff Business Council is a company that was set up during 2013/14 to grow Cardiff's private sector by marketing and promoting the Cardiff Capital Region as a world-class destination for business investment and tourism. It is a wholly owned arms-length company of the Council limited by guarantee. This company is due to close in 2016/17 and is not considered a going concern. The company's closing operating results, as summarised as follows, are provisional:

	Year to 31 March 2015 £000	Year to 31 March 2016 £000
Net (Profit)/Loss before taxation	47	108
Taxation	0	0
<b>(Profit)/Loss for year after taxation</b>	<b>47</b>	<b>108</b>

A summary of the company's financial position is as follows:

	31 March 2015 £000	31 March 2016 £000
Total assets less current liabilities	150	42
<b>Total assets less liabilities</b>	<b>150</b>	<b>42</b>
Represented by		
Retained Profit	(150)	(42)
<b>Balance</b>	<b>(150)</b>	<b>(42)</b>

During the year the Council made core funding payments totalling £340,000 to Cardiff Business Council and received income from the Company totalling £40,036. The Council incurred other expenditure in connection with Cardiff Business Council totalling £177,092. At 31 March 2016 the Company owed the Council £0 (£17,717 at 31 March 2015) and was owed £0 (£43,895 at 31 March 2015) by the Council.

The company's auditors are Broomfield & Alexander Ltd. An unqualified audit opinion has been issued in respect of the accounts for the year ended 31 March 2016.



## Notes to the Core Financial Statements

### Cardiff Medicentre Joint Venture

Cardiff Medicentre was originally established to provide facilities for small firms in the medical and health care sector. This was a joint collaboration between the Council, Cardiff University, Welsh Government and the Cardiff and Vale University Health Board, with the Council owning a 44.5% share in the Council's balance sheet as an investment.

At the end of 2015/16, Cardiff University purchased the Council's interest in the Medicentre and a consideration payable (£1.282 million, net of fees) to the Council was agreed representing the net worth of the Joint Venture to cessation. This amount reflected the updated and independent valuation for the fixed assets and the Council's share of the revenue reserves. The latter included the distribution of profits for the 2015/16 financial year, being a net surplus of £180,325 (£163,365 in 2014/15).

During the year the Council received a total income of £4,750 from the Medicentre (£4,750 in 2014/15). The Medicentre's auditors are Gerald Thomas & Co. An unqualified audit opinion has been issued in respect of the accounts for the year ended 31 March 2016.

### 27. Provisions

	Balance 1 April 2015 £000	Utilised/ Released in year £000	Transfers to Provisions £000	Balance 31 March 2016 £000
Cardiff Insurance Provisions	(11,334)	5,533	(4,641)	(10,442)
MMI Scheme of Arrangement Levy	(704)	0	(162)	(866)
Termination Benefits Provision	(59)	59	0	0
Ferry Road Landfill Provision	(9,096)	0	0	(9,096)
Lamby Way Landfill Provision	(16,993)	419	0	(16,574)
Other Provisions	(2,224)	1,411	(1,020)	(1,833)
<b>Total Provisions</b>	<b>(40,410)</b>	<b>7,422</b>	<b>(5,823)</b>	<b>(38,811)</b>

	Not later than one year £000	Later than one year £000	Balance 31 March 2016 £000
Cardiff Insurance Provisions	(4,760)	(5,682)	(10,442)
MMI Scheme of Arrangement Levy	(297)	(569)	(866)
Ferry Road Landfill Provision	(69)	(9,027)	(9,096)
Lamby Way Landfill Provision	(3,586)	(12,988)	(16,574)
Other Provisions	(1,774)	(59)	(1,833)
<b>Total Provisions</b>	<b>(10,486)</b>	<b>(28,325)</b>	<b>(38,811)</b>

The **Cardiff Insurance Provision** represents sums set aside to meet the cost of claims received, but not yet settled, by the Council.

The Council operates a system of self-insurance which provides cover either in part or in total for a considerable number of the Council's insured risks. Major risks including property, liability and motor vehicle are partially self-funded whereas full cover is provided for secondary risks such as 'All Risks'. In total, insurance is provided for 32 different types of risk which have the potential to have a serious effect on the financial position of individual establishments and Directorates. These risks have been selected for insurance after consultation with the Council's insurance brokers.

Charges are made to Directorates on the basis of the assets insured for vehicle and property related insurances and on the basis of claims' experience for public and employers' liability insurances.

## Notes to the Core Financial Statements

**Municipal Mutual Scheme (MMI) of arrangement levy provision** represents a scheme that was triggered on 13 November 2012 and this will involve the claw back of a percentage of previously paid claims as well as a percentage of future claims. Further details are provided in [note 33](#).

**Landfill Aftercare Provision** - the Council has numerous landfill sites throughout the City's boundaries and whilst many are historic and have no obligations, others such as Lamby Way and Ferry Road require the Council to address restoration and after care in accordance with obligations made to Natural Resources Wales as part of initial permits. Such financial obligations can stretch for over 60 years with potentially significant but uncertain capital and revenue expenditure obligations. During 2013/14, the Council's Waste Management service produced estimates of such costs as part of its Aftercare Management Plan, which will be reviewed in 2016/17.

Included within Other Provisions is a new provision (£522,000) in relation to potential maintenance costs in connection with the Council's occupancy of the Friary building.

### 28. Pension Strain

In addition to the costs of redundancy payments made to leavers, in some cases the Authority also incurs costs relating to Pension Strain which it is required to pay over to the Pension Fund when individuals leave via the Severance Scheme.

This applies only to leavers who are members of the Local Government Pension Scheme and aged 55-59 at the date they leave employment with the Authority. The pension strain cost to the Authority is the amount it has to pay over to the Pension Fund to compensate for the lost pension contributions for these staff.

The Council has an arrangement in place with the Cardiff & Vale Pension Fund whereby it pays the amounts due in respect of pension strain over a 5 year period in order to spread the impact of these costs. The following table shows the level of pension strain in the balance sheet.

	Balance at 31 March 2015 £000	Balance at 31 March 2016 £000
Pension Strain due within 1 year	2,830	2,354
Pension Strain due later than 1 year	6,252	4,891
<b>Total Pension Strain</b>	<b>9,082</b>	<b>7,245</b>

### 29. Deferred Liabilities

These are primarily amounts provided by external bodies towards future year's maintenance costs.

	Balance 1 April 2015 £000	Utilised/ Released in year £000	Transfers to Deferred Liabilities £000	Balance 31 March 2016 £000
Commuted Maintenance Sums	(8,241)	1,163	(525)	(7,603)
<b>Total Deferred Liabilities</b>	<b>(8,241)</b>	<b>1,163</b>	<b>(525)</b>	<b>(7,603)</b>

	Not later than one year £000	Later than one year £000	Balance 31 March 2016 £000
Commuted Maintenance Sums	(986)	(6,617)	(7,603)
<b>Total Deferred Liabilities</b>	<b>(986)</b>	<b>(6,617)</b>	<b>(7,603)</b>

## Notes to the Core Financial Statements

### 30. Usable Reserves

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement.

#### Usable Capital Receipts Reserve

The Usable Capital Receipts Reserve represents the capital receipts available to finance future capital expenditure or to repay historical capital incurred.

2014/15 £000		2015/16 £000
<b>1,399</b>	<b>Balance as at 1 April</b>	<b>1,336</b>
	Movements during Year:	
3,825	Sale of Land, Buildings and other assets	8,739
2,022	Sale of Council Dwellings	2,426
13	Private Mortgage Repayments	0
204	Recoupments of grant/other	283
<b>6,064</b>		<b>11,448</b>
(4,753)	Finance Capital Expenditure	(5,857)
(1,361)	Provide for Repayment of External Loans	(1,504)
<b>(6,114)</b>		<b>(7,361)</b>
(13)	Additional set aside from Private Mortgage Repayments	0
<b>1,336</b>	<b>Balance as at 31 March</b>	<b>5,423</b>

The balance held at 31 March 2016 relates primarily to earmarked capital receipts to be used for future capital expenditure.

### 31. Unusable Reserves

#### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its non-current assets. The balance is reduced when assets with accumulated gains are:

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

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

2014/15 £000		2015/16 £000
<b>206,879</b>	<b>Balance as at 1 April</b>	<b>201,371</b>
937	Upward revaluation of assets	134,348
(3,256)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(73,901)
<b>(2,319)</b>	<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>	<b>60,447</b>
(3,017)	Difference between fair value depreciation and historical cost depreciation (charged to Capital Adjustment Account)	(2,446)
(172)	Accumulated gains on assets sold or scrapped	(5,250)
<b>(3,189)</b>	<b>Amount written off to the Capital Adjustment Account</b>	<b>(7,696)</b>
<b>201,371</b>	<b>Balance as at 31 March</b>	<b>254,122</b>

#### Capital Adjustment Account

The Capital Adjustment Account reflects differences between normal accounting practice and statutory requirements. The Account is credited with the amounts used as finance for capital expenditure. It

## Notes to the Core Financial Statements

contains accumulated gains and losses on Investment Properties, amounts set aside to repay external loans and also revaluation gains accumulated on non-current assets before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

**Note 1** provides details of the source of all of the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2014/15 £000		2015/16 £000
<b>1,156,598</b>	<b>Balance as at 1 April</b>	<b>1,164,708</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(62,305)	Charges for depreciation and impairment of non-current assets	(56,146)
951	Reverse previous impairment on revaluation	7,188
(2,160)	Revaluation losses on Property, Plant and Equipment	(129,948)
(846)	Amortisation of intangible assets	(1,224)
(749)	Expenditure on REFCUS	(192,271)
(1,413)	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(6,460)
<b>(66,522)</b>		<b>(378,861)</b>
3,017	Adjusting amounts written out of the Revaluation Reserve (historic cost adjustment)	2,446
<b>(63,505)</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>(376,415)</b>
	Capital financing applied in the year:	
4,753	Capital Receipts	5,857
4,621	Direct Revenue Financing	5,233
959	Reserves and provisions	721
31	Insurance settlement	42
28,134	Grants and contributions	25,261
26,273	Prudent Revenue Provision	31,576
1,361	Capital receipts to provide for repayment of external loans	1,504
(243)	Reduction in loan debtors	(120)
<b>65,889</b>		<b>70,074</b>
6,230	Movements in the value of Investment Properties	(488)
(504)	Movement in the value of Held for Sale assets	(904)
<b>1,164,708</b>	<b>Balance as at 31 March</b>	<b>856,975</b>

### Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. The Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Useable Capital Receipts Reserve.

2014/15 £000		2015/16 £000
<b>104</b>	<b>Balance as at 1 April</b>	<b>87</b>
0	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2,000
(17)	Transfers to the Capital Receipts Reserve upon receipt of cash	(38)
<b>87</b>	<b>Balance as at 31 March</b>	<b>2,049</b>

## Notes to the Core Financial Statements

The balance has increased due to the deferred payment from disposal of the Central Bus Station site.

### Available for Sale Financial Instruments Reserve

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

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

2014/15 Restated £000		2015/16 £000
15,774	<b>Balance as at 1 April</b>	18,295
2,521	(Downwards) / Upwards revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(1,484)
18,295	<b>Balance as at 31 March</b>	16,811

It includes the Council's shareholding in Cardiff Bus which is not listed on any quoted market, and for which a valuation is estimated to comply with accounting for Financial Instruments. Any change in value within the Council's accounts does not have an impact on the Council Tax payer, revenue budget or cash flow in any one year as any movement in value of the asset is reflected in the 'available for sale reserve'. Any valuation should be treated with care as it is for accounting purposes only.

### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account contains entries required by legislation to ensure that the impact on Council Tax, resulting from accounting for various Financial Instruments is neutralised.

2014/15 £000		2015/16 £000
(2,709)	<b>Balance as at 1 April</b>	(2,367)
342	Proportions of premiums and discounts incurred in previous financial years to be charged against the Council Fund Balance in accordance with statutory requirements	2,367
(2,367)	<b>Balance as at 31 March</b>	0

The balance related to premiums paid to the Public Works Loans Board in previous years for the early repayment of loans. These were charged in their entirety to the Comprehensive Income and Expenditure Statement during 2015/16.

### Pensions Reserve

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

## Notes to the Core Financial Statements

2014/15 £000		2015/16 £000
(481,278)	<b>Balance as at 1 April</b>	(548,868)
(51,492)	Actuarial gains or losses on pensions assets and liabilities	12,347
(57,171)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement *	(60,086)
(830)	Reversal of amounts accrual in respect of pension strain for future years	1,837
41,903	Employer's pensions contributions and direct payments to pensioners payable in the year	41,845
<b>(548,868)</b>	<b>Balance as at 31 March</b>	<b>(552,925)</b>

### Accumulated Absences Account

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

2014/15 £000		2015/16 £000
(6,789)	<b>Balance as at 1 April</b>	(7,670)
(881)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,381
<b>(7,670)</b>	<b>Balance as at 31 March</b>	<b>(6,289)</b>

### 32. Grant Income

The Authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2015/16:

	2014/15 £000	2015/16 £000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Revenue Support Grant	(326,291)	(322,851)
Outcome Agreement Grant	(3,305)	(3,344)
Concessionary Fares Grant*	(10,303)	0
Council Tax Reduction Scheme	0	0
Non-Domestic Rates	(109,695)	(101,253)
Capital Grants	(26,340)	(23,613)
Developers' Contributions	(1,825)	(1,691)
<b>Total</b>	<b>(477,759)</b>	<b>(452,752)</b>
<b>Credited to Services (Revenue Grants &amp; Contributions)</b>		
Central Government Bodies	(268,462)	(277,944)
Other Local Authorities	(6,995)	(3,282)
NHS Bodies	(7,498)	(9,022)
Public Corporations & Trading Funds	(108)	(216)
Other Entities and Individuals	(6,459)	(15,903)
<b>Total</b>	<b>(289,522)</b>	<b>(306,367)</b>

\*The Concessionary Fares Grant, which was credited to the taxation and non-specific grant income line in 2014/15, has been credited to services in 2015/16.



## Notes to the Core Financial Statements

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

31 March 2015 £000		31 March 2016 £000
	<b>Capital Grants Receipts in Advance</b>	
(2,160)	Central Government Bodies	(1,791)
0	Other Local Authorities	0
0	NHS Bodies	0
0	Public Corporations and Trading Funds	0
0	Other Entities and Individuals	0
<b>(2,160)</b>	<b>Total</b>	<b>(1,791)</b>

31 March 2015 £000		31 March 2016 £000
	<b>Revenue Grants and Contributions Receipts in Advance</b>	
(3,005)	Central Government Bodies	(2,056)
0	Other Local Authorities	0
0	NHS Bodies	(29)
0	Public Corporations and Trading Funds	(199)
(729)	Other Entities and Individuals	(242)
<b>(3,734)</b>	<b>Total</b>	<b>(2,526)</b>

### Capital Expenditure and other Contributions Receipts in Advance:

31 March 2015 £000		31 March 2016 £000
<b>(9,724)</b>	<b>Balance as at 1 April</b>	<b>(10,095)</b>
	Movements during Year:	
(2,523)	Contributions received during the year	(1,504)
1,850	Contributions applied to expenditure during the year	1,284
302	Reclassification	382
<b>(10,095)</b>	<b>Balance as at 31 March</b>	<b>(9,933)</b>

This represents amounts received from predominantly developers and other external sources, which are yet to be used to fund specific future expenditure. Schemes to be funded are specific and very often time limited.

### 33. Contingent Assets & Liabilities

#### Assets

The Council holds a proportion of equity in a number of properties arising primarily from the affordable housing contribution that developers provide on new build developments. The equity proportions range from 20% to 40%, with the buyer nominated by the Council providing the balance of the resources to purchase the property. These properties were aimed at first time buyers who could not afford to buy a home on the open market. When the owner of the property wishes to sell their home, the Council have the first opportunity to nominate a purchaser from the assisted home ownership waiting list. If there is no nomination, the owner is free to sell on the open market and the Council is entitled to its relevant proportion of the market value of disposal in accordance with the charge on the property. This is treated

## Notes to the Core Financial Statements

as a capital receipt in the year that it is received. The estimated total value of equity provided at 31 March 2016 is £5.247 million.

At 21 December 2015, Glamorgan County Cricket Club owed the Council a total of £6.534 million. In March 2015, the Council approved a request from the club to write off 70% of sums due and restructure remaining sums in line with other major creditors. This was actioned on 21 December 2015 following completion of legal agreements and confirmation of no adverse tax implications for the club. Given the risks of recovery of sums due that still remain, the balance due of 30% (£1.960 million) remains 100% impaired. Any balances due are not shown in the financial statements but are shown as a contingent asset to reflect the amounts potentially receivable in accordance with the proposed restructured loan. Repayments are proposed to begin in 2019.

There are a number of outstanding VAT claims that could be due to the Council in the future. This includes further trade waste claims, parking claims and cultural exemption claims. Certain claims would also be subject to due interest being added to the amount received.

### Liabilities

As at 31 March 2016 there existed 14 claims against the Council for which there is no insurance cover. The claims include unfair dismissal, disability discrimination, council house disrepairs, personal injury claims and breach of contract. The potential liability in respect of the 14 claims is estimated to be £526,000, although some are unknown and the Council is resisting liability.

The former Authorities of South Glamorgan County Council and Cardiff City Council are creditors of Municipal Mutual Insurance (MMI) Ltd and are legally bound by the Scheme of Arrangement. MMI ceased taking new business on 30 September 1992. The scheme allows new claims to be made against MMI and outstanding claims with MMI to be settled. The Council are liable to pay a percentage of claims previously settled by MMI and contribute to the cost of future settled claims. As at 31 March 2016 this liability amounted to £2.790 million for the former South Glamorgan County Council (shared 72/28 with the Vale of Glamorgan) and £229,691 for the former Cardiff City Council.

The Scheme was triggered on 13 November 2012 and this will involve the claw back of a percentage of previously paid claims as well as a percentage of any future claims. A 15% levy has been paid and open and new claims will be paid at 85%. The Council has recognised as a provision the sum of £866,494 as at 31 March 2016 (as disclosed at [note 27](#) of the Notes to the Statement of Accounts). Additional levies may be imposed on Authorities. A further 10% is due to be paid in April 2016 bringing the total levy to 25% but the value and timing of future levies is not yet known.

### 34. Notes to Cash Flow Statement

#### Adjust net surplus or deficit on the provision of services for non-cash movements

	2014/15 £000	2015/16 £000
Depreciation, impairment & amortisation	(58,635)	(192,793)
Charges made for retirement benefits (IAS19) less employers contributions	(20,238)	(15,023)
Contributions (to)/from provisions	5,153	5,683
Gain/loss on disposal of non-current assets	(1,586)	(488)
Increase/(decrease) in stock	(588)	(30)
Increase/(decrease) in debtors (exc capital)	1,247	10,722
(Increase)/decrease in creditors (exc capital creditors) & super fund	(14,593)	4,186
	<b>(89,240)</b>	<b>(187,743)</b>

## Notes to the Core Financial Statements

### Items in net surplus/ deficit on provision of services that are investing and financing activities

	2014/15 £000	2015/16 £000
REFCUS	(749)	(192,271)
Net gain/(loss) on sale of non-current assets	5,774	11,096
Repayments of liabilities under finance leases	0	0
Capital grants/contributions recognised in I&E	28,165	25,304
Other cash items which effect investing or financing activities	(13,885)	(16,858)
	<b>19,305</b>	<b>(172,729)</b>

#### 35. Events after the Reporting Period

There are no events after the reporting period to report.

#### 36. Date of Authorisation of the Accounts for Issue

This Statement of Accounts was authorised for issue on 29 September 2016 by Corporate Director Resources. Post Balance Sheet events have been considered up to this date.

## Housing Revenue Account

The **HRA Income and Expenditure Account** shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

During 2015/16, the Council paid a Settlement payment of £187.392 million to Welsh Government to exit the Housing Revenue Account Subsidy (HRAS) system. Whilst this means that the Council will no longer have to pay over part of its rental income to Welsh Government in the form of a subsidy payment, the Council will have to pay additional costs for the borrowing undertaken to fund this payment for many years to come. This includes additional costs for interest and also setting aside from any income additional amounts for reducing the amount borrowed and outstanding. These changes can be seen in the note below for 2015/16. Any financial benefit from this transaction on an ongoing basis is proposed to be re-invested into the housing stock.

2014/15			2015/16
£000		Note	£000
	<b>Expenditure</b>		
20,739	Repairs and maintenance		22,740
17,833	Supervision and management		17,862
128	Rents, rates, taxes and other charges		133
14,464	Housing Revenue Account subsidy payable		32
523	Provision for bad and doubtful debts		565
15,899	Depreciation, impairment and revaluation of non-current assets	8	120,169
353	Sums directed by the Welsh Government that are expenditure in accordance with the Code	9	0
0	Housing Revenue Account settlement payment	9	187,392
32	Debt management costs		66
<b>69,971</b>	<b>Total Expenditure</b>		<b>348,959</b>
	<b>Income</b>	2	
(58,586)	Dwelling rents		(61,103)
(67)	Non-dwelling rents		(89)
(6,578)	Charges for services and facilities		(6,444)
<b>(65,231)</b>	<b>Total Income</b>		<b>(67,636)</b>
4,740	<b>Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement</b>		281,323
42	HRA Services' share of Corporate and Democratic Core		67
<b>4,782</b>	<b>Net Cost for HRA Services</b>		<b>281,390</b>
	<b>HRA share of the operating income and expenditure included in the Comprehensive Income &amp; Expenditure Statement:</b>		
(2,819)	(Gain)/loss on sale of HRA non-current assets		(1,855)
4,806	Interest payable and similar charges		13,015
80	Changes in fair value of investment properties		0
(65)	Interest and Investment income		(72)
(11,480)	Capital Grants and Contributions applied		(10,181)
<b>(4,696)</b>	<b>(Surplus)/Deficit for year on HRA services</b>		<b>282,297</b>

## Notes to Housing Revenue Account

### MOVEMENT ON HRA STATEMENT

2014/15 £000		Note	2015/16 £000
(8,124)	<b>Balance on the HRA at the end of the previous year</b>		(8,438)
(4,696)	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement		282,297
4,828	Adjustments between accounting basis and funding basis under regulations	1	(283,013)
132	<b>Net (increase)/decrease before transfers to or from reserves</b>		(716)
(446)	Transfers to/(from) reserves		716
(314)	<b>Increase or decrease in the year on the HRA</b>		0
(8,438)	<b>Balance on the HRA at the end of the current year</b>		(8,438)

#### 1. Adjustments between Accounting Basis and Funding Basis Under Regulations

2014/15 £000		Note	2014/15 £000
	<b>Adjustments primarily involving the Capital Adjustment Account:</b>		
	Reversal of items debited or credited to the HRA Income and Expenditure Statement:		
15,899	Charges for depreciation and impairment of non-current assets	8	120,169
80	Movement in the market value of investment properties		0
353	Sums directed by Welsh Government	9	187,392
1,145	Non-current assets written off as part of the gain/loss on disposal to the HRA Income and Expenditure Statement		0
(11,480)	Capital grants and contributions applied		(10,181)
	<b>Insertion of items not debited or credited to the HRA Income and Expenditure Statement:</b>		
(2,899)	Prudent Provision for the financing of capital investment		(7,912)
(3,761)	Capital expenditure funded by the HRA		(4,818)
	<b>Adjustments involving the Pensions Reserve:</b>		
1,290	Net Retirement Benefits per IAS19		2,758
(14)	Pension Strain Accrual – future years		0
(1,507)	Employers Contributions to pension schemes		(2,630)
	<b>Adjustments involving the Capital Receipts Reserve:</b>		
(4,101)	Non-current assets written off as part of the gain/loss on disposal to the HRA Income and Expenditure Statement		(2,149)
35	Credit for disposal costs that qualify to be met from the resulting capital receipts		32
	<b>Adjustments involving the Revaluation Reserve:</b>		
137	Non-current assets written off as part of the gain/loss on disposal to the HRA Income & Expenditure Account		290
	<b>Adjustments involving the Accumulated Compensated Absences Account:</b>		
(3)	Amount by which officer remuneration charged to the HRA Income & Expenditure Account on an accruals basis is different from remuneration chargeable in accordance with statutory requirements		28
	<b>Adjustments involving the Financial Instruments Adjustment Account:</b>		
(2)	Amortisation of premiums and discounts		34
(4,828)	<b>Total Adjustments</b>		<b>283,013</b>

## Notes to Housing Revenue Account

### 2. Rental Income

This is the total rent income due for the year after allowance is made for voids etc. Vacancies accounted for 2.03% of rental income (2.04% in 2014/15). Average rents were £88.23 per week (£84.33 in 2014/15) based on a 52 week year.

### 3. Rent Arrears and Bad Debt Provision

	As at 31 March 2015		As at 31 March 2016	
	Rent arrears	Bad debt provision	Rent arrears	Bad debt provision
	£000	£000	£000	£000
Ordinary HRA	2,459	1,929	2,795	2,189
Leasehold properties	44	44	41	41
Hostels	121	121	156	156
<b>Total</b>	<b>2,624</b>	<b>2,094</b>	<b>2,992</b>	<b>2,386</b>

In addition the following sums were also due from tenants:

	As at 31 March 2015		As at 31 March 2016	
	Arrears	Bad debt provision	Arrears	Bad debt provision
	£000	£000	£000	£000
Service Charges	55	33	81	49
Tenants recoverables	294	294	358	358
<b>Total</b>	<b>349</b>	<b>327</b>	<b>439</b>	<b>407</b>

During 2015/16 a number of old debts totalling £195,202 were written off as irrecoverable (£221,951 in 2014/15).

### 4. Pension Costs

In accordance with IAS19 the amount included within Supervision and Management in respect of employee costs includes the current service cost for pensions. In order that the bottom line pension cost borne by the HRA equals the total employer's contributions paid to the Pension Fund in the year plus any discretionary benefits payable to ex-housing staff, a transfer has been made to the Pensions Reserve as follows:

	2014/15	2015/16
	£000	£000
Cost of employer's contributions plus discretionary benefits	1,507	2,630
Current service cost	(1,290)	(2,758)
Pension Strain Accrual - Future Years	14	0
<b>Net transfer to Pensions Reserve</b>	<b>231</b>	<b>(128)</b>

No attempt has been made to apportion a share of the pensions interest cost and expected return on pensions assets to the HRA as there is no valid basis of apportionment.



## Notes to Housing Revenue Account

### 5. Housing Stock

The Council's housing stock is shown below:

	31 March 2015	31 March 2016
Houses	7,268	7,251
Bungalows	624	624
Flats/Bedsits	5,110	5,083
Maisonettes	240	168
Retirement complexes	358	357
<b>Total</b>	<b>13,600</b>	<b>13,483</b>

During the year the Council has demolished a number of units in preparation for new build schemes as part of the Housing Partnership Project.

The Council also owns two hostels, providing the following accommodation:

	31 March 2015	31 March 2016
Bed spaces in hostels	9	9
Flats in hostels	49	49
<b>Total</b>	<b>58</b>	<b>58</b>

### 6. Capital Expenditure and Capital Financing

2014/15 £000		2015/16 £000
<b>96,360</b>	<b>Opening Capital Financing Requirement</b>	<b>94,518</b>
	Capital Expenditure:	
17,777	Council dwellings	16,867
22	Other land & buildings	352
1	Vehicles, plant & equipment	786
422	Surplus assets	94
1,029	Assets under construction	1,259
61	Intangible Assets including intangible AUC	118
353	REFCUS	0
0	REFCUS - Housing Revenue Account settlement payment	187,392
1,100	Appropriation of Land	0
	Sources of Finance:	
(3,237)	Capital Receipts	(1,876)
(11,480)	Government grants and other contributions *	(10,181)
(3,761)	Direct revenue contributions and reserves	(4,818)
(4,129)	Prudent revenue and capital provision for loan repayment	(7,912)
<b>94,518</b>	<b>Closing Capital Financing Requirement</b>	<b>276,599</b>
0	Debt Cap at 31 March	316,554
<b>0</b>	<b>Headroom</b>	<b>39,955</b>
	<b>Explanation of Movements in Year:</b>	
(2,850)	Decrease in Underlying need to borrow (supported by government financial assistance - relating to previous years)	0
1,008	Increase in Underlying need to borrow (unsupported by government financial assistance - relating to previous years)	182,081
<b>(1,842)</b>	<b>Movement in capital financing requirement</b>	<b>182,081</b>

## Notes to Housing Revenue Account

\*£9.614 million (£9.6 million in 2014/15) of Major Repairs Grant was received from Welsh Government and applied in the year.

Following the exit from the housing subsidy system in 2015/16 all borrowing for the HRA is unsupported. As part of the exit, the Council must adhere to a debt cap set by Welsh Government. This is based on the Housing Capital Financing Requirement (CFR) calculation and at 31 March 2016, the cap was £316.554 million. The table above shows the Council remained within its cap. Breach of the cap could result in financial penalties imposed on the Council by Welsh Government.

### 7. Capital Receipts

Proceeds from the disposal of HRA Assets during 2015/16 were as follows:

- Council Dwellings and Home Purchase Contributions £2.426 million (£2.022 million in 2014/15)
- Land £0.207 million (£2.061 million in 2014/15)

### 8. Depreciation, Impairment and Revaluation charged

Depreciation and impairment was charged on HRA assets as shown in the table below. Such charges to the HRA and changes in valuation do not have any impact on the amount required to be collected from rents as all such adjustments to non-current assets are required to be neutralised from capital reserves.

	2014/15 £000	2015/16 £000
Council dwellings	13,877	119,841
Land and buildings	1,901	(80)
Vehicles, plant & equipment	123	408
<b>Total depreciation, impairment and revaluation</b>	<b>15,901</b>	<b>120,169</b>

Council dwellings were revalued during 2015/16. The vacant possession value of Council Dwellings was deemed to be £1.3 billion as at 01/04/2015. However, in accordance with valuation requirements, the valuation is required to be adjusted downwards to show the economic cost of providing social housing to tenants at less than market rents. The valuation in the accounts is shown at 40% of the vacant possession value, adjusted by movements in accordance with the Council policies in respect to accounting for such assets.

### 9. Sums directed by the Welsh Government

Revenue expenditure funded from capital under statute charged to the Housing Revenue Account in 2015/16 was £187.392 million (£353,000 in 2014/15). The amount charged to the HRA in 2015/16 relates to the settlement payment made for the exit from the HRA Subsidy system.

	2014/15 £000	2015/16 £000
<b>Expenditure:</b>		
Buildings not owned by the Council	353	0
Capitalisation Direction – Housing Revenue Account Subsidy System Settlement Payment	0	187,392
Charged to Income and Expenditure Account	<b>353</b>	<b>187,392</b>
<b>Funded by:</b>		
Borrowing, receipts and other capital resources	353	187,392
	<b>353</b>	<b>187,392</b>

## Foreword

The City of Cardiff Council is the Administering Authority for the Cardiff & Vale of Glamorgan Pension Fund which is itself part of the national Local Government Pension Scheme (LGPS) for England & Wales. The regulations for the Scheme are determined by the UK Government.

The Pension Fund's assets fell by 1.6% during 2015/16, from £1.68 billion to £1.65 billion mainly as a result of 2015/16 having been a difficult year for global equity markets, with periods of significant volatility during the year. Over the longer term the Fund's assets have grown, averaging 6.5% per annum over the past three years, but the continuing low interest rates and expectations of lower investment returns in the future are likely to result in increased liabilities at this year's triennial valuation.

In July 2015 the UK Government announced that all LGPS funds in England and Wales must join together to form investment pools. The eight funds in Wales have been working together for several years and had already made significant progress towards collaborative investing. An outline proposal was submitted in February 2016 for a Wales Investment Pool with assets of around £13 billion. The Department for Communities and Local Government (DCLG) have responded positively to the submission and detailed proposals will be submitted in July this year. The pooling arrangement will have a significant impact on how investments are managed in the future but each individual LGPS fund will continue to set its own investment strategy in the light of its specific funding position and liability profile. New investment regulations are expected towards the end of this year.

The Fund's Local Pension Board was established in 2015. The Board comprises three employer representatives, three scheme member representatives and an independent (non-voting) chair. The Board's role is to assist the Council in securing compliance with the LGPS regulations and related legislation. Members were appointed from 1 July 2015 and the Board held its first meeting on 30 July. The Board will meet at least three times a year.

The Fund's key objectives continue to be to deliver an effective and efficient service to the 37,000 contributing employees, pensioners and deferred members, and to minimise the financial burden on contributing employers over the long term.

**Christine Salter**  
**Corporate Director Resources**  
**29 September 2016**

## Actuarial Statement

### Cardiff and Vale of Glamorgan Pension Fund

#### Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Cardiff and Vale of Glamorgan Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2013 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

#### Actuarial Position

1. The valuation as at 31 March 2013 showed that the funding ratio of the Fund had improved since the previous valuation, with the market value of the Fund's assets at that date (of £1,369M) covering 82% of the liabilities in respect of service prior to the valuation date allowing, in the case of current contributors to the Fund, for future increases in pensionable pay.
2. The valuation also showed that the aggregate level of contributions to be paid to the Fund by participating employers with effect from 1 April 2014 was:
  - 15.4% of pensionable pay. This was the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date.
  - Plus
  - Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 23 years from 1 April 2014, amounting to £16.9M in 2014/15, and increasing by 3.4% p.a. thereafter, before any phasing in or 'stepping' of contribution increases.  
This would imply an average employer contribution rate of about 22.2% of pensionable pay in total, if the membership remains broadly stable and payroll increases by 3.4% p.a.
3. In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt's report dated 28 March 2014 (the actuarial valuation report). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.
4. The funding plan adopted in assessing the contributions for each individual employer was in accordance with the Funding Strategy Statement in force at that time. The approach adopted, and the recovery period used for each employer, is set out in the actuarial valuation report.
5. The actuarial valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service	
Scheduled Bodies	5.6% p.a.
Admission Bodies	5.2% p.a.
Discount rate for periods after leaving service	
Scheduled Bodies	5.6% p.a.
Admission Bodies	3.9% p.a.
Rate of pay increases	3.4% p.a.
Rate of increase to pension accounts	2.4% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% p.a.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2013. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
7. The formal actuarial valuation report and the Rates and Adjustment certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 were signed on 28 March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund due as at 31 March 2016 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013. The actuarial valuation of the Fund as at 31 March 2016 is currently underway and the Regulations require the formal report of the valuation and the Rates and Adjustment Certificate setting out employer contributions for the period from 1 April 2017 to 31 March 2020 to be signed off by 31 March 2017.
8. This statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of City and County of Cardiff. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2013. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, City and County of Cardiff, in respect of this statement.

The report on the actuarial valuation as at 31 March 2013 is available on the Fund's website at the following address:

<https://www.cardiff.gov.uk/ENG/Your-Council/Council-finance/Pensions/Documents/Actuarial%20Valuation%20Report%20-%2031%20March%202013.pdf>

**Aon Hewitt Limited**  
**June 2016**

# Cardiff and Vale of Glamorgan Pension Fund

## FUND ACCOUNT FOR YEAR ENDED 31 MARCH 2016

2014/15 Restated £000		2015/16 £000
	<b>CONTRIBUTIONS AND BENEFITS</b>	
	<b>Contributions receivable</b>	
58,471	from employers (note 5)	60,370
16,026	from employees (note 5)	16,360
2,978	Transfers in	5,034
5,134	Other Income (Capitalised Payments and interest on deficit funding)	2,134
<b>82,609</b>		<b>83,898</b>
	<b>Benefits Payable</b>	
(55,983)	Pensions (note 6)	(59,118)
(19,439)	Lump Sums (note 6)	(16,910)
	Payments to and on account of leavers	
(76)	Refunds of contributions	(136)
(3,204)	Transfers out	(8,220)
<b>(78,702)</b>		<b>(84,384)</b>
	Net Additions/(Withdrawals) from dealings with Members of the Fund	
<b>3,907</b>		<b>(486)</b>
	<b>RETURNS ON INVESTMENT</b>	
17,388	Investment Income (note 9)	18,176
176,648	Change in market value of investments (note 10)	(31,716)
(10,929)	Management expenses (note 8)	(12,520)
<b>183,107</b>	Net Returns on Investments	<b>(26,060)</b>
<b>187,014</b>	Net Increase/(Decrease) in the Fund During Year	<b>(26,546)</b>
1,492,503	Opening Net Assets of the Scheme	1,679,517
<b>1,679,517</b>	<b>Closing Net Assets of the Scheme</b>	<b>1,652,971</b>



# Cardiff and Vale of Glamorgan Pension Fund

## NET ASSET STATEMENT AS AT 31 MARCH 2016

2014/15 £000		2015/16 £000
1,616,090	Investments at market value (note 10)	1,599,878
37,061	Cash & investment proceeds due (note 10)	29,002
<b>1,653,151</b>		<b>1,628,880</b>
	<b>Current assets</b>	
121	UK & Overseas Tax	128
4,488	Contributions due from Employers and deficit funding	4,533
793	Sundry Debtors (note 14)	602
3,078	Pension Strain costs due within one year	2,886
<b>8,480</b>		<b>8,149</b>
	<b>Non-current assets</b>	
15,618	Deficit funding (former employers)	13,386
6,253	Pension strain costs due after one year	4,891
<b>21,871</b>		<b>18,277</b>
	<b>Current liabilities</b>	
(3,055)	Unpaid Benefits	(1,550)
(930)	Sundry Creditors (note 14)	(785)
<b>(3,985)</b>		<b>(2,335)</b>
<b>1,679,517</b>	<b>Net Assets of the Scheme</b>	<b>1,652,971</b>

## NOTES TO THE ACCOUNTS

1. The Statement of Accounts summarises the transactions and net assets of the Pension Fund for the financial year 2015/16. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, 2015/16 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the administering Authority. They do not take account of obligations to pay pensions and benefits which fall due after the year end. Under IAS26 the Fund is required to disclose the "actuarial present value of the promised retirement benefits". This figure has been calculated by the Actuary as at 31 March 2013 as £2,028.8 million, with a comparator value as at the 31 March 2010 valuation of £1,950.4 million.

The actuarial position is summarised in the Actuarial Statement which is included on pages 105 and 106. This shows that the overall funding level as at 31 March 2013 is 82%.

## 2. Accounting Policies

### (a) Basis of Preparation

Bond and dividend income has been taken into account on the contractual payment date. Property and private equity income is credited on receipt. The Fund does not account for any benefits payable or receivable in respect of members wishing to transfer from one scheme to another until assets (either cash investments or other form) have been received by the receiving scheme. All other income and expenditure has been accounted for on an accruals basis, except the liability to pay pensions and other benefits in the future. As per IAS 26, a disclosure has been made of the Fund's pension liability i.e. the actuarial present value of promised retirement benefits

### (b) Valuation of Investments

Quoted bond and equity investments are valued at bid market value at close of business on the last working day in March 2016 (bid market value is the price at which an investment can be sold at a given date). Private Equity Fund investments are valued at fair value, as determined by the administrators of the Fund, based on valuations provided by the general partners of the underlying investments. Where this is a publicly traded investment the valuation is based upon the closing market prices at the balance sheet date of the Fund. If the investment is not publicly traded, the general partner will consider the operational results of the company or any recent transactions in the company. If the company's year end does not coincide with the Pension Fund's year end, the valuation is updated with regard to the calls and distributions made between the Private Equity Fund's audited account date and the Pension Fund's year end. Pooled vehicles are normally valued at bid prices where available. Overseas investments have been converted at WM/Reuters closing spot rates of exchange. Official SETS prices have been used for FTSE100 securities (plus the reserve list). Derivatives are stated at market value. The value of futures contracts is determined using exchange prices at the reporting date. 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.

### (c) Critical judgements in applying accounting policies

Unquoted private equity investments - These are inherently based on forward looking estimates and judgements valued by the investment managers using two main sets of valuation guidelines that apply to private equity; the Private Equity Valuation Guidelines (PEVG) in the US and the International Private Equity and Venture Capital Valuation Guidelines (IPEVCG) outside the US. The value of unquoted private equities at 31 March 2016 was **£83 million** (£87 million at 31 March 2015).

Pension fund liability -This is calculated by the actuary every three years with an annual statement in the intervening years. This is calculated in accordance with IAS19 and the main assumptions used in the calculation are summarised in the actuary's statement on page 105 and 106. This estimate is based on significant variances based on changes to the underlying assumptions.

**(d) Assumptions made about the future and other major sources of estimation uncertainty.**

The Statement of Accounts contains estimated figures based on assumptions made taking into account historical experience, current trends and other factors. As balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actual present value of promised retirement benefits</b>	Estimations of the liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries increase, changes in mortality rates and expected returns on pension fund assets. The actuary provides the fund with advice regarding the assumptions to be used.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in the pension liability. An increase in assumed earnings inflation or assumed life expectancy would increase the value of the liabilities.
<b>Private Equity Valuations</b>	Private equity investments are valued at fair value in accordance with international 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 £83 million. There is a risk that this investment may be under, or overstated in the accounts.

**(e) Acquisition costs of Investments**

Acquisition costs are included with the original book cost at the time of purchase. At the year end, however, investments on the balance sheet are valued at market value. The difference is recorded in the Accounts as "Change in Market Value of Investments".

### 3. Taxation

**(a) UK Income, Capital Gains Taxes**

The Fund is an exempt approved fund able to recover UK income tax. No Capital Gains Tax is chargeable.

**(b) Value Added Tax**

The accounts are shown exclusive of VAT. As the County Council is the administering Authority, VAT is recoverable on all Fund activities.

**(c) Overseas Withholding Tax**

Foreign investment income usually suffers withholding tax in the country of origin, some of which may be recoverable. Irrecoverable tax is netted off against income.

### 4. Titles of Ownership

Evidences of ownership for the property unit trusts and private equity holdings are held at County Hall. All other evidences of ownership were held at 31 March 2016 by The Northern Trust Company for the benefit of the Council. Statements of holdings have been provided by Northern Trust.

# Cardiff and Vale of Glamorgan Pension Fund

## 5. Employing Bodies – Contributions

	No. of contributors at 31.03.16	Contribution rates (% of pensionable pay)	Additional lump sum (memo) £000	Employers £000	Employees £000	Total £000
<b>SCHEDULED BODIES:</b>						
Barry Town Council	13	27.0%	0	75	18	93
Cardiff and Vale College	374	13.6%	260	1,293	484	1,777
Cardiff City Transport	27	25.4%	480	689	55	744
City of Cardiff Council	9,987	22.9%	0	35,625	9,714	45,339
Cardiff Metropolitan University	743	13.6%	527	3,299	1,390	4,689
Cowbridge Town Council	4	27.0%	0	18	4	22
Dinas Powys Community Council	1	27.0%	0	7	2	9
Lisvane Community Council	1	27.0%	0	3	1	4
Llantwit Major Town Council	4	27.0%	0	18	4	22
Penarth Town Council	14	27.0%	0	78	18	96
Penllyn Community Council	1	27.0%	0	1	0	1
Public Services Ombudsman for Wales	1	32.3%	266	290	6	296
Radyr & Morganstown Community Council	1	27.0%	0	7	1	8
St Davids Sixth Form College	39	13.6%	14	126	51	177
Stanwell School	78	16.4%	13	171	56	227
Vale Of Glamorgan Council	3,317	22.7%	0	13,258	3,672	16,930
Wenvoe Community Council	1	27.0%	0	2	0	2
<b>Sub-total</b>	<b>14,606</b>			<b>54,960</b>	<b>15,476</b>	<b>70,436</b>
<b>ADMITTED BODIES:</b>						
APP Clean UK	5	21.5%	0	6	2	8
Cardiff Business Technology Centre	4	28.7%	0	22	5	27
Cardiff Gypsy & Traveller Project	0	23.4%	0	1	0	1
Cardiff Institute For The Blind	2	20.6%	59	68	3	71
Cardiff University	54	27.3%	1,300	1,654	82	1,736
Careers Wales (Cardiff & Vale)	78	18.1%	0	389	138	527
Children In Wales	25	27.3%	0	153	36	189
Civic Trust For Wales	0	23.4%	8	8	0	8
Colleges Wales	6	19.8%	9	57	19	76
Design Commission for Wales	4	20.3%	0	34	13	47
Mirus Wales	6	23.4%	0	58	22	80
National Trust	9	20.7%	0	34	10	44
One Voice	2	19.4%	6	23	7	30
Play Wales	6	24.0%	8	54	14	68

## Cardiff and Vale of Glamorgan Pension Fund

	No. of contributors at 31.03.16	Contribution rates (% of pensionable pay)	Additional lump sum (memo) £000	Employers £000	Employees £000	Total £000
Royal National Eisteddfod	13	25.5%	32	150	36	186
Sport Wales	129	20.2%	1,050	1,866	281	2,147
Wales & West Housing	1	20.6%	105	133	15	148
Welsh Council For Voluntary Action	59	21.4%	36	455	131	586
Workers Education Association	52	22.3%	6	245	70	315
<b>Sub-total</b>	<b>455</b>			<b>5,410</b>	<b>884</b>	<b>6,294</b>
<b>Total</b>	<b>15,061</b>			<b>60,370</b>	<b>16,360</b>	<b>76,730</b>

### Additional deficit funding

There was no additional deficit funding in 2015/16.

### Comparative note for 2014/15

	No. of contributors at 31.03.15	Contribution rates (% of pensionable pay)	Additional lump sum (memo) £000	Employers £000	Employees £000	Total £000
<b>SCHEDULED BODIES:</b>						
Barry Town Council	13	27.0%	0	74	18	92
Cardiff and Vale College	371	13.6%	259	1,254	464	1,718
Cardiff City Transport	30	25.4%	480	729	65	794
City of Cardiff Council	9,160	22.9%	0	35,608	9,791	45,399
Cardiff Metropolitan University	767	13.6%	527	3,108	1,288	4,396
Cowbridge Town Council	4	27.0%	0	18	4	22
Dinas Powys Community Council	1	27.0%	0	7	1	8
Lisvane Community Council	1	27.0%	0	1	0	1
Llantwit Major Town Council	4	27.0%	0	18	4	22
Penarth Town Council	14	27.0%	0	73	17	90
Penllyn Community Council	1	27.0%	0	1	0	1
Public Services Ombudsman for Wales	3	32.3%	254	290	9	299
Radyr & Morganstown Community Council	1	27.0%	0	6	1	7
St David's Sixth Form College	37	13.6%	14	114	47	161

## Cardiff and Vale of Glamorgan Pension Fund

	No. of contributors at 31.03.15	Contribution rates (% of pensionable pay)	Additional lump sum (memo)	Employers	Employees	Total
Stanwell School	75	16.4%	13	167	55	222
Vale Of Glamorgan Council	3,191	22.7%	0	12,037	3,332	15,369
Wenvoe Community Council	1	27.0%	0	2	0	2
<b>Sub-total</b>	<b>13,674</b>			<b>53,507</b>	<b>15,096</b>	<b>68,603</b>
<b>ADMITTED BODIES:</b>						
Cardiff Business Technology Centre	3	28.7%	0	14	3	17
Cardiff Gypsy & Traveller Project	1	23.4%	3	8	1	9
Cardiff Institute For The Blind	2	20.6%	57	66	3	69
Cardiff University	57	27.3%	1,300	1,684	89	1,773
Careers Wales (Cardiff & Vale)	84	18.1%	0	397	138	535
Children In Wales	22	24.7%	0	142	38	180
Civic Trust For Wales	0	23.4%	4	4	0	4
Colleges Wales	6	19.8%	9	67	23	90
Design Commission for Wales	4	20.3%	0	30	12	42
Memorial Hall	4	17.8%	0	17	6	23
Mirus Wales	6	23.4%	0	56	20	76
National Trust	11	20.7%	0	43	13	56
One Voice	2	19.4%	3	19	8	27
Play Wales	5	24.0%	4	57	17	74
Royal National Eisteddfod	12	25.5%	32	142	33	175
Sport Wales	131	20.2%	500	1,323	286	1,609
Wales & West Housing	1	20.6%	102	139	16	155
Welsh Council For Voluntary Action	73	21.4%	43	500	149	649
Workers Education Association	47	22.3%	5	256	75	331
<b>Sub-total</b>	<b>471</b>			<b>4,964</b>	<b>930</b>	<b>5,894</b>
<b>Total</b>	<b>14,145</b>			<b>58,471</b>	<b>16,026</b>	<b>74,497</b>

### Additional deficit funding

There was no additional deficit funding in 2014/15



# Cardiff and Vale of Glamorgan Pension Fund

## 6. Employing Bodies - Benefits Paid

	Retirement Pensions £000	Lump Sums on Retirement £000	Death Grants £000	Commutation Payments £000
<b>SCHEDULED BODIES:</b>				
Barry Town Council	84	160	0	0
Cardiff City Transport	2,307	224	0	11
City of Cardiff Council	38,348	7,735	1,220	395
Cardiff and Vale College	640	213	55	2
Cardiff Metropolitan University	1,549	1,124	85	18
Cowbridge Town Council	11	10	0	0
Dinas Powys Town Council	9	0	0	0
Llantwit Major Town Council	18	0	0	0
Mary Immaculate High School	8	0	0	0
Penarth Town Council	43	114	0	0
Probation Service	39	0	0	0
Public Services Ombudsman for Wales	227	35	0	0
Royal Welsh College of Music & Drama	77	0	0	0
S Wales Magistrates Courts	373	173	1	23
St Cyres School	48	16	56	0
St David's Sixth Form College	69	23	0	0
Stanwell School	57	37	0	0
Vale of Glamorgan Council	10,979	4,028	37	99
<b>Sub-total</b>	<b>54,886</b>	<b>13,892</b>	<b>1,454</b>	<b>548</b>
<b>ADMITTED BODIES:</b>				
Cardiff Bay Arts Trust	11	3	0	0
Cardiff Bay Development Corp	502	46	0	0
Cardiff Business Technology Centre	13	0	0	0
Cardiff Gypsy & Traveller Project	11	0	0	0
Cardiff Institute for Blind	71	0	0	0
Cardiff University	1,076	211	0	(9)
Careers Wales (Cardiff & Vale)	348	136	65	0
Catholic Children's Society	2	0	0	0
Channel View Centre	5	0	0	0
Children in Wales	14	0	0	0
Citizens Advice Bureau (Cardiff)	13	0	0	0
Citizens Advice Bureau (Vale)	12	0	0	0
Civic Trust for Wales	18	0	0	0
Colleges Wales	74	0	0	0
Community Relations	2	2	0	0
Design Commission for Wales	3	0	0	0
Dimensions	10	0	0	0
Glam & Gwent Housing Assoc	58	0	0	0

## Cardiff and Vale of Glamorgan Pension Fund

	Retirement Pensions £000	Lump Sums on Retirement £000	Death Grants £000	Commutation Payments £000
Glamorgan Holiday Hotel	60	47	0	0
Higher Ed Development Wales	3	0	0	0
Housing for Wales	202	30	0	0
Intervol	22	0	0	0
Land Authority for Wales	304	0	0	0
National Eisteddfod	71	0	0	0
National Trust	10	91	0	0
Memorial Hall	12	0	0	0
Mirus Wales (Opportunity Housing Trust)	20	0	0	0
Play Wales	20	0	0	0
S E Wales Com Trust	7	0	0	0
Sport Wales	839	64	0	23
STAR	7	0	0	0
Wales & West Housing	139	(7)	0	0
Wales Youth Agency	56	0	0	0
Welsh Council for Voluntary Action	189	173	0	0
Workers Education Association	28	141	0	0
<b>Sub-total</b>	<b>4,232</b>	<b>937</b>	<b>65</b>	<b>14</b>
<b>TOTAL</b>	<b>59,118</b>	<b>14,829</b>	<b>1,519</b>	<b>562</b>

### Comparative note for 2014/15

	Retirement Pensions £000	Lump Sums on Retirement £000	Death Grants £000	Commutation Payments £000
<b>SCHEDULED BODIES:</b>				
Barry Town Council	77	14	0	0
Cardiff City Transport	2,228	1,012	8	0
City of Cardiff Council	36,222	11,070	1,147	337
Cardiff and Vale College	562	211	0	0
Cardiff Metropolitan University	1,373	657	0	0
Cowbridge Town Council	11	0	0	0
Dinas Powys Town Council	9	0	0	0
Llantwit Major Town Council	18	0	0	0
Mary Immaculate High School	14	0	0	0
Penarth Town Council	42	5	0	0
Probation Service	250	8	0	0
Public Services Ombudsman for Wales	182	75	0	0
Radyr & Morganstown Community Council	17	0	0	0
Royal Welsh College of Music & Drama	76	0	0	0
S Wales Magistrates Courts	316	348	0	34

## Cardiff and Vale of Glamorgan Pension Fund

	Retirement Pensions £000	Lump Sums on Retirement £000	Death Grants £000	Commutation Payments £000
St Cyres School	47	14	0	0
St David's Sixth Form College	63	32	0	0
Stanwell School	43	102	0	17
Vale of Glamorgan Council	10,497	3,066	319	97
<b>Sub-total</b>	<b>52,047</b>	<b>16,614</b>	<b>1,474</b>	<b>485</b>
<b>ADMITTED BODIES:</b>				
Cardiff Bay Arts Trust	11	0	0	0
Cardiff Bay Development Corp	489	15	0	0
Cardiff Business Technology Centre	12	0	0	0
Cardiff Gypsy & Traveller Project	11	0	0	0
Cardiff Institute for Blind	71	0	0	0
Cardiff University	1,014	156	61	10
Careers Wales (Cardiff & Vale)	293	87	0	0
Catholic Children's Society	2	0	0	0
Channel View Centre	5	0	0	0
Children in Wales	13	0	0	0
Citizens Advice Bureau (Cardiff)	13	0	0	0
Citizens Advice Bureau (Vale)	10	11	0	0
Civic Trust for Wales	16	33	0	0
Colleges Wales	49	180	0	0
Design Commission for Wales	3	0	0	0
Dimensions	9	0	0	0
Glam & Gwent Housing Assoc	58	0	0	0
Glamorgan Holiday Hotel	54	0	0	0
Higher Ed Development Wales	3	0	0	0
Housing for Wales	196	0	0	0
Intervol	22	0	0	0
Land Authority for Wales	318	22	0	0
National Eisteddfod	76	3	0	0
National Trust				
Memorial Hall	3	75	0	0
Mirus Wales (Opportunity Housing Trust)	22	0	0	0
Play Wales	20	0	0	0
S E Wales Com Trust	7	0	0	0
Sport Wales	757	163	3	6
STAR	7	0	0	0
Wales & West Housing	139	7	0	0
Wales Youth Agency	55	0	0	0
Welsh Council for Voluntary Action	164	27	7	0
Workers Education Association	14	0	0	0
<b>Sub-total</b>	<b>3,936</b>	<b>779</b>	<b>71</b>	<b>16</b>
<b>TOTAL</b>	<b>55,983</b>	<b>17,393</b>	<b>1,545</b>	<b>501</b>

## Cardiff and Vale of Glamorgan Pension Fund

### 7. Membership of the Fund

Fund membership at 31 March 2016 is as follows:

	2014/15 (Restated)	2015/16
Contributing Employers	33	36
Contributors	14,616	15,061
Pensioners	10,281	10,626
Deferred pensioners	12,073	12,308
<b>Total membership</b>	<b>36,970</b>	<b>37,995</b>

### 8. Management Expenses

Management Expenses fully charged to the Fund are:

	2014/15 Restated £000	2015/16 £000
Administration Costs	789	912
Investment Management Expenses	10,016	11,484
Oversight & Governance Costs	124	124
<b>TOTAL</b>	<b>10,929</b>	<b>12,520</b>

### 9. Investment Income

	2014/15 £000	2015/16 £000
UK Fixed Interest Securities	5,277	5,098
Overseas Fixed Interest Securities	2,345	2,663
UK Equities & Private Equity Funds	3,105	3,209
Pooled investments	1,278	1,432
Overseas Equities (net of irrecoverable tax)	3,682	3,817
Property Unit Trust Income	1,529	1,700
Interest on UK cash	75	132
Securities Lending	97	125
<b>TOTAL</b>	<b>17,388</b>	<b>18,176</b>

# Cardiff and Vale of Glamorgan Pension Fund

## 10. Investments at Market Value

2014/15 £000		2015/16 £000
	UK Fixed Interest:	
53,976	Public Sector	66,966
129,201	Other (Pooled)	93,423
<b>183,177</b>		<b>160,389</b>
	Overseas Fixed Interest:	
61,913	Public Sector (Pooled)	86,645
<b>61,913</b>		<b>86,645</b>
101,886	UK quoted Equities & Convertibles	95,636
174,678	Foreign quoted Equities	161,746
<b>276,564</b>		<b>257,382</b>
<b>99,211</b>	UK & Global Property (Pooled)	<b>118,632</b>
<b>87,433</b>	Private Equity	<b>83,101</b>
	Pooled Funds	
484,258	UK	470,172
423,534	Overseas	423,557
<b>907,792</b>		<b>893,729</b>
(2,209)	Derivatives: Forward Currency Contracts	(2,273)
<b>(2,209)</b>		<b>(2,273)</b>
	Cash:	
24,110	UK	24,267
13,559	Overseas	5,059
1,601	Net investment proceeds due	1,949
<b>39,270</b>		<b>31,275</b>
<b>1,653,151</b>	<b>TOTAL</b>	<b>1,628,880</b>

Gross purchases in the year (excluding cash and forward currency) were £178.949 million, whilst sales were £177.987 million. From these a net realised loss was accrued to the Fund of £798,000. Profits and losses are calculated on historical costs. When only part of a holding is sold, the average cost method is used.

The managing companies of all the pooled managed Funds are UK registered. Private Equity Funds are not quoted on recognised stock exchanges and may not be realisable as readily as quoted investments. Other than pooled funds, no single investment accounted for more than 5% of the Fund's assets.

## Cardiff and Vale of Glamorgan Pension Fund

	Value at 31/03/15	Purchase at cost	Sale Proceeds	Change in Market Value	Value at 31/03/16
	£000's	£000's	£000's	£000's	£000's
Fixed Interest Securities	245,090	101,156	(98,590)	(622)	247,034
Equities	276,564	63,341	(55,312)	(27,211)	257,382
Pooled Funds	907,792	878	0	(14,941)	893,729
Property unit trusts	99,211	10,305	0	9,116	118,632
Private equity	87,433	3,269	(24,085)	16,484	83,101
<b>Sub total</b>	<b>1,616,090</b>	<b>178,949</b>	<b>(177,987)</b>	<b>(17,174)</b>	<b>1,599,878</b>
Forward Currency	(2,209)	2,709,754	(2,695,045)	(14,773)	(2,273)
Futures	0	0	0	0	0
<b>Total Derivatives</b>	<b>(2,209)</b>	<b>2,709,754</b>	<b>(2,695,045)</b>	<b>(14,773)</b>	<b>(2,273)</b>
Debtors	1,742				1,949
Creditors	(141)				0
Managers' Cash	7,700				5,004
Internal Cash	24,110				24,267
Currency Overlay	5,859				55
<b>Total Cash</b>	<b>39,270</b>			<b>231</b>	<b>31,275</b>
<b>Total Cash and Investment Proceeds Due</b>	<b>37,061</b>			<b>(14,542)</b>	<b>29,002</b>
<b>Total</b>	<b>1,653,151</b>			<b>(31,716)</b>	<b>1,628,880</b>

Comparative data for 2014/15:

	Value at 31/03/14	Purchase at cost Restated	Sale Proceeds	Change in Market Value Restated	Value at 31/03/15
	£000's	£000's	£000's	£000's	£000's
Fixed Interest Securities	220,062	65,699	(57,319)	16,648	245,090
Equities	235,397	66,497	(59,102)	33,772	276,564
Pooled Funds	814,008	784	0	93,000	907,792
Property unit trusts	79,897	5,779	0	13,535	99,211
Private equity	92,925	2,686	(24,878)	16,700	87,433
<b>Sub total</b>	<b>1,442,289</b>	<b>141,445</b>	<b>(141,299)</b>	<b>173,655</b>	<b>1,616,090</b>
Forward Currency	884	2,089,769	(2,098,490)	5,628	(2,209)
Futures	0	286,496	(286,496)	0	0
<b>Total Derivatives</b>	<b>884</b>	<b>2,376,265</b>	<b>(2,384,986)</b>	<b>5,628</b>	<b>(2,209)</b>
Debtors	812				1,742
Creditors	0				(141)
Managers' Cash	9,049				7,700
Internal Cash	12,625				24,110
Currency Overlay	466				5,859
<b>Total Cash</b>	<b>22,952</b>			<b>(2,635)</b>	<b>39,270</b>
<b>Total Cash and Investment Proceeds Due</b>	<b>23,836</b>			<b>2,993</b>	<b>37,061</b>
<b>Total</b>	<b>1,466,125</b>			<b>176,648</b>	<b>1,653,151</b>



Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs incurred during the year amounted to £258,473. In addition, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

## 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. The use of derivatives is managed in line with the investment management agreement 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 proportion of the fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the fund has a currency management overlay in place managed by Mesirow, which hedges significant long term currency movements to limit losses. The portfolio covers US dollars, Yen and Euro currencies.

## 11. Summary of Manager's Portfolio Values at 31 March 2016

	£000	% of Fund
Aberdeen Asset Management	247,805	15.2
Aberdeen Emerging Markets	54,952	3.4
Blackrock Investment Management	181,088	11.1
Invesco Perpetual	91,944	5.6
J P Morgan	67,666	4.2
Majedie	98,197	6.0
Nikko	88,371	5.4
Schroder Investment Managers	76,851	4.7
State Street Global Advisers	498,078	30.6
Property	118,632	7.3
Private Equity Managers	83,101	5.1
Mesirow currency overlay & cash with custodian	(2,072)	(0.1)
Internally managed (Cash)	24,267	1.5
<b>Total</b>	<b>1,628,880</b>	<b>100</b>

# Cardiff and Vale of Glamorgan Pension Fund

## 12. Financial Instruments

### a) Classification of financial instruments

31/03/2015				31/03/2016		
Fair Value through profit and loss	Loans and Receivables	Financial Liabilities at Amortised Costs		Fair Value through profit and loss	Loans and Receivables	Financial Liabilities at Amortised Costs
£000	£000	£000		£000	£000	£000
			<b>Financial assets</b>			
245,090	0	0	Fixed Interest Securities	247,034	0	0
276,564	0	0	Equities	257,382	0	0
907,792	0	0	Pooled Funds	893,729	0	0
99,211	0	0	Property Unit Trusts	118,632	0	0
87,433	0	0	Private Equity	83,101	0	0
156,416	0	0	Derivatives	168,982	0	0
0	37,669	0	Cash	0	29,326	0
1,601	0	0	Other investments	1,949	0	0
0	30,351	0	Debtors	0	26,426	0
<b>1,774,107</b>	<b>68,020</b>	<b>0</b>		<b>1,770,809</b>	<b>55,752</b>	<b>0</b>
			<b>Financial liabilities</b>			
(158,625)	0	0	Derivatives	(171,255)	0	0
0	0	0	Other investments	0	0	0
0	0	(3,985)	Creditors	0	0	(1,812)
0	0	0	Borrowings	0	0	0
<b>(158,625)</b>	<b>0</b>	<b>(3,985)</b>		<b>(171,255)</b>	<b>0</b>	<b>(1,812)</b>
<b>1,615,482</b>	<b>68,020</b>	<b>(3,985)</b>		<b>1,599,554</b>	<b>55,752</b>	<b>(1,812)</b>

### b) Net gains and losses on financial instruments

31/03/2015 £000		31/03/2016 £000
	<b>Financial Assets</b>	
294,432	Fair value through profit and loss	(21,259)
0	Loans and receivables	0
	<b>Financial liabilities</b>	
(117,769)	Fair value through profit and loss	(12,630)
(15)	Loans and receivables	2,173
<b>176,648</b>	<b>Total</b>	<b>(31,716)</b>

## c) Valuation of financial instruments carried at fair value

Level 1 - Quoted prices for similar instruments. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2 - Directly observable market inputs other than Level 1 inputs. Where an instrument is traded in a market which 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 - Inputs not based on observable market data. The values of investment in private equity are based on valuations provided by the general partners to the private equity funds. If the company's year end does not coincide with the Pension Fund's year end, the valuation is updated with regard to the calls and distributions made between the Private Equity Fund's audited account date and the Pension Fund's year end.

Values as at 31st March 2016	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
<b>Financial assets</b>				
Financial assets at fair value	679,529	718,616	372,664	1,770,809
Loans and receivables	55,752	0	0	55,752
<b>Total financial assets</b>	<b>735,281</b>	<b>718,616</b>	<b>372,664</b>	<b>1,826,561</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value	0	0	(171,255)	(171,255)
Financial liabilities at amortised cost	(1,812)	0	0	(1,812)
<b>Total financial liabilities</b>	<b>(1,812)</b>	<b>0</b>	<b>(171,255)</b>	<b>(173,067)</b>
<b>Net financial assets</b>	<b>733,469</b>	<b>718,616</b>	<b>201,409</b>	<b>1,653,494</b>

### 13. Nature and extent of risks arising from financial instruments

The fund maintains positions in a variety of instruments, as dictated by the Statement of Investment principles (SIP), and is consequently exposed to credit and liquidity risk, as well as market risk including foreign exchange and interest rate risks.

The Fund's primary long-term risk is that the fund's assets will fall short of its liabilities and will be unable to pay the promised benefits to members. 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 and credit 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 management of risk is a key objective of the Pension Fund. A policy of diversification of its asset classes and investment managers helps the Pension fund to lower risk arising from financial instruments. Benchmarks for asset allocation and targets against which investment managers are expected to perform are further measures which are put in place in order to manage risk.

## Cardiff and Vale of Glamorgan Pension Fund

### Market Risk

Market risk is the risk that the fair value or future cashflows of an institution will fluctuate because of a change in market price.

In order to manage risk, the Fund invests in a diversified pool of assets, split between a number of managers with different performance targets and investment strategies. In order to mitigate risk, the Fund regularly reviews the pension fund investment strategy together with regular monitoring of asset allocation and investment performance.

**Interest rate risk** is the risk to which the Pension Fund is exposed to fluctuations in interest rates and mainly relates to changes in bonds.

To mitigate the risk, the Fund holds a fixed interest portfolio managed by Aberdeen, the appointed active bond manager.

Interest Rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. The analysis below shows the effect of a 100 basis point (1%) movement in interest rates on the net assets available to pay benefits

Asset Type	Carrying amount as at 31.03.2016	Change in year in the net assets available to pay benefits	
		+ 100bps	- 100bps
	£000	£000	£000
Cash	29,002	290	(290)
Fixed interest securities	247,034	2,470	(2,470)
<b>Total</b>	<b>276,036</b>	<b>2,760</b>	<b>(2,760)</b>

2014/15 Comparative:

Asset Type	Carrying amount as at 31.03.2015	Change in year in the net assets available to pay benefits	
		+ 100bps	- 100bps
	£000	£000	£000
Cash	37,061	371	(371)
Fixed interest securities	245,090	2,451	(2,451)
<b>Total</b>	<b>282,151</b>	<b>2,822</b>	<b>(2,822)</b>

**Currency risk** is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates.

The Fund's Global Bonds and North American, European and Japanese Equities portfolios are covered by currency hedging arrangements. Fund managers will also take account of currency risk in their investment decisions.

### Currency risk – sensitivity analysis

Following analysis of historical data, the fund's aggregate currency change has been calculated as 6.35%. A 6.35% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

## Cardiff and Vale of Glamorgan Pension Fund

	Asset value as at 31.03.2016	Change to net assets available to pay benefits	
<b>Currency exposure – asset type</b>		6.35%	-6.35%
	£000	£000	£000
Overseas quoted securities	602,722	640,995	564,449
<b>Total change in assets available</b>	<b>602,722</b>	<b>640,995</b>	<b>564,449</b>

	Asset value as at 31.03.2015	Change to net assets available to pay benefits	
<b>Currency exposure – asset type</b>		3.49%	-3.49%
	£000	£000	£000
Overseas quoted securities	616,984	638,493	595,476
<b>Total change in assets available</b>	<b>616,984</b>	<b>638,493</b>	<b>595,476</b>

**Price risk** is the risk of losses associated with the movement in prices of the underlying assets. By diversifying investments across asset classes and managers, the Pension Fund aims to reduce the exposure to price risk. Diversification of asset classes seeks to reduce correlation of price movements, whilst employing specialist managers enables the Fund to benefit from investment expertise.

### Price risk sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of assets over the last three years, applied to the period end asset mix. The total volatility shown for Total Currency incorporates the impact of correlation across currencies, which dampens volatility, therefore the Value on Increase and Value on Decrease figures for the currencies will not sum to the total figure.

Asset type	Value as at 31.03.2016 £000	Percentage change %	Value on increase £000	Value on Decrease £000
<b>Total Assets</b>	<b>1,628,880</b>	<b>7.34%</b>	<b>1,748,440</b>	<b>1,509,320</b>
UK Equities	565,808	9.99%	622,332	509,284
Overseas Equities	585,303	10.05%	644,126	526,480
Total Bonds	247,034	4.74%	258,743	235,325
Cash	29,002	0.01%	29,005	28,999
Alternatives	83,101	3.18%	85,744	80,458
Property	118,632	2.12%	121,147	116,117

Asset type	Value as at 31.03.2015 £000	Percentage change %	Value on increase £000	Value on Decrease £000
<b>Total Assets</b>	<b>1,653,151</b>	<b>6.65%</b>	<b>1,763,086</b>	<b>1,543,216</b>
UK Equities	586,144	9.73%	643,176	529,112
Overseas Equities	598,212	9.68%	656,119	540,305
Total Bonds	245,090	3.78%	254,354	235,826
Cash	37,061	0.01%	37,065	37,057
Alternatives	87,433	3.35%	90,362	84,504
Property	99,211	2.25%	101,443	96,979

# Cardiff and Vale of Glamorgan Pension Fund

## Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The Fund reviews its exposure to credit and counterparty risk through its external investment managers. The Fund is also exposed to credit risk through its securities lending programme. This is run by the Fund's custodian, Northern Trust who manages and monitors the counterparty risk, collateral risk and the overall lending programme.

The Pension Fund's bank account is held with the Lloyds bank. Surplus cash is not invested with Lloyds but is placed with a selection of AAA Money Market institutions. The Fund's cash holding under its treasury management arrangements as at 31.03.2016 was £24.8 million (£24.6 million at 31.03.2015). This was held with the following institutions:

	Rating	Balance at 31.03.2015 £000	Balance at 31.03.2016 £000
<b>Money market funds</b>			
Ignis	AAA	12,000	<b>12,000</b>
Deutsche	AAA	12,000	<b>920</b>
Blackrock	AAA	650	<b>11,950</b>
<b>Bank current account</b>			
Lloyds Bank	A	6	<b>(80)</b>
<b>Total</b>		<b>24,656</b>	<b>24,790</b>

## Liquidity Risk

Liquidity risk represents the possibility that the Fund may not have funds available to meet its financial obligations. The current position of the fund is that it is cash positive, which reflects the fact that contributions into the Fund exceed benefits being paid out. The Pension Fund's cash is kept in a separate bank account and the cash position is monitored on a daily basis. Surplus funds are deposited in money market funds on a short term basis. At an investment level, the Funds' investments are substantially made up of listed securities which are considered readily realisable.

## 14. Sundry Debtors & Creditors

	2014/15 £000	2015/16 £000
<b>Debtors</b>		
Pensions Administration	26	0
Miscellaneous	767	602
	<b>793</b>	<b>602</b>
<b>Creditors</b>		
Management & Custody Fees	(899)	(785)
Miscellaneous	(31)	0
	<b>(930)</b>	<b>(785)</b>
<b>Total</b>	<b>(137)</b>	<b>(183)</b>

## 15. Additional Voluntary Contributions

Scheme members may elect to make additional voluntary contributions to enhance their pension benefits. Contributions are made directly from scheme members to the AVC provider and are therefore not represented in these accounts.



The amount of AVC contributions paid during the year amounted to £416,000 and the market value of separately invested AVC's as at 31 March 2016 was £3.225 million.

### 16. Commitments

As at 31 March 2016 the Fund had outstanding private equity commitments of a maximum of £38.64 million (£40.57 million at 31 March 2015).

As at 31 March 2016 the Fund had forward currency contracts amounting to £168.98 million of purchases and £171.26 million of sales, showing an unrealised loss of £2.27 million.

### 17. Securities Lending

At the year end the value of quoted equities on loan was £40.42 million (£38.00 million at March 2015) in exchange for which the custodian held collateral of £42.54 million (£40.35 million at March 2015). For the year ending 31 March 2016, the Fund received income of £120,991 from the lending of stock.

### 18. Contingent Liabilities

The Fund has no contingent liabilities.

### 19. Related Party Transactions

The relationship between the employers and the Pension Fund is, by its very nature, close, therefore, each participating employer is considered a related party as shown in [notes 5](#) and [6](#).

Other related party transactions with the Council are:

- Cash invested internally by the Council (for working capital purposes) - see [note 9](#);
- Administration expenses charged to the Fund by the Council are shown in [note 8](#).
- Paragraph 3.9.4.3 of the Code of Practice exempts local Authorities from the key management personnel disclosure requirements of IAS24 on the basis that requirements for officer remuneration and members' allowances is detailed in section 3.4 of the Code and can be found in the main accounts of The County Council of the City and County of Cardiff.

### 20. Post Balance Sheet Events

There are no post balance sheet events to report.

## INTRODUCTION

The group accounts that follow comply with the requirement of the 2015/16 Code that a local authority with interests in subsidiaries, associates and joint ventures should prepare group accounts in addition to its single entity accounts. These accounts consolidate the operating results and balances of The County Council of the City and County of Cardiff and its subsidiary Cardiff City Transport Services Ltd (Cardiff Bus). At the point of drafting these accounts, the accounts for Cardiff Bus had not been audited and, therefore, the draft figures have been consolidated within the Group Accounts.

The Council has interests in two other subsidiaries: Cardiff Business Technology Centre (CBTC) and Cardiff Business Council. In addition, the Council had an interest in the Cardiff Medicentre Joint Venture during 2015/16, however this interest had been sold as at 31 March 2016. The interests in these organisations are considered immaterial in terms of both the turnover and the net assets of the group. The Council does not depend upon these organisations for statutory service provision and it is not considered that they expose the Authority to a material level of commercial risk. Therefore they have been excluded from the consolidation in 2015/16. Details of the Council's interests in these organisations are included in note 26 to the Core Financial Statements.

## ACCOUNTING POLICIES APPLICABLE TO THE GROUP ACCOUNTS

### Basis of Consolidation

The group accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of the Council and Cardiff City Transport Services Ltd. Inter-group transactions and balances between the Council and its subsidiary have been eliminated in full.

### Accounting policies

The financial statements in the group accounts are prepared in accordance with the policies set out in the Statement of Accounting Policies on pages 19 to 34 with the following additions and exceptions:

#### 1. Retirement Benefits

Cardiff City Transport Services Ltd. operates two defined benefit funded pension schemes which it accounts for in accordance with IAS19. The level of contributions made to the schemes and the cost of contributions included in the financial statements are based on the recommendations of independent actuaries. Accounting policies consistent with those of the Council have been adopted although the financial assumptions used may differ. Both these schemes are now closed to new members. The company also has a money purchase pension scheme for new employees. Pension costs charged to the profit and loss account represent the contributions payable by the group to the pension scheme during the year.

#### 2. Value Added Tax

VAT paid by other group entities is accounted for in the Group Comprehensive Income and Expenditure Statement to the extent that it is irrecoverable from HM Revenue and Customs.

#### 3. Goodwill

The Council's interest in its subsidiary dates back to its inception and therefore there is no goodwill to be accounted for.

#### 4. Charges to Income and Expenditure for Non-Current Assets

A charge is made from the revaluation reserve of the subsidiary company to the group income and expenditure reserve for the difference between depreciation charged on the current value of non-current assets held by the subsidiary and what would have been the historical cost depreciation for the year.

#### 5. Derivatives Financial Instruments

Cardiff Bus is exposed to price risk arising from fluctuations in oil prices and the company enters into energy hedges to fix the price of fuel. In the opinion of the Board of Directors there is no material exposure to price risk. The company does not hold derivatives for speculative purposes.

## Group Accounts

### GROUP MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2016

	Council Fund Balance £000	Council Fund Earmarked Reserves £000	HRA Balance £000	HRA Earmarked Reserves £000	Capital Receipts Reserve £000	Total Usable Reserves Restated £000	Unusable Reserves (including Group Reserves) £000	Total Authority Reserves £000
<b>Balance at 31 March 2014 carried forward (restated)</b>	11,413	30,559	8,124	684	1,399	52,179	883,737	935,916
<u>Movement in Reserves during 2014/15 (restated)</u>								
Surplus or (deficit) on the provision of Services	(11,619)	0	4,696	0	0	<b>(6,923)</b>	2,065	<b>(4,858)</b>
Other Comprehensive Income and Expenditure	0	0	0	0	0	<b>0</b>	(55,994)	<b>(55,994)</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>(11,619)</b>	<b>0</b>	<b>4,696</b>	<b>0</b>	<b>0</b>	<b>(6,923)</b>	<b>(53,929)</b>	<b>(60,852)</b>
Adjustments between accounting basis & funding basis under regulations	16,625	0	(4,828)	0	(63)	<b>11,734</b>	(11,734)	<b>0</b>
<b>Net Increase/(Decrease) before Transfers to/(from) Earmarked Reserves</b>	<b>5,006</b>	<b>0</b>	<b>(132)</b>	<b>0</b>	<b>(63)</b>	<b>4,811</b>	<b>(65,663)</b>	<b>(60,852)</b>
Transfers to/(from) Earmarked Reserves	(3,265)	3,265	446	(446)	0	<b>0</b>	0	<b>0</b>
Other Movements in Reserves	0	0	0	0	0	<b>0</b>	0	<b>0</b>
<b>Increase/(Decrease) in 2014/15</b>	<b>1,741</b>	<b>3,265</b>	<b>314</b>	<b>(446)</b>	<b>(63)</b>	<b>4,811</b>	<b>(65,663)</b>	<b>(60,852)</b>
<b>Balance at 31 March 2015 carried forward (restated)</b>	<b>13,154</b>	<b>33,824</b>	<b>8,438</b>	<b>238</b>	<b>1,336</b>	<b>56,990</b>	<b>818,074</b>	<b>875,064</b>
<u>Movement in Reserves during 2015/16</u>								
Surplus or (deficit) on the provision of Services	(19,108)	0	(282,297)	0	0	<b>(301,405)</b>	364	<b>(301,041)</b>
Other Comprehensive Income and Expenditure	0	0	0	0	0	<b>0</b>	74,169	<b>74,169</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>(19,108)</b>	<b>0</b>	<b>(282,297)</b>	<b>0</b>	<b>0</b>	<b>(301,405)</b>	<b>74,533</b>	<b>(226,872)</b>

## Group Accounts

	Council Fund Balance £000	Council Fund Earmarked Reserves £000	HRA Balance £000	HRA Earmarked Reserves £000	Capital Receipts Reserve £000	Total Usable Reserves Restated £000	Unusable Reserves (including Group Reserves) £000	Total Authority Reserves £000
Adjustments between accounting basis & funding basis under regulations	39,022	0	283,013	0	4,087	<b>326,122</b>	(326,122)	<b>0</b>
<b>Net Increase/(Decrease) before Transfers to/(from) Earmarked Reserves</b>	<b>19,914</b>	<b>0</b>	<b>716</b>	<b>0</b>	<b>4,087</b>	<b>24,717</b>	<b>(251,589)</b>	<b>(226,872)</b>
Transfers to/(from) Earmarked Reserves	(17,813)	17,813	(716)	716	0	<b>0</b>		<b>0</b>
Other Movements in Reserves						<b>0</b>		<b>0</b>
<b>Increase/(Decrease) in 2015/16</b>	<b>2,101</b>	<b>17,813</b>	<b>0</b>	<b>716</b>	<b>4,087</b>	<b>24,717</b>	<b>(251,589)</b>	<b>(226,872)</b>
<b>Balance at 31 March 2016 carried forward</b>	<b>15,255</b>	<b>51,637</b>	<b>8,438</b>	<b>954</b>	<b>5,423</b>	<b>81,707</b>	<b>566,485</b>	<b>648,192</b>

## Group Accounts

### THE GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2016

2014/15 Restated				2015/16			
Gross Expenditure £000	Gross Income £000	2014/15 Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	2015/16 Net Expenditure £000
51,243	(17,958)	<b>33,285</b>	Central Services to the Public		47,725	(14,023)	<b>33,702</b>
58,205	(27,886)	<b>30,319</b>	Cultural & Related Services		59,698	(28,652)	<b>31,046</b>
58,059	(23,779)	<b>34,280</b>	Environmental & Regulatory Services		65,347	(35,041)	<b>30,306</b>
20,081	(19,905)	<b>176</b>	Planning Services		27,263	(23,349)	<b>3,914</b>
404,770	(98,704)	<b>306,066</b>	Children's and Education Services		404,264	(108,102)	<b>296,162</b>
85,101	(42,017)	<b>43,084</b>	Highways & Transport Services		85,035	(53,994)	<b>31,041</b>
69,971	(65,231)	<b>4,740</b>	Housing Revenue Account		161,633	(67,635)	<b>93,998</b>
181,640	(175,755)	<b>5,885</b>	Housing Services (General Fund)		182,799	(177,143)	<b>5,656</b>
127,857	(25,777)	<b>102,080</b>	Adult Social Care		125,100	(22,556)	<b>102,544</b>
9,982	(2,004)	<b>7,978</b>	Corporate & Democratic Core		11,899	(396)	<b>11,503</b>
3,405	323	<b>3,728</b>	Non-Distributed Costs		3,656	3,798	<b>7,454</b>
0	0	<b>0</b>	Exceptional Item	6	187,392	0	<b>187,392</b>
<b>1,070,314</b>	<b>(498,693)</b>	<b>571,621</b>	<b>Net Cost of Services</b>		<b>1,361,811</b>	<b>(527,093)</b>	<b>834,718</b>
26,411	0	<b>26,411</b>	South Wales Police Authority Precept		27,880	0	<b>27,880</b>
256	0	<b>256</b>	Community Council Precepts		290	0	<b>290</b>
16,984	0	<b>16,984</b>	Levies & Contributions		16,798	0	<b>16,798</b>
1,589	(5,774)	<b>(4,185)</b>	(Gain)/loss on sale of non-current assets		10,618	(11,814)	<b>(1,196)</b>
<b>45,240</b>	<b>(5,774)</b>	<b>39,466</b>	<b>Other Operating Expenditure</b>		<b>55,586</b>	<b>(11,814)</b>	<b>43,772</b>
24,734	0	<b>24,734</b>	Interest Payable on debt		32,318	0	<b>32,318</b>
16	0	<b>16</b>	Interest element of finance leases	4	16	0	<b>16</b>
21,970	(3,728)	<b>18,242</b>	Interest on net defined benefit liability/(asset)	5	18,728	(1,735)	<b>16,993</b>
0	(1,106)	<b>(1,106)</b>	Interest & Investment Income			(1,035)	<b>(1,035)</b>
0	0	<b>0</b>	Other Investment Income		1,092	(1,282)	<b>(190)</b>
6,161	(12,391)	(6,230)	Change in fair value of Investment Properties		488	0	488

## Group Accounts

2014/15 Restated				2015/16			
Gross Expenditure £000	Gross Income £000	2014/15 Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	2015/16 Net Expenditure £000
52,881	(17,225)	35,656	Financing and Investment Income & Expenditure		52,642	(4,052)	48,590
0	(28,165)	<b>(28,165)</b>	Recognised Capital Grants & Contributions			(25,304)	<b>(25,304)</b>
0	(326,291)	<b>(326,291)</b>	Revenue Support Grant			(322,851)	<b>(322,851)</b>
0	(109,695)	<b>(109,695)</b>	Non-Domestic Rates			(101,253)	<b>(101,253)</b>
779	(165,499)	<b>(164,720)</b>	Council Tax Income		1,834	(175,121)	<b>(173,287)</b>
0	(13,608)	<b>(13,608)</b>	Other Central Grants			(3,344)	<b>(3,344)</b>
779	(643,258)	(642,479)	Taxation & Non-Specific Grant Income		1,834	(627,873)	(626,039)
594	0	594	Tax expenses - Corporation Tax payable			0	0
		4,858	(Surplus)/Deficit on Provision of Services				301,041
		(937)	Revaluation Gains				(134,348)
		2,844	Revaluation Losses				73,310
		412	Impairment losses on non-current assets charged to the Revaluation Reserve				591
		0	(Surplus)/Deficit on revaluation of available for sale financial assets				(37)
		51,491	Actuarial gains/losses on pension assets/liabilities				(12,346)
		2,184	Share of other comprehensive income & expenditure of subsidiaries				(1,339)
		55,994	Other Comprehensive Income & Expenditure				(74,169)
		60,852	Total Comprehensive Income & Expenditure				226,872



## Group Accounts

### GROUP BALANCE SHEET AS AT 31 MARCH 2016

31 March 2015 Restated £000		Note	31 March 2016 £000
	<b><u>Property Plant &amp; Equipment:</u></b>	7	
569,012	Council Dwellings		529,464
771,195	Other Land and Buildings		749,640
29,398	Vehicles, Plant, Furniture & Equipment		31,858
308,666	Infrastructure		298,598
19,206	Community Assets		19,620
11,757	Assets under construction (AUC)		31,048
37,024	Surplus assets not held for sale		36,299
50,884	Heritage Assets		51,278
100,787	Investment Properties		110,471
4,346	Intangible Non-Current Assets including AUC		3,179
3,754	Long-term Investments		1,441
2,790	Long-term Debtors		5,081
938	Deferred tax asset		558
<b>1,909,757</b>	<b>Total Long-Term Assets</b>		<b>1,868,535</b>
42,122	Short-term Investments		54,215
3,040	Assets held for Sale		2,819
2,446	Inventories		2,398
92,028	Short-term Debtors	9	87,215
28,446	Cash and Cash Equivalents	10	22,360
<b>168,082</b>	<b>Total Current Assets</b>		<b>169,007</b>
(12,964)	Short-term Borrowing		(16,147)
(97,296)	Short-term Creditors	11	(87,291)
(2,830)	Pension Strain		(2,354)
(10,300)	Provisions	12	(11,556)
(1,746)	Deferred Liabilities	13	(2,224)
(397)	Deferred tax liability		(393)
<b>(125,533)</b>	<b>Total Current Liabilities</b>		<b>(119,965)</b>
(465,808)	Long Term Borrowing		(659,408)
(32,975)	Provisions	12	(29,633)
(10,509)	Deferred Liabilities	13	(11,869)
(10,095)	Capital Contributions Receipts in Advance		(9,933)
(3,734)	Revenue Grants Receipts in Advance		(2,526)
(2,160)	Capital Grants Receipts in Advance		(1,791)
(6,252)	Pensions Strain		(4,891)

## Group Accounts

31 March 2015 Restated £000		Note	31 March 2016 £000
(544,477)	Net Pensions Liability		(548,471)
(1,232)	Deferred tax liability		(863)
<b>(1,077,242)</b>	<b>Total Long-Term Liabilities</b>		<b>(1,269,385)</b>
<b>875,064</b>	<b>NET ASSETS</b>		<b>648,192</b>
	<b>Financed by:</b>		
13,154	Council Fund Balance		15,255
33,824	Council Fund Earmarked Reserves		51,637
8,438	Housing Revenue Account Balance		8,438
238	Housing Revenue Account Earmarked Reserves		954
1,336	Capital Receipts Reserve		5,423
<b>56,990</b>	<b>Usable Reserves</b>		<b>81,707</b>
204,601	Revaluation Reserve		257,392
1,164,708	Capital Adjustment Account		856,975
87	Deferred Capital Receipts		2,049
4,618	Available for Sale Financial Instruments Reserve		4,656
(2,367)	Financial Instruments Adjustment Account		0
(552,621)	Pensions Reserve		(555,158)
(7,670)	Accumulated Absences Adjustment Account		(6,289)
6,718	Cardiff Bus Retained Earnings		6,860
<b>818,074</b>	<b>Unusable Reserves</b>		<b>566,485</b>
<b>875,064</b>	<b>TOTAL RESERVES</b>		<b>648,192</b>

## Group Accounts

### GROUP CASH FLOW STATEMENT AS AT 31 MARCH 2016

2014/15 (Restated) £000		Note	2015/16 £000
4,858	<b>Net (Surplus) /Deficit on the provision of services</b>		<b>301,041</b>
(92,628)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	14	(189,083)
21,712	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	14	(174,816)
<b>(66,058)</b>	<b>Net cash flows from operating activities</b>		<b>(62,858)</b>
(1,126)	Interest Received		(1,209)
24,744	Interest Paid		30,050
118	Finance lease interest paid		166
0	Dividends received		0
56	Taxation (group only)		0
(89,850)	Net cash flow from other operating activities		(91,865)
<b>69,447</b>	<b>Investing activities</b>		<b>278,328</b>
72,585	Purchase of property, plant and equipment, investment property and intangible assets		91,593
29,047	Purchase of short-term and long-term Investments		31,146
9,922	Other payments for investing activities		199,989
(5,830)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets		(9,870)
(33,754)	Capital Grants		(31,744)
(2,523)	Capital Contributions		(1,504)
0	Proceeds from short-term and long-term investments		(1,282)
<b>13,707</b>	<b>Financing activities</b>		<b>(209,384)</b>
(6,902)	Cash receipts from short-term and long-term borrowing		(202,813)
	Other receipts from financing activities		(13,454)
891	Cash payments for the reduction of outstanding liabilities relating to finance leases		891
7,820	Repayments of short-term and long-term borrowing		5,992
11,898	Other payments for financing activities		0
<b>17,096</b>	<b>Net (increase)/ decrease in cash and cash equivalents</b>		<b>6,086</b>
<b>45,542</b>	<b>Cash and cash equivalents at the beginning of the reporting period</b>		<b>28,446</b>
<b>28,446</b>	<b>Cash and cash equivalents at the end of the reporting period represented by:</b>		<b>22,360</b>
182	Cash		233
13,842	Bank (including cheque book schools)		15,513
14,422	Short-term deposits with banks and building societies		6,614

## NOTES TO THE GROUP ACCOUNTS

The notes to the Council's Core Financial Statements as set out on pages 41 to 98 apply also to the Group Accounts with the following additions and exceptions:

### 1. Remuneration

(a) The number of employees of the Council and its subsidiary whose remuneration is over £60,000 per annum is disclosed below.

Remuneration band £	Number of Employees	
	2014/15	2015/16
60,000-64,999	91	46
65,000-69,999	28	44
70,000-74,999	8	14
75,000-79,999	17	5
80,000-84,999	6	10
85,000-89,999	6	3
90,000-94,999	8	3
95,000-99,999	0	3
100,000-104,999	3	1
105,000-109,999	2	2
110,000-114,999	1	1
115,000-119,999	10	1
120,000-124,999	1	8
125,000-129,999	0	1
130,000-134,999	0	0
135,000-139,999	1	0
140,000-144,999	1	0
145,000-149,999	0	1
150,000-154,999	1	0
155,000-159,999	0	0
160,000-164,999	0	0
165,000-169,999	1	0
170,000-174,999	0	2
175,000-179,999	1	0
180,000-184,999	0	0

Further information regarding the remuneration of directors and employees of Cardiff Bus is contained in the company's 2015/16 Financial Statements.

(b) The disclosure for Members allowances is the same as for the single entity accounts.

### 2. Related Parties Disclosures

Related party transactions and balances of the group are as contained in [note 13](#) to the single entity financial statements.

### 3. External Audit Costs

In 2015/16 the following fees were paid by the Council and its subsidiary in respect of audit and inspection:

## Notes to Group Accounts

	2014/15 £000	2015/16 £000
Fees payable to Wales Audit Office for external audit services	421	400
Fees Payable to other external auditors in respect of external audit services	24	32
Fees payable to external auditors for the certification of grant claims and returns	118	84
Fees payable in respect of other services provided by external auditors	3	3
<b>Total</b>	<b>566</b>	<b>519</b>

#### 4. Leasing

##### Operating Leases

Operating leases exist in respect of properties, vehicles and other items of equipment. Payments made during 2015/16 were as follows:

	2014/15 (Restated) £000	2015/16 £000
Property Leases	1,886	1,553
Other Leases	1,371	2,365

The group was committed at 31 March 2016 to making payments of £3.700 million under operating leases in 2016/17 comprising the following elements:

	Property Leases £000	Other Leases £000
Leases expiring within 1 year	0	131
Leases expiring within 2 and 5 years	518	1,979
Leases expiring after 5 years	905	167

##### Finance Leases

Finance leases exist in respect of vehicles and equipment. The aggregate finance charges made during 2015/16 were as follows:

	2014/15 £000	2015/16 £000
Vehicles, Plant & Equipment	118	116

The assets acquired under finance leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

2014/15 £000		2015/16 £000
8,934	Vehicles, Plant, Furniture and Equipment	11,620

## Notes to Group Accounts

Obligations under finance leases:

2014/15 Restated £000		2015/16 £000
722	Obligations payable within 1 year	1,238
3,111	Obligations payable between 2 and 5 years	4,679
181	Obligations payable after 5 years	573
<b>4,014</b>	<b>Total liabilities as at 31st March</b>	<b>6,490</b>

### 5. Pensions

The following sums were charged to the Group Comprehensive Income Expenditure Statement in the year in respect of pensions:

	2014/15 £000	2015/16 £000
<i>Net Cost of Services</i>		
Current service cost and total operating charge	38,663	44,407
<i>Net Operating Expenditure</i>		
Interest on net defined benefit liability/(asset)	18,242	16,993
<b>Net charge to Group Income &amp; Expenditure Account</b>	<b>56,905</b>	<b>61,400</b>
Appropriation to/(from) Pensions Reserve to Council Fund Balance	(15,268)	(18,241)
Appropriation to/(from) Pensions Reserve to Profit and Loss Accounts of subsidiaries	1,872	340
<b>Net charge to Council Fund Balance and Profit &amp; Loss Accounts of Subsidiaries in respect of Pensions</b>	<b>43,509</b>	<b>43,499</b>
<b>Presented by:</b>		
<i>Employers Contributions charged to Council Tax:</i>		
Employers Contributions Payable to the Scheme	(38,403)	(38,535)
Payments in Respect of Unfunded Pensions Liabilities	(3,500)	(3,310)
<i>Employers Superannuation Contributions Made by Subsidiaries to Defined Benefit Schemes in the Year</i>	(1,606)	(1,654)
	<b>(43,509)</b>	<b>(43,499)</b>

### Pensions Assets and Liabilities of Cardiff Bus

The disclosures that follow relate solely to the pensions' arrangements of Cardiff City Transport Services Ltd. and have been taken directly from the 2015/16 financial statements of Cardiff City Transport Services Ltd.

The company operates its own pension scheme, the Cardiff City Transport Services Limited Pension Scheme, as well as contributing to the Cardiff and Vale of Glamorgan Pension Fund on behalf of employees who were formerly employed by the Cardiff City Council Transport Department. Both schemes provide benefits based on final pensionable pay and the assets of the schemes are held separately from those of the company. Company contributions are determined by a qualified actuary on the basis of triennial valuations. Since 1 August 2001, the Cardiff City Transport Services Limited Pension Scheme (final salary) has been closed to new members and a money purchase scheme has been introduced. This closed to new members in July 2013. The total cost charged in the profit and loss account for the money purchase scheme of £554,000 (£682,000 in 2014/15) represents contributions payable during the year. At 31 March 2016, contributions of £70,000 (£89,000 in 2014/15) due in respect of the current reporting period had not been paid over to the scheme.



### Cardiff City Transport Services Limited Pension Scheme

The most recent actuarial valuation of the Cardiff City Transport Services Limited Pension Scheme, as required under section 224(2)(a) of the Pensions Act 2004, was carried out as at 1 April 2012. For the purpose of the valuation of the defined benefit section, it was assumed that the investment return on assets prior to pension liabilities coming into payment will be 1.4% per annum higher than the rate of future annual wage and salary growth and 1.9% per annum higher than the rate of future price inflation. The investment return for pension liabilities once in payment was assumed to be 0.9% higher than the rate of future price inflation.

The valuation showed that the total market value of the scheme's assets, net of members' AVCs, was £30.0m and that this value represented 89% of the value of the benefits that had accrued to members at the valuation date, after allowing for expected future increases in earnings and pensions.

The basic rate of company contributions required to meet the cost of defined benefits, without allowance for any recovery of deficit, was found to be 14.5% of members' pensionable pay from 1 April 2015. Employee contributions were payable in addition. For the majority of defined benefit section members, contributions were required at the rate of 5% of pensionable pay (a small number contribute at the lower rate of 4%).

Company and employee contributions for members of the defined contribution section are payable in accordance with the scheme rules.

An actuarial valuation was carried out on the Cardiff City Transport Services Limited Pension Scheme as at 31 March 2016 by a qualified independent actuary. The major assumptions used by the actuary were:

	31 March 2014	31 March 2015	31 March 2016
Rate of increase in salaries	3.9% per annum	3.5% per annum	3.1% per annum
Discount rate	4.4% per annum	3.3% per annum	3.5% per annum
Inflation assumption	3.4% per annum	3.0% per annum	3.1% per annum
Pension increases	2.7% per annum	2.0% per annum	2.1% per annum
Inflation assumption (CPI)	2.7% per annum	2.0% per annum	2.1% per annum

### Mortality assumption

The mortality assumptions are based on SIPA tables, relevant to year of birth adjusted for medium cohort effects, rated up two years, subject to a 1% p.a. minimum improvement underpin. The assumptions are that a member aged 65 at the valuation date will live on average for a further 20.5 years if they are male and for a further 22.5 years if they are female. For a member who is 45 at the valuation date and retires at age 65, the assumptions are that they will live on average for a further 21.8 years after retirement if they are male and for a further 24.0 years after retirement if they are female.

## Notes to Group Accounts

The assets in the fund and expected rates of return were:

	2013/2014		2014/2015		2015/2016	
	Long-term expected return on assets	Fair value £000	Long-term expected return on assets	Fair value £000	Long-term expected return on assets*	Fair value £000
Equities	7.0% pa	7,341	6.5% pa	13,020	N/A	13,734
Diversified growth	6.8% pa	12,937	6.3% pa	15,742	N/A	15,348
Convertible Bonds	6.5% pa	9,748	6.0% pa	4,001	N/A	3,759
Bonds	N/A	0	N/A	0	N/A	0
Cash	2.0% pa	60	2.0% pa	32	N/A	83
		<b>30,086</b>		<b>32,795</b>		<b>32,924</b>

\* Under the reporting standard FRS102, which replaces FRS17, the expected return on assets is set equal to the discount rate at the start of the year.

The net pension liability measured under IAS19 comprised the following:

	At 31 March 2014 £000	At 31 March 2015 £000	At 31 March 2016 £000
Total market value of assets	30,086	32,795	32,924
Present value of scheme liabilities	(29,914)	(34,276)	(32,046)
<b>Net IAS19 Scheme Deficit</b>	<b>172</b>	<b>(1,481)</b>	<b>878</b>

	At 31 March 2014 £000	At 31 March 2015 £000	At 31 March 2016 £000
<b>Analysis of amount charged to operating profit</b>			
Current service cost and total operating charge	(644)	(588)	(669)
<b>Analysis of amount credited/(charged) to interest receivable/payable</b>			
Expected return on pension scheme assets	1,941	2,018	835
Interest on pension scheme liabilities	(1,251)	(1,304)	(1,120)
<b>Net finance income/(charge)</b>	<b>690</b>	<b>714</b>	<b>(285)</b>

**Analysis of amount recognised in the primary statements**

	At 31 March 2014 £000	At 31 March 2015 £000	At 31 March 2016 £000
Actual return less expected return on pension assets	(474)	974	(315)
Changes in financial assumptions underlying the scheme/(liabilities)	245	(3,599)	2,664
Actuarial gain/(loss) recognised in the primary statements	<b>(229)</b>	<b>(2,625)</b>	<b>2,349</b>

## Notes to Group Accounts

### Movements in scheme deficit during the year

	At 31 March 2014 £000	At 31 March 2015 £000	At 31 March 2016 £000
<b>At 1 April b/f</b>	(546)	172	(1,481)
Movement in year:			
Total operating charge	(644)	(588)	(669)
Contributions	901	846	964
<b>Net finance income/(charge)</b>	690	714	(285)
Actuarial gain/(loss) in the primary statements	(229)	(2,625)	2,349
<b>At 31 March c/f</b>	<b>172</b>	<b>(1,481)</b>	<b>878</b>

### Cardiff and Vale of Glamorgan Pension Fund

Cardiff Bus also participates in the Local Government Pension Scheme, which is a defined benefit scheme based on final pensionable salary.

The latest complete minimum funding requirement valuation of the Cardiff and Vale of Glamorgan Pension Fund was made as at 31 March 2013.

The result of this valuation revealed that the company's required contributions to this scheme in respect of its employees who are members will be 25.4% of pensionable pay from 1 April 2011 continuing into 2016/17. In addition to this rate, Cardiff City Transport Services Limited is required to pay £480,000 per annum.

The most recent completed valuation was carried out as at 31 March 2013, and has been updated by independent actuaries to the Cardiff and Vale of Glamorgan Pension Fund (the Fund) to take account of the requirements of IAS19 in order to assess the liabilities of the Fund as at 31 March 2016. Liabilities are valued on an actuarial basis using the projected unit method which assesses the future liabilities discounted to their present value.

The company's contribution rate over the accounting period was 25.4% of pensionable pay plus a monetary amount of £480,000. The contribution rates certified for the company at the 31 March 2013 valuation are as follows:

April 2016 to March 2017 25.4% of pensionable pay plus £480,000.

These figures include the past service element of the contribution rate.

The scheme is now closed to the company's employees and the company's condition of continued participation is to pay contributions as required.

The main assumptions used for the purposes of IAS19 are as follows:

	At 31 March 2014	At 31 March 2015	At 31 March 2016
Rate of increase in salaries	3.9% pa	3.5% pa	3.1% pa
Discount rate	4.4% pa	3.3% pa	3.5% pa
Rate of increase in pensions in payment	2.7% pa	2.0% pa	2.1% pa
Rate of increase in deferred pensions	2.7% pa	2.0% pa	2.1% pa
Rate of inflation (RPI)	3.4% pa	3.0% pa	3.1% pa
Rate of inflation (CPI)	2.7% pa	2.0% pa	2.1% pa

## Notes to Group Accounts

### Mortality assumption

The mortality assumptions are based on SIPMA tables, for 100% of medium cohort, subject to a 1% p.a. minimum improvement underpin. The assumptions are that a member aged 65 at the valuation date will live on average for a further 21.5 years if they are male and for a further 23.2 years if they are female. For a member who is 45 at the valuation date and retires at age 65, the assumptions are that they will live on average for a further 22.7 years after retirement if they are male and for a further 24.6 years after retirement if they are female.

The assets in the fund and expected rates of return were:

	2013/14		2014/15		2015/16	
	Long-term expected return on assets	Fair value £000	Long-term expected return on assets	Fair value £000	Long-term expected return on assets*	Fair value £000
The assets in the fund and expected rates of return were:						
Equities	7.6% pa	19,888	7.6% pa	21,285	N/A	19,917
Government bonds	3.4% pa	1,753	3.4% pa	1,870	N/A	2,148
Corporate bonds	4.0% pa	2,032	4.0% pa	2,173	N/A	1,909
Property	6.9% pa	1,372	6.9% pa	1,622	N/A	1,936
Cash	0.9% pa	330	0.9% pa	467	N/A	610
Other assets	7.6% pa	25	7.6% pa	83	N/A	0
		<b>25,400</b>		<b>27,500</b>		<b>26,520</b>

\*Under the reporting standard FRS102, which replaces FRS17, the expected return on assets is set equal to the discount rate at the start of the year.

The net pension liability measured under IAS19 comprised the following:

	At 31 March 2014 £000	At 31 March 2015 £000	At 31 March 2016 £000
Total market value share of assets	25,400	27,500	26,520
Present value of scheme liabilities	(29,210)	(30,710)	(30,190)
<b>Net IAS19 Scheme Deficit</b>	<b>(3,810)</b>	<b>(3,210)</b>	<b>(3,670)</b>

Analysis of amount charged to operating profit:

	At 31 March 2014 £000	At 31 March 2015 £000	At 31 March 2016 £000
Current service cost/Past Service Cost	(310)	(320)	(270)
<b>Total Operating Charge</b>	<b>(310)</b>	<b>(320)</b>	<b>(270)</b>

Analysis of amount credited/(charged) to interest receivable/payable:

	At 31 March 2014 £000	At 31 March 2015 £000	At 31 March 2016 £000
Expected return on pension scheme assets	1,610	1,710	900
Interest on pension scheme liabilities	(1,320)	(1,250)	(990)
<b>Net Finance Income/(Charge)</b>	<b>290</b>	<b>460</b>	<b>(90)</b>

## Notes to Group Accounts

### Analysis of amount recognised in the primary statements:

	At 31 March 2014 £000	At 31 March 2015 £000	At 31 March 2016 £000
Actual return less expected return on pension assets/(liabilities)	840	1,500	(1,300)
Changes in financial assumptions underlying the scheme (liabilities)/assets	2,240	(1,800)	510
Actuarial (loss)/gain recognised in the primary statements.	3,080	(300)	(790)

### Movements in scheme deficit during the year:

	At 31 March 2014 £000	At 31 March 2015 £000	At 31 March 2016 £000
<b>At 1 April</b>	<b>(7,670)</b>	<b>(3,810)</b>	<b>(3,210)</b>
Movement in year:			
Total operating charge	(310)	(320)	(270)
Contributions	800	760	690
Net finance income/(charge)	290	460	(90)
Actuarial (loss)/gain in the primary statements	3,080	(300)	(790)
<b>At 31 March</b>	<b>(3,810)</b>	<b>(3,210)</b>	<b>(3,670)</b>

The total net pension liability measured under IAS19 for both schemes is as follows:

The Group and the Company	31 March 2015 £000	31 March 2016 £000
Cardiff City Transport Scheme	1,481	(878)
Cardiff & Vale of Glamorgan Pension Scheme	3,210	3,670
Deferred Tax Asset	(938)	(558)
<b>Total</b>	<b>3,753</b>	<b>2,234</b>

### 6. Exceptional Item

There are no exceptional items reported in the 2015/16 Cardiff Bus Accounts.

## Notes to Group Accounts

### 7. Non-Current Assets note

2015/16	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	P, P & E under construction £000	Total Property, Plant & Equipment £000
<b>Cost or Valuation</b>								
At 1 April 2015	604,426	810,949	77,813	575,174	19,206	37,024	11,757	<b>2,136,349</b>
Additions	16,866	18,251	8,948	11,284	389	2,103	25,540	<b>83,381</b>
Impairment (losses)/reversals to RR *	0	(591)	0	0	0	0	0	<b>(591)</b>
Impairment losses / reversals to SDPS **	(3,247)	(809)	0	0	0	(102)	(544)	<b>(4,702)</b>
Derecognition - disposals	(815)	(4,200)	(10,777)	0	0	(3,200)	0	<b>(18,992)</b>
Reclassified (to)/from Held for Sale	0	(1,842)	0	0	0	(410)	0	<b>(2,252)</b>
Other reclassifications	422	(2,317)	656	886	25	3,751	(5,705)	<b>(2,282)</b>
Revaluation increases /(decreases) to RR*	63,820	(14,001)	0	0	0	(415)	0	<b>49,404</b>
Revaluation increases /(decreases) to SDPS**	(143,710)	(26,058)	0	0	0	(2,452)	0	<b>(172,220)</b>
<b>At 31 March 2016</b>	<b>537,762</b>	<b>779,382</b>	<b>76,640</b>	<b>587,344</b>	<b>19,620</b>	<b>36,299</b>	<b>31,048</b>	<b>2,068,095</b>
<b>Depreciation</b>								
At 1 April 2015	35,414	39,754	48,415	266,508	0	0	0	<b>390,091</b>
Depreciation charge	8,298	17,011	7,058	22,238	0	0	0	<b>54,605</b>
Depreciation written out on impairment	0	(60)	0	0	0	0	0	<b>(60)</b>
Derecognition - disposals	0	(47)	(10,691)	0	0	0	0	<b>(10,738)</b>
Depreciation written out to SDPS **	0	(1,136)	0	0	0	0	0	<b>(1,136)</b>
Reclassifications	0	0	0	0	0	0	0	<b>0</b>
Depreciation written out on revaluation	(35,414)	(25,780)	0	0	0	0	0	<b>(61,194)</b>
<b>At 31 March 2016</b>	<b>8,298</b>	<b>29,742</b>	<b>44,782</b>	<b>288,746</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>371,568</b>
<b>Net Book Value:</b>								
<b>At 31 March 2016</b>	<b>529,464</b>	<b>749,640</b>	<b>31,858</b>	<b>298,598</b>	<b>19,620</b>	<b>36,299</b>	<b>31,048</b>	<b>1,696,527</b>
<b>At 31 March 2015</b>	<b>569,012</b>	<b>771,195</b>	<b>29,398</b>	<b>308,666</b>	<b>19,206</b>	<b>37,024</b>	<b>11,757</b>	<b>1,746,258</b>

\* RR = Revaluation Reserve

\*\*SDPS = Surplus or deficit on Provision of Services



## Notes to Group Accounts

### Comparative information for 2014/15:

2014/15	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	P, P & E under construction £000	Total Property, Plant & Equipment £000
<b>Cost or Valuation</b>								
At 1 April 2014	589,754	778,553	80,926	557,909	18,734	55,403	24,036	<b>2,105,315</b>
Additions	17,777	24,410	5,849	16,785	472	785	8,795	<b>74,873</b>
Impairment (losses)/reversals to RR *	0	(21)	0	0	0	(389)	0	<b>(410)</b>
Impairment losses / reversals to SDPS **	(1,770)	(6,144)	(16)	0	0	(260)	0	<b>(8,190)</b>
Derecognition - disposals	(1,335)	(214)	(8,965)	0	0	(25)	0	<b>(10,539)</b>
Reclassified (to)/from Held for Sale	0	(1,294)	0	0	0	(2,210)	0	<b>(3,504)</b>
Other reclassifications	0	15,487	19	480	0	(13,237)	(21,074)	<b>(18,325)</b>
Revaluation increases /(decreases) to RR*	0	172	0	0	0	(1,796)	0	<b>(1,624)</b>
Revaluation increases /(decreases) to SDPS**	0	0	0	0	0	(1,247)	0	<b>(1,247)</b>
<b>At 31 March 2015</b>	<b>604,426</b>	<b>810,949</b>	<b>77,813</b>	<b>575,174</b>	<b>19,206</b>	<b>37,024</b>	<b>11,757</b>	<b>2,136,349</b>
<b>Depreciation</b>								
At 1 April 2014	23,361	25,793	50,947	243,043	0	0	0	<b>343,144</b>
Depreciation charge	12,106	14,567	6,392	23,465	0	0	0	<b>56,530</b>
Depreciation written out on impairment	0	(35)	0	0	0	0	0	<b>(35)</b>
Derecognition -disposals	(53)	(67)	(8,924)	0	0	0	0	<b>(9,044)</b>
Depreciation written out to SDPS **	0	(397)	0	0	0	0	0	<b>(397)</b>
Reclassifications	0	0	0	0	0	0	0	<b>0</b>
Depreciation written out on revaluation	0	(107)	0	0	0	0	0	<b>(107)</b>
<b>At 31 March 2015</b>	<b>35,414</b>	<b>39,754</b>	<b>48,415</b>	<b>266,508</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>390,091</b>
<b>Net Book Value:</b>								
<b>At 31 March 2015</b>	<b>569,012</b>	<b>771,195</b>	<b>29,398</b>	<b>308,666</b>	<b>19,206</b>	<b>37,024</b>	<b>11,757</b>	<b>1,746,258</b>
<b>At 31 March 2014</b>	<b>566,393</b>	<b>752,760</b>	<b>29,979</b>	<b>314,866</b>	<b>18,734</b>	<b>55,403</b>	<b>24,036</b>	<b>1,762,171</b>

\* RR = Revaluation Reserve

\*\*SDPS = Surplus or deficit on Provision of Services

## Notes to Group Accounts

### 8. Financial Instruments

In addition to the financial instrument disclosures in the single entity accounts it should be noted:

#### Consolidation Adjustment

On consolidation, the Council's shareholding in Cardiff Bus ceases to be a financial instrument, as the consolidated balance sheet includes the net assets of the subsidiary and their corresponding net worth. The increase to fair value is eliminated in the consolidation process.

#### Derivative Financial Instruments

Cardiff Bus enters into energy hedges to fix the price of fuel. At 31 March 2016, the company had no contracts to buy fuel.

### 9. Debtors

31 March 2015 Restated £000		31 March 2016 £000
53,976	Central Government Bodies	43,210
7,168	Other Local Authorities	13,278
4,883	NHS Bodies	4,691
38	Public Corporations & Trading Funds	34
25,963	Other Entities and Individuals	26,002
<b>92,028</b>	<b>Total Debtors Net of Impairments</b>	<b>87,215</b>

### 10. Cash and Cash Equivalents

This figure represents cash temporarily available for investment at balance sheet date and includes £2.596 million (£2.512 million in 2014/15) which Cardiff City Transport Services Ltd. holds in an escrow account against future insured liabilities. Cardiff City Transport Services Ltd holds £2.603 million (£2.519 million in 2014/15) in money market accounts that are not instant access.

### 11. Creditors

31 March 2015 Restated £000		31 March 2016 £000
(11,252)	Central Government Bodies	(13,498)
(6,576)	Other Local Authorities	(11,518)
(860)	NHS Bodies	(1,424)
(12)	Public Corporations & Trading Funds	(9)
(78,596)	Other Entities and Individuals	(60,842)
<b>(97,296)</b>	<b>Total Creditors</b>	<b>(87,291)</b>

### 12. Provisions

	Balance 1 April 2015 £000	Utilised/ Released in year £000	Transfers to Provisions £000	Balance 31 March 2016 £000
Cardiff Insurance Provisions	(11,334)	5,533	(4,641)	(10,442)
MMI Scheme of Arrangement Levy	(704)	0	(162)	(866)

## Notes to Group Accounts

	Balance 1 April 2015 £000	Utilised/ Released in year £000	Transfers to Provisions £000	Balance 31 March 2016 £000
Cardiff Bus Insurance Provision	(2,865)	1,227	(740)	(2,378)
Termination Benefits Provision	(59)	59	0	0
Ferry Rd Landfill Provision	(9,096)	0	0	(9,096)
Lamby Way Landfill Provision	(16,993)	419	0	(16,574)
Other Provisions	(2,224)	1411	(1,020)	(1,833)
<b>Total Provisions</b>	<b>(43,275)</b>	<b>8,649</b>	<b>(6,563)</b>	<b>(41,189)</b>

	Not later than one year £000	Later than one year £000	Balance 31 March 2016 £000
Cardiff Insurance Provisions	(4,760)	(5,682)	<b>(10,442)</b>
MMI Scheme of Arrangement Levy	(297)	(569)	<b>(866)</b>
Cardiff Bus Insurance Provision	(1,070)	(1,308)	<b>(2,378)</b>
Termination Benefits Provision			<b>0</b>
Ferry Rd Landfill Provision	(69)	(9,027)	<b>(9,096)</b>
Lamby Way Landfill Provision	(3,586)	(12,988)	<b>(16,574)</b>
Other Provisions	(1,774)	(59)	<b>(1,833)</b>
<b>Total Provisions</b>	<b>(11,556)</b>	<b>(29,633)</b>	<b>(41,189)</b>

### 13. Deferred Liabilities

	Balance 1 April 2014 (Restated) £000	Utilised/ Released in year £000	Transfers to Provisions £000	Balance 31 March 2016 £000
Commutated Maintenance Sums	(8,241)	1,163	(525)	(7,603)
Cardiff Bus Finance Lease Liability	(4,014)	1,312	(3,788)	(6,490)
<b>Total Deferred Liabilities</b>	<b>(12,255)</b>	<b>2,475</b>	<b>(4,313)</b>	<b>(14,093)</b>

	Not later than one year £000	Later than one year £000	Balance 31 March 2016 £000
Commutated Maintenance Sums	(986)	(6,617)	(7,603)
Cardiff Bus Finance Lease Liability	(1,238)	(5,252)	(6,490)
<b>Total Deferred Liabilities</b>	<b>(2,224)</b>	<b>(11,869)</b>	<b>(14,093)</b>

## Notes to Group Accounts

### 14. Adjust net surplus or deficit on the provision of services for non-cash movements

	2014/15 Restated £000	2015/16 £000
Depreciation, impairment & amortisation	(60,581)	(195,093)
Charges made for retirement benefits (IAS19) less employers contributions	(20,713)	(14,053)
Contributions (to)/from provisions	5,153	5,683
Gain/loss on disposal of Non-Current Assets	(1,589)	(488)
Cardiff Bus Taxation	(594)	0
Increase/(decrease) in stock	(515)	(108)
Increase/(decrease) in debtors (exc capital)	899	10,510
(Increase)/decrease in creditors (exc capital creditors) & super fund	(14,688)	4,466
	<b>(92,628)</b>	<b>(189,083)</b>

### Adjust for items included in the net surplus/deficit on provision of services that are investing and financing activities

	2014/15 £000	2015/16 £000
REFCUS	(749)	(192,271)
Net gain/(loss) on sale of non-current assets	5,774	11,096
Repayments of liabilities under finance leases	0	0
Capital grants/contributions recognised in I&E	28,165	25,304
Other cash items which affect investing or financing activities	(11,478)	(18,945)
	<b>21,712</b>	<b>(174,816)</b>

### 15. Segmental Reporting

Please refer to [note 4](#) in the Notes to Core Financial Statements for the Council's segmental reporting analysis. The group report is not prepared on the basis that Cardiff Bus prepares its accounts in accordance with UK GAAP.

## Trust Funds

During 2015/16, the Corporate Director Resources had financial responsibility for a number of charities. Although their financial administration is integrated with that of the Council, the charities are legally separate from it and separate financial statements are produced, which are in accordance with applicable accounting standards and the Statement of Recommended Practice on Accounting by Charities, published by the Charity Commissioners.

The charities are managed and expenditure is approved in accordance with criteria set out in the governing document of each one.

The Council is the sole trustee of the following charities the purposes of which are outlined below. Numbers in brackets are the charity registration numbers.

**Llandaff War Memorial Fund (219060)** – For defraying the cost of upkeep of the war memorial at Llandaff.

**Maindy Park Foundation (524137)** – Recreation or other leisure-time occupation for the benefit of the inhabitants of the City of Cardiff with the object of improving the conditions of life for those inhabitants.

**Cardiff Further Education Trust Fund/Craddock Wells Trust** – Apart from the provision of premises for educational purposes, the Trust makes grants to students, usually through the Council, and makes a small annual payment to University of Wales, Cardiff.

**Norwegian Church Preservation Trust** - The Norwegian Church Preservation Trust was transferred to the County Council, under the management of the Cardiff Harbour Authority in May 2006. It is intended to continue to retain and enhance the cultural, arts programmes and the links between Wales and Norway of this important visitor's attraction on the Cardiff Bay Waterfront for future generations.

The accounts for the Cardiff Further Education Trust and the Norwegian Church Preservation Trust are required by the Charity Commission to be independently examined. The accounts for year ended 31 March 2016 have yet to be examined. This is to be undertaken in January 2017 which is within the statutory deadlines set.

A financial summary for each fund follows. Detailed financial statements may be obtained from:

Christine Salter  
Corporate Director Resources  
County Hall  
Cardiff  
CF10 4UW

## Trust Funds

	Balance as at 31 March 2015 £	Income £	Asset Revaluation £	Expenditure £	Balance as at 31 March 2016 £
<b>General Funds</b>					
Llandaff War Memorial Fund	1,443	8	0	(11)	1,440
Maindy Park Foundation	78,095	265	0	(11)	78,349
Norwegian Church Preservation Trust	(105)	71,073	0	(71,073)	(105)
<b>Further Education</b>					
Cardiff Further Education Trust/ Craddock Wells	21,185,393	131,993	(213,799)	(248,677)	20,854,910
<b>Total funds for which the Council is sole trustee</b>	<b>21,264,826</b>	<b>203,339</b>	<b>(213,799)</b>	<b>(319,772)</b>	<b>20,934,594</b>
<b>Other funds administered by the Council</b>					
R Fice Memorial Trust	63,348	2,162	(3,731)	(2,168)	<b>59,611</b>
The Howardian Trust	29,695	934	(871)	(353)	<b>29,405</b>
<b>Total other funds which are administered by the Council</b>	<b>93,043</b>	<b>3,096</b>	<b>(4,602)</b>	<b>(2,521)</b>	<b>89,016</b>
<b>Total</b>	<b>21,357,869</b>	<b>206,435</b>	<b>(218,401)</b>	<b>(322,293)</b>	<b>21,023,610</b>

The accounts for the Cardiff Further Education Trust and the Norwegian Church Preservation Trust are required by the Charity Commission to be independently examined. The accounts for year ended 31 March 2016 have yet to be examined. This is to be undertaken in January 2017 which is within the statutory deadlines set.



## Scope of Responsibility

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

2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, including arrangements for the management of risk.

3. The Council is the Administering Authority for the Cardiff and Vale of Glamorgan Pension Fund (the Pension Fund) and Cardiff Port Health Authority (CPHA). The Cardiff Harbour Authority (Harbour Authority) is subsumed within the Council. The governance arrangements detailed in this Annual Governance Statement apply equally to the Council's responsibilities to the Pension Fund, Harbour Authority and CPHA. Within the Statement of Accounts, the Annual Return of the CPHA includes a corresponding Annual Governance Statement with additional supporting governance information. There are further specific requirements for the Pension Fund which are:

- The Statement of Investment Principles;
- Funding Strategy Statement;
- A full Actuarial Valuation to be carried out every third year

4. During 2015/16 the Council did not review the governance arrangements in its three subsidiary companies, namely Cardiff City Transport Services Ltd. (Cardiff Bus), Cardiff Business Technology Centre (CBTC) and Cardiff Business Council. The subsidiary companies are subject to periodic reviews, and Internal Audit has scheduled a review of Cardiff Bus for 2016/17. Cardiff Business Council is due to close in 2016/17.

5. The Council has approved and adopted a Governance Framework, which is consistent with the principles of the CIPFA/SOLACE Framework - Delivering Good Governance in Local Government. A copy of the framework can be obtained from the Audit Manager.

6. The CIPFA/SOLACE framework has been subject to consultation for revision, with the intention of building on the *'International Framework: Good Governance in the Public Sector'* (CIPFA/IFAC 2014). The International Framework places sustainable economic, societal and environmental outcomes as a key focus for governance processes and structures. It emphasises the importance of considering the longer term and the links between governance and public financial management. CIPFA has confirmed that the existing framework should be used for the purpose of the Annual Governance Statement (AGS) for 2015/16.

7. This statement explains how the Council has complied with the Governance Framework and also meets the requirements of the Accounts and Audit Regulations 2014.

## The Purpose of the Governance Framework

8. The Governance Framework comprises the systems, processes, culture and values by which the Council is directed and controlled together with its activities through which it accounts to, engages with, and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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

realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

10. The following paragraphs summarise the core principles of the Council's Governance Framework and reflects the arrangements in place to meet the six core principles of effective governance:

- Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area;
- Members and Officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- Developing the capacity and capability of Members and Officers to be effective;
- Engaging with local people and other stakeholders to ensure robust public accountability.

### **Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area**

11. The Council's vision is an integral part of the city's 10 Year What Matters Strategy (2010-2020) which has been developed in conjunction with public, private and voluntary sector stakeholders and following citizen engagement.

12. The What Matters Strategy brings together the Community Strategy; the Children & Young People's Plan; the Health, Social Care & Wellbeing Strategy and the Community Safety Strategic Assessment into a single plan which is based on a vision of delivering 7 shared outcomes. The Council participated in the development of seven Citizen Outcomes with the Cardiff Partnership Board partners.

13. The Council approved a strategic and focused Corporate Plan in March 2015 for the period 2015 - 2017 setting out the strategic direction and providing a framework for more detailed service plans and performance management objectives. The Corporate Plan provides a road map for meeting the twin challenges of facing increasing demand for services from a growing population, whilst funding is reducing, to enable the Council to continue to deliver great public services with the vision to build on successes to become Europe's most liveable capital city. The four Corporate Plan priorities which have been maintained in the 2015 – 2018 Corporate Plan are identified as below to be delivered as part of the public service values of "open", "fair" and "together":

- Better education and skills for all;
- Supporting vulnerable people;
- Creating more jobs and better paid jobs;
- Working together to transform services.

14. Under each of these priorities sit a number of improvement objectives which set out the specific outcomes which the Council has agreed to focus on. In turn these improvement objectives have associated activities and performance indicators. This level of information will be used to evaluate the Council's performance in delivering both the improvement objectives and the agreed priorities. For each priority, improvement objectives have been established, with high level commitments and performance indicators identified for each improvement objectives

15. To ensure there is clear accountability for delivering each objective a Lead Member, or in some instances Members, are identified. The delivery of the revised Corporate Plan is monitored through the Council's Performance Management Framework, including:

- Performance Challenge sessions of the Council's Senior Management Team;
- Joint Cabinet and Senior Management Team Performance Challenge meetings;
- A Challenge Forum involving Members, Senior Officers and external peer support to challenge the Council's progress against its improvement journey and the delivery of the Corporate Plan.

16. Delivery against the What Matters outcomes is subject to an annual review, and the 2015 review was presented to the Policy Review and Performance Scrutiny Committee. In May 2015 the Policy Review and Performance Scrutiny Committee was asked to take overarching responsibility for scrutiny of the Council's partnership work, specifically scrutiny of the Cardiff Partnership Board (CPB). On publication of the Improving Scrutiny Project in September 2015, the transfer of responsibilities from a decommissioned Local Service Board Scrutiny Panel was agreed.

17. The Council's Constitution provides each of the Council's five scrutiny Committees with authority to scrutinise partnership activity within their terms of reference, and so, complementing this Committee's strategic overview of partnership activity, all Council scrutiny committees will continue to factor scrutiny of relevant What Matters work streams into their forward work programmes.

18. The CPB is the successor to the Cardiff Local Service Board, set up in 2007 as part of a Welsh Assembly Government initiative across Wales. The CPB consists of South Wales Police, South Wales Fire & Rescue Service, The City of Cardiff Council, Cardiff Third Sector Council, Cardiff and Vale University Health Board, the National Probation Service, Wales Community Rehabilitation Company and Natural Resources Wales. The CPB strengthens local public service management to tackle 'fundamental and unmet' challenges from a citizen perspective. To achieve this, the Board is responsible for overseeing the performance of city-wide programmes and work streams to address major issues in Cardiff.

19. The Well-being of Future Generations Act (which comes into force from April 2016) is to ensure that the governance arrangements in public bodies for improving the well-being of Wales take into account the needs of future generations. The aim is for public bodies to improve the economic, social and environmental well-being of Wales in accordance with the detailed sustainable development principles and well-being goals that are prescribed by the Act.

20. From April 2016 the CPB will become a statutory Public Service Board and its work will contribute to achieving the seven well-being goals for Wales. The Well-being goals for Wales align well with Cardiff's seven citizen outcomes, providing an opportunity for our strategy to not only deliver those priorities that will improve quality of life in Cardiff, but also make a contribution towards the seven Well-being goals for all of Wales as follows:

- A prosperous Wales;
- A resilient Wales;
- A healthier Wales;
- A more equal Wales;
- A Wales of cohesive communities;
- A Wales of vibrant culture and thriving Welsh Language;
- A globally responsible Wales.

21. Since the publication of the first What Matters Strategy in 2010 there has been an increased recognition that local areas are best placed to respond to local need. Within Cardiff the Neighbourhood Partnership model has become significant in providing a coherent structure for allowing organisations to work together and problem solve within localities to deliver the priorities for different communities. The Building Communities – A New Approach to Neighbourhood Working White Paper was published in 2013 and facilitated improvements to the existing model by strengthening local engagement, including the identification of a 'Lead Elected Member' to work with other elected members and partners to agree priorities set out in each of the six Neighbourhood Partnership Action Plans.

22. Neighbourhood Partnership teams exist in each of the six localities across Cardiff and are made up of multi-agency staff working together to share local intelligence to solve problems for their particular neighbourhood. This means that a range of expertise from across the public and voluntary sectors is brought to bear on the issues that really matter to communities. The initiative has increased partners' awareness and understanding of their respective roles and activities, leading to more collaborative and responsive working. It has also redefined the conventional way of working by concentrating on bringing decision-making and resources closer to communities through a model tailored specifically to Cardiff.

23. The model, in addition to being successful in delivering tangible improvements in each neighbourhood has helped shape the work of some of our delivery programmes such as Families First, Communities First, Flying Start and Youth Engagement Panels to target our resources where they are needed most to support a preventative approach, reduce duplication of provision and identify gaps in service. This approach has also been embraced by other partners, and NHS primary and community care services are organised into 6 matching clusters with a GP lead for each. Clusters provide an easily recognisable level of aggregation of GP practices and Cluster Plans address population health priorities, reflecting issues specific to the area and the actions required to be taken forward with partners to provide improved outcomes.

24. 'Joined-up' thinking and cutting across the traditional lines of responsibility for service funding and provision, has also encouraged some of our core services to take an area based approach and ensure that services are being delivered to those most in need. Cardiff's Community Hubs are an example of locality based partnership working and have delivered tangible benefits to meet identified needs within communities. Building on this model will ensure that the diverse needs of Cardiff's population continue to be met.

25. Neighbourhood delivery is influencing the way in which services are being redesigned such as waste collections, street cleansing and highways maintenance. New multi-skilled teams are now developing a neighbourhood approach to tackling different issues and needs and this approach is already leading to increased financial savings and improved satisfaction through increased efficiency. Neighbourhood delivery has formed a part of the consideration for alternative models of service delivery.

26. The Executive adopted a Community Councils Charter ("the Charter") in March 2012, following consultation with relevant stakeholders, including the six Community Councils within the Council's area and the Standards and Ethics Committee. The Charter reflects the model Charter issued by the Welsh Government under section 130-133 of the Local Government (Wales) Measure 2011. The aim of the Charter is to support structured, regular engagement and communication between the County Council and the six Community Councils in Cardiff, based on the key principle of equality of partnership between the two tiers of local government.

27. In June 2015 the Cabinet reaffirmed its commitment to the aims of the Charter; and delegated authority to the Monitoring Officer (in consultation with the relevant Cabinet Member, the Standards and Ethics Committee and the six Community Councils), to update the Charter for authorisation by the relevant Cabinet Member. Discussions have been held with the Clerks of the six Community Councils and the Monitoring Officer has produced a revised draft which was presented to the Standards and Ethics Committee in December 2015.

28. The City Deal for the Cardiff Capital Region has also made good progress, with the Council and nine other participating local authorities currently working on proposals to support investment in infrastructure and skills development across the city-region. Underpinning the proposals is a £1.229bn fund. The projects which will have the biggest impact on the city-region economy will be prioritised. Supporting this, new governance arrangements were established at the end of the 2015/16 financial year, including a Joint Cabinet made up of the Leaders of the ten local authorities to oversee investment across the city-region.

29. The Council recognises the need to change the way it delivers many services to ensure that their long term sustainability is secured and that underperformance in some statutory services is addressed. In order to do so, a rolling three year Organisational Development Programme has been established to:

- Review the shape and scope of the organisation and the way in which services are currently delivered to meet demand;
- Enhance citizen engagement and widen opportunities for people and communities to shape services around their needs;
- Identify delivery models that may be established to meet demand pressures and reflect budgetary realities;
- Significantly strengthen performance management, workforce development and staff engagement arrangements;

- Identify opportunities for further efficiency savings through better internal and external collaboration, integration of service delivery and better use of assets and infrastructures.

30. The Council has agreed a performance management framework and a range of performance measures that demonstrate progress in meeting the priorities in the Corporate Plan. This framework also includes the statutory National Strategic Indicators as specified by Order together with local indicators which will enable a wider understanding of performance. The annual Outturns against these indicators are submitted to the Welsh Government to be audited as part of the revised Wales Programme for Improvement as the result of the Local Government (Wales) Measure. This framework ensures that there is alignment between the What Matters Strategy, Corporate Plan, Strategic Equality Plan, Directorate Delivery Plans and Personal Performance and Development Plans. Performance against the Council's targets and objectives are reported publicly on a quarterly and annual basis.

31. The Corporate Plan and Directorate Delivery Plans include key performance targets and these are monitored on a regular basis. Every quarter, each Directorate provides monitoring reports to the Senior Management Team (SMT) and the Cabinet with Scrutiny involvement where required. This enables the Council to track progress against the key objectives, monitor performance against targets and inform remedial action where required.

32. Enhancements were made in 2014/15 to strengthen the performance management arrangements given the range of challenges facing the Council, examples include the Star Chamber Sessions chaired by the Leader and Improvement Boards chaired by the Chief Executive for each Directorate.

33. An annual Improvement Report sets out the progress over the previous financial year in terms of:

- a review against the key objectives;
- progress and comparative information regarding the National Strategic Indicators and a balanced set of Core and Local Indicators which will in future be based on the measures in the Corporate Plan;
- an account of the challenges for the future to be part of the requirements of the Corporate Planning regime.

34. The Corporate Assessment Follow On report issued in February 2016 by the Wales Audit Office has made proposals to further strengthen performance management and performance reporting arrangements to enable further enhancements to processes.

35. The Local Government (Wales) Measure 2009 amended the statutory basis of the Improvement Agenda and from 2010 the drafts of the Corporate Plan and Improvement Report have been discussed at Scrutiny and the Cabinet before being debated and approved by Council prior to publication. The Auditor General for Wales' is required to issue Certificates of Compliance to the Council to discharge his requirements under the Local Government (Wales) Measure 2009. The Council also receives reports regarding key elements of governance i.e. finance and performance management. The proposals for improvement in these reports help to /shape the processes and outputs of the Council.

### **Members and Officers working together to achieve a common purpose with clearly defined functions and roles**

36. The Council aims to ensure that the roles and responsibilities for governance are defined and allocated so that accountability for decisions made and actions taken are clear. It has done this by appointing a Leader, and a Cabinet which has collective decision making powers. Annual Council meet in May of each year to establish Committees: their size, terms of reference and allocation of seats. The Council's Constitution sets out the terms of reference for each of its Committees and the decisions that can be taken by each of those Committees, and is reviewed regularly by the Constitution Committee and recommendations made to Council. A number of Committees have been appointed by Council to discharge regulatory and scrutiny functions.

37. The Council's Constitution sets out the particular roles and responsibilities of Officers and Members and provides clarity on the interfaces between these roles. These include:

- Functions and subsections delegated to officers;
- Members' Code of Conduct;



- Employees' Code of Conduct;
- Protocol on Member / Officer Relations;
- Cardiff Undertaking - upon election all Members sign "The Cardiff Undertaking" which underlines their duties to the City and its citizens.

38. The Council is required to agree and publish a Schedule of Member Remuneration on an annual basis which sets out the levels of remuneration and allowances payable to Members. This is subsequently updated in line with the determinations made by the Independent Remuneration Panel for Wales in any annual or supplementary reports. Information relating to officers' pay levels is included in the Council's Annual Pay Policy Statement as required by the Localism Act 2011 and also in the annual Statement of Accounts.

39. The Corporate Plan forms part of the strategic policy framework set out within the Council's Constitution and is considered annually by the Council. The document outlines the Council's strategic policy priorities and improvement objectives, and forms part of the required statutory improvement framework as it discharges the Council's obligations under the Local Government (Wales) Measure 2009 to publish a stage one plan, setting out how the Council plans to achieve its priorities for improvement.

40. The Annual Improvement Report 2014/15 was approved by the Council in October 2015 and incorporated several proposals for improvement raised by the Auditor General which have been instigated, including ensuring:

- actions and targets support the delivery of, and determine progress against the improvement objectives;
- baseline data and targets are included for all improvement objectives;
- comparative data is represented for all performance indicators and is consistently presented;
- progress against the Outcome Agreement is presented to support the explanation of progress against the improvement objectives;
- an assessment of performance for each of the improvement objectives is provided;
- performance indicators have a target and that where targets have not been set that there is an explanation

41. The Council has responded positively to the findings of the Corporate Assessment in 2014, of the Wales Audit Office and put in place better arrangements to support improvement and address longstanding issues. The Corporate Assessment Follow On, issued in February 2016, concluded that: 'The Council has put in place better arrangements to support improvements and to address longstanding issues, but is now at a critical point in embedding them if it is to achieve a step change in delivering improved outcomes'. This progress is made against the 2014 report concluded that 'fragmented leadership and management have meant that weak performance in key service areas has not improved'.

42. The Budget Strategy for 2016/17 and the medium term was approved by Cabinet and Council in July 2015. It set out how the Council's Aggregate External Finance (AEF) was decreased by £12.516 million or 2.9% in cash terms over 2014/15, and when measured on a per capita basis resulted in Cardiff being ranked as 21 out of the 22 councils in relation to the per capita funding it received from the Welsh Government.

43. In response to increasing financial pressures, an updated approach to identifying savings targets was acknowledged in the 2015/16 Budget Report in consideration of the future shape of the Council. This was taken forward as a Reshaping the Base Budget exercise. The exercise identified services at the minimum statutory level and considered whether discretionary services could be covered by income. The difference between this picture and the current shape of services highlighted the opportunities for budget reductions over both one and three years against the following four savings drivers:

- Policy led savings;
- Business process efficiency savings
- Discrete Directorate led savings;
- Income / commercialisation.



44. A robust budget setting process was developed to deliver a balanced budget for 2015/16, given the scale of the Budget Reduction Requirement. This required the use of a number of positive practices, including:

- Setting budget strategy planning assumptions for both one and three years. This led to earlier engagement on choices in respect of council tax, employment costs, schools pressures and balance sheet assumptions;
- High level consideration of savings proposals against the Council's proposed target operating model as part of Budget Strategy development;
- Use of market place sessions for members to review the budget proposals for 2015/16, with budgetary analysis sheets provided for context;
- An extensive engagement exercise with citizens, business, partners and staff through The Cardiff Debate;
- An eleven week consultation process on the proposed savings for 2015/16 including the preparation and consideration of an extensive feedback report for Cabinet to consider;
- A due diligence process on the proposed savings, which resulted in a number of savings being removed or reduced due to concerns in respect of their achievability;
- A future year's outlook section up until 2029/30 being included in the Medium Term Financial Plan (MTFP);
- The inclusion of opportunities for further savings in respect of 2016/17 and 2017/18 in the Budget Report.

45. The Council's Budget for 2016/17 was presented to Cabinet in February 2016. The Final Local Government Settlement is usually received in December of each year providing the Council with a firm figure of Aggregate External Finance (AEF) for the forthcoming financial year. However, Welsh Government did not provide the Final Local Government Settlement until February 2016. This caused some uncertainty, which was managed through regular consultation with the Welsh Government and prudence in the budget setting process.

46. The Corporate Plan 2016-2018 was approved by Cabinet in February 2016. To ensure clear lines of accountability, the Corporate Plan is structured around Cabinet portfolio responsibility. It is supported by individual Directorate Delivery Plans which contain detailed objectives and outcomes and integrate financial and service planning. The Delivery Plans provide clear lines of responsibility and increased accountability and are subject to effective management challenge and scrutiny.

47. In January 2015, Cabinet considered a report from the Chief Executive with proposals for an amended senior management structure, designed to meet the Council's objectives, the changing requirements of service delivery and the proposed budget saving. This was outlined in the Cabinet report '2015/16 Budget proposals – For Consultation' which was considered in November 2014, together with the objectives set out in the Cabinet report 'Senior Management Arrangements' considered in January 2015. The proposed restructure was supported by Hay Group benchmarking analysis which compared the management structure of Cardiff Council with other Core City Councils and a selection of other Unitary/City Councils of a similar size (in terms of population).

48. The subsequent restructure reduced the number of Director (Tier 1) posts from eleven to seven. It involved the creation of three new roles, namely the Director of City Operations, Director of Social Services and Director of Governance & Legal Services (reporting to Corporate Director Resources). Appointments were made to these roles in June 2015. Throughout the financial year (2015/16) a number of Tier 2 (Assistant Director) posts have been filled, in creating a remodelled management structure which is closer aligned with the benchmark Unitary/City Councils.

49. All employees, including senior management, have clear conditions of employment and job descriptions which set out their roles and responsibilities. The Employment Conditions Committee maintains an overview of such conditions.

50. On 19 February 2015 the Cabinet approved an Officers' Personal Interests & Secondary Employment Policy. All Council employees are obliged, under the Employees' Code of Conduct, to ensure that their private interests do not conflict with their public duties, and to comply with the Council's

rules on the registration and declaration of financial and non-financial interests (paragraph 8(1) of the Code). The Standards and Ethics Committee reviewed the draft policy which was also shared with Audit Committee members. Measures have been undertaken to make all officers aware of the new policy, including providing awareness information enclosed with payslips.

51. Under the policy, staff are required to disclose any personal interest which actually or potentially conflict with their duties to the Council and all secondary employment. Their manager must then decide, in consultation with the staff member, whether an actual conflict exists. If it's decided that there is a conflict then a decision must be taken on how that conflict should be managed, which may include the re-allocation of duties.

52. The Cabinet at their meeting on 2 April 2015 agreed a Workforce Strategy in order to strengthen links between business, financial and workforce planning, particularly during the current period of financial challenge and rapid organisational change. An integral part of the strategy is the Employee Charter. The Charter is a response to a series of challenges the Council has faced and issues raised by the Wales Audit Office in September 2014 as part of the Corporate Assessment and the earlier WLGA Peer Review. The Employee Charter, founded on the Council's values, sets out the expectations of employees, managers and senior managers.

53. The Corporate Director Resources is the Council's Section 151 Officer with overall responsibility for the financial administration of the Council. Additionally, a Head of Finance has been appointed in 2015/16 in order to strengthen financial control. The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

54. Central finance employees provide advice and guidance to all Directorates, for instance providing support to forecast and monitor budgets on a periodic basis, with regular financial reports which indicate actual and projected expenditure against the budget and setting targets to measure financial performance.

55. All reports to the Council, the Cabinet and Committees are required to be considered from a financial perspective. All relevant employees are expected to be aware of the Council's Financial Procedure Rules (FPR) and the Contract Standing Order and Procurement Rules (CSO&PR). Both the FPR and CSO&PR are in a process of review to ensure an appropriate balance between financial probity, compliance and effective and efficient operations in forthcoming revisions. It is anticipated that the revised rules will be in place by the end of 2016/17.

56. An Impact Screening Tool has been developed by the Council to assess strategic policies and ensure that they take into account statutory requirements such as the impact of economic, social and environmental wellbeing and meet the requirements of the 2010 Equality Act. The Impact Screening Tool has been in place for several years and has been reviewed over time, most recently revised in 2013. The tool brings together the requirements of Equality Impact Assessments and Strategic Environmental Assessments in to one place to embed impact assessments in all decision making. The requirement for completion of screenings is also included within the Cabinet Report template to ensure the Council meets its statutory duties.

### **Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour**

57. In October 2014, the Cabinet agreed a renewed set of Values for the organisation, focusing on fairness, openness and working together. The Council supports a culture of behaviour based on these values which guide how the long term vision of the Council is put into effect, as well as how Members and Officers deliver their day to day roles. The Council's values have been actively communicated across the Council. The organisation's personal performance and development arrangements include specific tools to support staff in reflecting on how best to bring these values to life in their day to day work.

58. Governance and conduct matters are monitored by the Standards and Ethics Committee of which public meetings are held regularly and are chaired by an independent person. All Members and Officers are expected to comply fully with Codes of Conduct as set out in the Constitution. Protocols are in place

for working relationships between Members and Officers e.g. Officer-Member Protocol. A Member Enquiry System logs Member enquiries and the responses from Officers.

59. In April 2015, the Standards and Ethics Committee was presented with a report on the revised guidance on member code of conduct. This revised Guide provides an overview of the Model Code of Conduct (“the Code”) introduced in 2008. It is intended to help members understand their obligations under the Code. The Ombudsman reinforces the importance of member training on the Code whether by the Monitoring Officer or from a representative body.

60. The Corporate Assessment Follow-on, issued in February 2016, recognised the Council’s governance arrangements, such as the ‘Cardiff Undertaking’ for Members, which sets out expectations in relation to conduct, in addition to the ‘10 Principles of Public Life’. However, it has been concluded that the Standards and Ethics Committee could do more to visibly enforce the principles of the Cardiff Undertaking.

61. The Audit Committee was established under the Local Government Measure (Wales) 2011, the key function of the Committee is to review, scrutinise and challenge the governance, risk management and internal control arrangements of the Council. The Committee has 12 seats; 8 elected members and 4 independent lay members and a full induction programme is provided to all members. There have been vacancies with 1 elected and 1 independent lay member being unoccupied for much of the municipal year 2015/16. In June 2015, Sir Jon Shortridge stepped down as Chairperson of the Audit Committee. Ian Arundale was elected as Chairperson, with Professor Maurice Pendlebury appointed as Deputy Chairperson. Both the Chair and Deputy Chairperson of the Audit Committee are independent lay members.

62. The Audit Committee continues to provide assurance to the Council on the effectiveness of its governance, risk management, and internal control arrangements. In providing such assurance the Audit Committee has followed a wide ranging programme of work focusing on strategic risks and fundamental financial processes. The Audit Committee through its work programme has standard agenda items at each meeting which include; budgetary and financial information, treasury management, risk and governance, internal audit, external audit and operational matters. The Committee is supported by the Council’s Section 151 Officer as the principal advisor, the Audit Manager, who provides technical support and Democratic Services provide secretariat support. Agendas, minutes and meeting papers are available on the Council’s Website.

63. The Audit Committee has participated in a response to the Draft Local Government (Wales) Bill Consultation in February 2016, which will see the Committee change name to Governance and Audit Committee and a widening of responsibilities. The Monitoring Officer has presented the requirements of the draft bill to the Audit Committee and consideration will be made in 2016/17 as to the most opportune time for potential early adoption of the Bill.

64. All staff undertake induction training which provides information on a range of policies, procedures and regulations including those relating to Financial Control, Data Protection, Health & Safety, Equalities and IT Security.

65. The Council takes fraud, corruption and maladministration very seriously and takes a zero tolerance approach to this, with the following policies to prevent, and deal with, such occurrences:

- Financial Procedure Rules;
- Contract Standing Order and Procurement Rules;
- Whistleblowing Policy;
- Fraud, Bribery & Corruption Policy;
- Anti-Money Laundering Policy;
- HR policies regarding discipline of staff involved in such incidents;
- Local Government Code of Conduct (for employees).

66. An Anti-Fraud Bribery and Corruption Policy and a Money Laundering Policy and Procedure were approved by Cabinet in June 2015 following consideration by the Audit Committee in March. The policy

review has been supported by a mandatory fraud training programme, developed to ensure consistently high professional standards within fraud investigating activities and application of the policy. All Investigating Officers will be required to receive mandatory fraud training. Developments have been made within the DigiGOV system to enhance the availability and visibility of investigation records and to improve the timescales of actions.

67. Cabinet approved the revised Disciplinary Policy in January 2016, following a detailed review involving key stakeholder groups, with a view to streamlining the current procedure, improve efficiencies and ensuring a standardised process. New elements of the policy include the provision of a twenty four hour, seven day a week counselling support service via the Employee Assistance Programme and a new Fast Track process, to promptly modify behaviour around misconduct issues. The main aim of the Disciplinary Policy is to improve an employee's performance or correct their behaviour. However, grievance procedures are in place for issues or problems to be raised concerning their employment. Workplace investigations, as part of Grievance or Disciplinary Procedures are designed to enable quick, cost-effective resolution to problems in the workplace.

68. The Council in May 2013 introduced a Comments, Complaints and Compliments Policy which ensures that the public and other stakeholders are given the opportunity to tell the Council what they think about the services we provide. In the run up to its introduction, briefings were carried out across the Council to raise awareness of the revised procedure. The streamlined procedure reflected guidance given in the Welsh Government Model Policy and Guidance Paper for Handling Complaints, as well as guidance received from the Public Service Ombudsman for Wales and now places a greater emphasis on a prompt resolution of complaints. Cabinet is informed annually of the number of complaints received.

69. In 2014, an Information Governance Strategy was approved and adopted, which includes a suite of Information Governance Policies setting out the responsibilities of the corporate body and staff. These policies, which are subject to annual review, provide the framework for the Council to ensure that it is compliant with the Data Protection Act, including the Privacy & Electronic Communications Regulations, CCTV Code of Practice, Employment Code of Practice, the Freedom of Information Act, and Environmental Information Regulations.

70. The Information Governance Training Strategy sits alongside the Information Governance Strategy to ensure that all staff receive training in respect of their employment within the Council in addition to training to support the function and role that they deliver, which is reviewed annually. The training programme is set out over three levels with 'level one' being mandatory for all staff who use a PC as part of their duties. Compliance reports for 'level one' training are regularly distributed to Directors and Operational Managers. All other staff are provided with a booklet which sets out the Council's Policies and outlines their responsibilities. They are required to attend a briefing session and sign for receipt of the booklet. This has provided the Information Commissioner's Office with the required assurance that the Undertaking requirements have been appropriately implemented and, they are satisfied that this will support compliance to the Data Protection Act 1998.

71. The Council has continued to strengthen information governance arrangements and capabilities, for instance, by assigning directorate representatives to be Service Information Asset Owners, providing them with training and key tasks. The Corporate Director Resources is the Council's Senior Information Risk Owner, supported by the Corporate Information Management Team, managing the overall Council approach to Information Management. Annually the team produces an Information Security Report which looks to address continuous improvement in this area. The reports were implemented during 2015/16.

72. Members are registered with the Information Commissioner as individual Data Controllers.

### **Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**

73. Responsibility for decision making in relation to the functions of the Council is clearly set out in the Council's Constitution. This describes the roles and relationships for decision making, between the Full Council, the Cabinet, Scrutiny and other Non-Executive Committees. It also details decisions delegated to senior officers through the different management tiers.



74. All decisions taken by Members are on the basis of written reports by officers which include assessments of the legal, HR and financial implications arising from the decision. Such reports address the key risks involved in particular decisions and alternative courses of action which are available. Reports also take into account the impact of economic, social and environmental wellbeing factors through the Council's Impact Screening Tool. Decisions Registers for the Cabinet, Senior Officers, and for the Regulatory Committees are published on the Council's website.

75. To assist with the evaluation of alternative delivery models being considered by the Council as part of its Organisational Development Programme, a Corporate Alternative Delivery Model (ADM) Evaluation Methodology was developed by the Commissioning and Procurement Service. This methodology has been approved by the Commissioning Programme Board and reviewed by Informal Cabinet and the Council's Policy Review and Performance Scrutiny Committee. The methodology, together with the other elements of the options appraisal, has also been subject to external challenge and review and has also been subject to consultation with the Trade Unions which has included a series of meetings and workshops. The methodology was piloted throughout the 2015/16 financial year and notably on the Infrastructure ADM.

76. Organisational Development (OD) programmes and projects are an essential mechanism for delivering a robust approach to enabling business change. The Project Quality Assurance (PQA) approach (based on the principles of PRINCE2) is the framework adopted by the Council. This provides an effective framework for planning, monitoring and delivery of projects demonstrating probity, accountability and transparency. Internal Audit has engaged with OD management, and developed a Control Risk Self Assessment (CRSA) audit approach which is being used to provide assurance on a range of projects at varying stages in their lifecycles.

77. The Organisational Development Programme (ODP) has robust and effective governance arrangements in place. In 2015/16 appointments were made of two Operational Managers who each have a portfolio of responsibility. These Operational Managers commenced in April and August 2015 respectively. The due process is for all new programmes as part of the ODP to be approved by SMT, with individual projects approved by their respective boards. Additionally, the Investment Review Board (IRB) approves all programmes and projects for which there is a financial implication. Senior Management Team (SMT) acts as the Organisational Development Board and receives monthly updates. Key risks are reported to SMT, as and when required, and 'deep dives' take place on requested projects to provide SMT with an update of progress.

78. The ODP has two portfolios of work; i) Enabling and Commissioning Services (Led by the Corporate Director Resources) and ii) Reshaping Services (Led by the Director of Communities, Housing and Customer Services). Each portfolio has its own Programme Board that meets on a monthly basis to review each project within its respective programme. The Investment Review Board is also provided with updates on specific projects as and when required. Additionally, an annual review of the ODP is undertaken and reported to members and SMT. It has been recognised that there is the opportunity to develop more explicit links between the Medium Term Financial Plan and the OD Plan, given that it is a key driver for reviewing the shape and scope of services within available budgets.

79. Scrutiny Services plays an important role in facilitating robust challenge to the organisation through the work of the Scrutiny Committees and a variety of informal scrutiny panels and activities. The Council has appointed five standing Scrutiny Committees, each of which meet on a monthly basis to undertake pre-decision scrutiny, policy monitoring and review. Scrutiny is an integral part of the Wales programme for improvement, and its challenge is designed to support the cabinet in providing accessible, efficient and effective services for citizens.

80. The Council's Scrutiny Committee Work Programmes for the municipal year 2015/16 were published on the Council's website by way of a forward plan, which gave details of the task and finish inquiries to be undertaken through the year and the associated timescales for delivery.

81. Each Committee launches a number of in depth inquiries each year to help the Cabinet develop and review robust, evidence driven policies and services. The Committees provide recommendations to the Cabinet following Scrutiny Inquiries, the majority of which are fully accepted. Each Inquiry is formally

presented to Cabinet and a formal response given, detailing exactly how many recommendations are accepted / partially accepted / rejected. Scrutiny Committees then monitor the implementation of recommendations at appropriate points going forward, often annually.

82. A number of letters are written by the Council's five Scrutiny Chairs to Cabinet Members following Scrutiny Committee meetings, offering advice on service improvements. Where Scrutiny Chairs write letters to Cabinet Members the Chair formally requests a response from the Cabinet, again in the form of a letter, which should give a clear indication of whether recommendations are accepted or not. Both letters are published with Committee papers for transparency. If a Scrutiny Committee has an ongoing interest in a subject they will often ask for a progress update on implementation of recommendations.

83. The Council has collaborative scrutiny arrangements with its partners. Examples include the Prosiect Gwyrd five Council Joint Scrutiny Committee, the Shared Regulatory Services Joint Committee and the Glamorgan Archives Joint Committee.

84. In January 2015, a project brief for Improving Scrutiny was presented to the Governance and Member Engagement Programme Board. The purpose of the Project is to ensure that scrutiny remains agile and able to play its role as a critical friend, in an environment that will see greater emphasis on partnerships, collaboration, commissioning and other alternative delivery models This Improving Scrutiny Project has concluded, with actions approved by Committee Members.

85. In addition to the Council's five Scrutiny Committees the Audit Committee provides a role in challenging and scrutinising the Council's governance, risk management and internal control arrangements. The work of the Audit Committee is very much informed by the work of the Internal Audit Team. The Audit Committee has reinforced the work of the Internal Audit Team, by writing to the Chief Executive or relevant Scrutiny or Cabinet Members, following reports which have been presented to the Committee.

86. Scrutiny Services and Internal Audit have collaborated in the development of a Scrutiny and Audit Protocol. This is in recognition that, with a limited Scrutiny and Audit resource, there is an increasing need for engagement and cooperative working in order to maximise collective assurance. The protocol addresses issues arising from the Wales Audit Office Annual Improvement Report including the Corporate Assessment 2014 relating to agenda management, the inefficiencies of reports being presented to multiple Committees and detailed reports being presented for information only. It is anticipated that this protocol will be approved in the beginning of 2016/17, which aims to:

- clarify the purpose and objectives of Audit and Scrutiny Committees;
- provide detail of which Committee is responsible for certain key roles;
- facilitate sharing of information and work programming;
- outline the option to refer matters between Committees;
- facilitate Committee engagement at Member and Officer levels.

87. Following the Organisational Development Plan report to Cabinet in May 2014, the Chief Executive instigated the Cardiff Manager Programme, which has been rolled out and delivered to over 300 middle managers across the Council. The programme delivered training on a number of themes including financial understanding, the management of budgets, evaluating and managing risks, financial compliance, commercial awareness and business case management. The programme provides a benchmark of information and understanding to enable managers to make informed and transparent decisions. Cohorts commenced on the programme in the autumn of 2014 which continued through 2015/16, with positive feedback from attendees. A wider role out of the training programme will commence from May 2016.

88. For several years each Director has been asked to complete a Senior Management Assurance Statement (SMAS), with responses reviewed by the Audit Manager. The statements received contribute to ongoing reviews of governance and risk management.

89. The purpose of the SMAS exercise is to provide a true reflection of the governance arrangements in place within the Council. Good governance ensures that as a Council we are open and transparent in our affairs and any areas which are of concern at a corporate level are identified and managed.



90. Completion of the SMAS requires each Director to respond to a number of statements with regards to the functions for which they have been responsible during the financial period. In addition, there is a requirement to declare if any significant governance issues have occurred during the period, which may merit inclusion on the Annual Governance Statement Action Plan, in addition to providing updated comments on four ongoing significant governance issues.

91. In 2015/16 the SMAS pro forma was refreshed to require Directors to provide examples and comments in support of their responses. Audit Relationship Managers have met with their respective Directors to discuss SMAS responses. This involved attendance at many Directorate Management Team meetings where Directorate responses were discussed, challenged where appropriate and collated. A Chief Executive Assurance Statement has also been developed and introduced to ensure a complete set of assurance statements from Senior Management at the year end position.

92. Work is continually ongoing to review the extent to which risk management is becoming embedded within the Council. The Council has a Risk Management Steering Group which is made up of Directors, a Member Risk Champion and dedicated officers from Internal Audit, Insurance, Improvement & Information Management and Partnership & Citizen Focus. Councillor Graham Hinchey is the nominated Member Risk Champion and the Corporate Director Resources has continued as Senior Officer Risk Champion through 2015/16. The work of the Risk Management Steering Group is cascaded to the network of Risk Champions who assist with identifying, assessing and managing risks at a Directorate level.

93. In recent years, the Audit and Risk Manager role had been undertaken through a job share arrangement, which in May 2015 became a part-time post as a result of one retirement in May 2015. The remaining post holder of Audit and Risk Manager retired on 31 March 2016. This has presented an opportunity to reassign risk management responsibilities outside of Internal Audit and to strengthen the independence and objectivity of the Internal Audit function. The Head of Finance has taken on the responsibility for leading on risk management, supported by a small dedicated team, enabling the Internal Audit function to focus on risk management assurance and other core elements of its role.

94. Efforts have been made to contribute to the formal definition and communication of Cardiff Council's risk appetite. A risk appetite review has been prepared and completed by the Senior Management Team and the Risk Management Steering Group. In the current economic climate, the Council is required to make decisions which contain increasing inherent risks, and the senior management team have consistently recognised this need. The establishment of a formal risk appetite will support officers and Members in the application of the existing risk management framework. It will support them in their decision making considerations and rationale, and help to provide a balance between consideration of opportunities for innovation and change and risk exposure. Work is ongoing, and a position paper will be provided to Cabinet in 2016/17 to seek formal approval of a corporate risk appetite.

95. During the financial year the Risk Management Steering group has created a draft partnership and collaborative working protocol and toolkit, to provide a consistent and practical approach to considering the viability of, and risk management arrangements in, partnership and collaborative working arrangements. Work is ongoing to finalise the document through the Risk Management Steering Group.

96. The Council has a Risk Management Policy, Strategy and Methodology, which was last reviewed in 2013/14. The Cabinet approved the revised document on 13 March 2014. Audit Committee members were also provided with risk management training during the year.

97. A Corporate Risk Register (CRR) is maintained which highlights the strategic risks facing the Council. The CRR is reviewed by SMT quarterly and by the Audit Committee and Cabinet on a six monthly basis. Each year an assessment is undertaken to cross reference the CRR to the Corporate Plan which incorporates the strategic objectives. This forms the focus for senior managers in identifying their business risks, as detailed in their Directorate Delivery Plans.

98. All major programmes and projects are required to develop and maintain an up to date risk register as an integral part of the Project Quality Assurance (PQA) process.

99. Risk assessment continues to be a key strand to the Budget Strategy where risks are considered as a factor in allocating resources.

### **Developing the capacity and capability of Members and Officers to be effective**

100. The Council aims to ensure that Members and Officers have the skills, knowledge and capacity required to discharge their responsibilities. The Council recognises the value of well trained, competent people in effective service delivery. All new staff and Members attend an induction programme to introduce them to the Council and its values, objectives, policies and procedures.

101. The Democratic Services team coordinate and facilitate a range of training courses to assist Members in carrying out their roles as ward members and community leaders. Where Members feel they require specific training then this is arranged. This may be undertaken in a group environment or one to one with officers. The Council provides a Member development programme which includes both mandatory (Code of Conduct, Planning) and discretionary elements.

102. As part of a Governance and Member Engagement Programme Board supporting the Enabling and Commissioning Organisational Development portfolio a number of activities have taken place in the financial year 2015/16 in order to enhance member development, and support the upholding of high standards of conduct and behaviour including the introduction of appraisals for all Committee chairs and executive members.

103. Following an all Member survey in January 2014, the Democratic Services Committee established a Task and Finish Group with a remit to develop and deliver a Member Development Strategy. This Strategy provides a framework for ensuring Members are provided with a full range of development opportunities to enable them to effectively carry out their many roles as Community Leaders and representatives of the Council. In July 2015 Members approved the Member Development Strategy for 2015/16. The adoption of the Member Development Strategy and Member Charter supports the importance of Elected Member development and appraisal programmes and in particular supports Senior Councillors on their roles and responsibilities.

104. The Democratic Services Committee has approved the use of the WLGA Continuing Professional Development for Councillors Competency Framework in order to inform the preparation of the 2015/16 Member Development Programme. The framework sets out the range of skills and knowledge required by Members. It provides a 'curriculum' of areas that authorities can consider when developing local strategies on Member Development including generic and specific competencies. Many of these competencies form part of the key themes identified in the Member Development Strategy.

105. The Council has joined the All Wales Academy for Local Government is a collaboration of Local Authorities, Welsh Local Government Association, Wales TUC and Skills for Justice. It is an e-learning site available in English and Welsh to all 22 Local Authorities with 24/7 access for Local Government staff and Elected Members which has just been launched.

106. A task and finish inquiry was led by the Council's Scrutiny Committee Chairs as part of the 2015/16 Improving Scrutiny Project. This work in partnership with the Centre for Public Scrutiny aimed to ensure that Cardiff's Scrutiny Function remains agile and able to play its role as a critical friend, in a future environment that will see greater emphasis on partnership, collaboration, commissioning and other alternative models of delivery.

107. The Chairs have delivered on this project plan, and summarised their findings in a draft report. In the report the Chairs set out a series of actions to directly address four areas of concern about governance issues raised by the Wales Audit Office in their September 2014 Annual Cardiff Improvement Report on Cardiff Council following their Corporate Assessment visit. Committee Member access to information has been enhanced through the launch of the Modern.Gov platform in June 2015, giving Members access to a wider range of opportunities to access information about the Council and public policy in Wales. The Members' Online Library is available from the Council's website. Additionally, an Audit Committee Member site has been created to enable access to audit related information, reports and other publications.

108. The Corporate Assessment Follow On, issued in February 2016, recognised the development of a more engaged culture and good Member and officer commitment to attending and engaging in full Council meetings. It was reported that more variable Member engagement and attendance was observed at Scrutiny Committee meetings, the Leader's meetings with opposition leaders, the Challenge Forum, Member Training and Member Briefing sessions. It was also reported that some roles and responsibilities within the Council's decision making framework require clarification.

109. The Council operates a Personal Performance and Development which provides a framework for employees and managers to discuss work performance and behaviour as well as to identify learning and development needs. It enables employees to be clear about their roles, responsibilities and the behaviours expected of them whilst giving a clear understanding of how their job and efforts contribute to the Council's objectives. Member Personal Development Reviews are also in place and seen as a means to help Members update their knowledge and learn new skills to help them to be more effective in supporting their communities.

110. The City of Cardiff Council Academy demonstrates a clear commitment to investing in staff as we make significant changes across the organisation. Supported by the Trade Unions, plans are in place for a programme of learning and development courses that will provide staff at all levels with opportunities to strengthen their existing skills and develop new skills.

111. Senior officers and those involved with financial and procurement matters are expected to comply with the system of financial management within the Council, which is based on a framework of regular management information, Financial Procedure Rules, Contract Standing Orders and Procurement Rules. The rules underpin the Council's Constitution and a system of delegation and accountability.

112. In some areas compliance with Council rules has been identified an issue and training has been delivered to Managers in those areas and continues to be offered on an ongoing basis. A Risk Management training workshop was delivered to a Directorate Management Team upon identifying compliance gaps and training sessions are also delivered on Financial Procedure and Contract Standing Orders and Procurement Rules where needs are identified.

### **Engaging with local people and other stakeholders to ensure robust public accountability**

113. The Council's planning, decision making and scrutiny processes facilitate public involvement providing opportunities for the views of local people to inform decisions. Full Council meetings include a facility for public questions, and the Council's Scrutiny Committees invite stakeholder contributions to their scrutiny programme, both through research and consultation exercises and through direct access to address Committees.

114. In October 2014, the Cabinet agreed a renewed set of Cooperative Values for the organisation, focusing on fairness, openness and working together. The values mention specifically the importance of being "open and honest about the difficult choices we face, and leading a debate where people can have their say on what's important to them and their communities." Greater consultation, engagement and joint working with citizens are at the heart of these values, particularly being an Open Council.

115. The Cardiff Debate was launched with partners in June 2014 as a three year 'conversation' about the future of public services in Cardiff. The first phase of engagement involved 37 events across the city, covering every Neighbourhood Partnership area and ward. The events involved a combination of 'on-street' sessions which were at existing community events, festivals or at community facilities such as supermarkets and a number of 'Drop-In' Workshops. The sessions focussed on which services mattered most; how the public service can save money and do things differently, and how can the community get more involved.

116. For the 2016/17 budget consultation 3,348 people recently completed a 'Changes for Cardiff' questionnaire and public views were also given via petitions, social media, attendance at 'drop-in' public engagement events, and through correspondence. The survey included 49 questions specific to the budget proposals plus demographic monitoring information. Of these, 20 were qualitative questions allowing the public the opportunity to explain any specific reasons for their opposition to proposed

changes or provide additional commentary regarding local services. The consultation ran for more than four weeks and included 20 community engagement events, a youth council event, an online questionnaire, a video, social media promotion and hard copy questionnaires distributed across the city.

117. The Council webcasts Council and Planning Committee meetings, which can be watched live, or viewed retrospectively, via the library of webcasts which are available online from September 2015 to date. Relevant documents or presentations discussed can additionally be downloaded. The service is designed to be as easy to use as possible so once the meeting is archived an agenda item can be selected to view the discussion. Webcasting means it is easier than ever before to see how the Council works and decisions are made, whilst also giving the public the chance to feedback on items being discussed.

118. Scrutiny meetings are held in public, with annual reports published by each of the Council's five Scrutiny Committees presented to Council. Scrutiny reports and inquiries are published on the Council website. Scrutiny in-depth inquiries often include large scale surveys of public opinion on specific issues, and also take detailed evidence from academic experts, and public and third sector leaders on topics of their expertise.

119. Arrangements for consultation and for gauging the views of local people include the Citizen's Panel, the Ask Cardiff Survey, service specific consultations, and processes to receive and respond to petitions and community referenda. Consultations undertaken by Directorates are in accordance with the Council's Corporate Consultation Strategy.

120. All reports, minutes and decision registers are published in a timely manner and are open for inspection. All meetings are held in public, subject to the consideration of exempt information as defined by the Local Government Act 1972.

121. The system 'Modern.gov' was implemented in November 2014 and has increased the efficiency of the Democratic Services Team in administering meeting papers. The system stores all committee reports, back dated to May 2012 and is publically accessible.

122. Elected Members engage with local residents in a number of ways as part of their community leadership role, including ward correspondence, newsletters, ward surgeries, public meetings and bringing forward petitions to Council meetings which have been submitted by local people. The Council is also actively developing Neighbourhood Management arrangements to facilitate the engagement of local people and other stakeholders in the identification of local priorities and solutions.

123. The Council publishes a newsletter 'Capital Times' which is distributed six times a year on alternate months to 150,000 homes in Cardiff and all council buildings providing up to date information on the Council's vision, priorities, news and events.

124. Performance against the Council's targets and objectives is reported publicly on a quarterly and annual basis.

125. Institutional stakeholders to whom the Council is accountable include the Welsh Government and External Auditors (Wales Audit Office). Regular meetings are held with representatives from both organisations to ensure effective working relationships are in place.

126. To ensure staff are consulted and involved in decision making, various channels of communication are used including the Chief Executive's Update, joint updates from the Leader and Chief Executive, Core Brief, 'Our News' newsletter and 'Your Inbox' circulars.

127. The Council's Ambassador Network continues to grow with over 130 employees at all levels from across the Council helping to take forward the Employee Engagement agenda. In addition 'Have Your Say' sessions have been introduced as a response to employees' preference for face to face communication. The Employee Survey, launched in May 2015, provides an opportunity to better engage with and understand the needs of employees going forward.



128. The Council regularly engages in consultation with the Trade Unions. Consultation with Trade Unions has taken place through 2015/16, particularly with regards to budget saving proposals. The Partnership for Change Agreement was signed off as part of the Council's final budget setting at Council on 26 February 2015. The agreement sets out details of the joint partnership approach between the Council and Trade Unions in relation to budget savings for 2015/16 on the basis that the Trade Unions did not wish any impact on employees' terms and conditions.

129. Progress has been made as part of this agreement, laying the groundwork to address the difficult challenges ahead around how, irrespective of any service delivery models agreed, the Council will jointly address the continuing budget savings required whilst reducing operating costs, improving performance and improving customer satisfaction.

130. A Joint Partnership Board has been established to support the reform agenda. The Terms of Reference and proposed dates for fortnightly meetings were agreed in February 2015 to ensure that partnership working is supported and that 2 way communication is maintained between the Council and Trade Unions on key planned and emerging issues.

### Review of Effectiveness

131. The Accounts and Audit (Wales) Regulations 2014 requires Councils to carry out an annual review of the effectiveness of the system of internal control. This is informed by:

- The senior managers within the Authority who have responsibility for the development and maintenance of the internal control environment;
- The opinion of the Audit Committee;
- The outcome of any Scrutiny reviews;
- Views or comments from any Committee, the Cabinet or Council;
- The work of the Internal Auditors;
- The external auditors and other review agencies and inspectorates.

### An Internal Control Self Assessment

132. On a biannual basis, Directors are required to complete a Senior Management Assurance Statement, reflecting on the internal control arrangements within their Directorate. Management teams are responsible for monitoring and reviewing internal controls as an integral part of the risk management process. Any significant issues will be highlighted in the Assurance Statement.

133. A Chief Executive Assurance Statement has also been developed and introduced to ensure a complete set of assurance statements from Senior Management at the year end position.

134. Building on previous work of the Annual Governance Statement 2014/15, Internal Audit following year end will facilitate an update of the 'Significant Governance Issues'. The Chief Executive and Directors are asked to consider any outstanding significant issues and either close these, where action has been taken, or update them where the issues are ongoing.

135. Any new issues captured on individual Senior Management Assurance Statements, which also feature on the CRR, will not be listed in the issues log but instead managed through the CRR review process so to avoid duplication in the review process.

### Assurance Mapping

136. During a period of unprecedented financial challenge and stretched resources, providing Council wide assurance is becoming a challenge. This is being managed through an assurance mapping process. The Audit Manager has created a panel of audit management, who are responsible for the delivery of an ongoing assurance map and to assist with risk based audit planning.

137. The assurance map begins with the contents of the corporate risk register, senior management assurance statements and significant governance issues arising from the annual governance statement. The outputs of different sources of assurance are populated on the assurance map, utilising a three lines of defence model. This model considers the assurance gained from management / internal controls, inspection / regulatory / compliance activities and the work of external audit.

138. During a time of limited audit resources, with a strong ongoing need for audit assurance, the assurance map considers the work of others in providing assurance in relation to governance, risk and internal control matters. This is used to shape Internal Audit priorities and impact on the work and timing of the Internal Audit Team, to avoid duplication and ease pressure on Directorates, who may be subject to both internal and external assurance reviews.

139. Sources of assurance have been mapped and collated to inform this annual governance statement, through a review of key information presented to Cabinet and Committees of the Council. The aim of the exercise is to ensure that key sources of assurance are captured in this statement.

### External Audit and Inspection

140. The Council is subject to Statutory External Inspections by various bodies including the Wales Audit Office, ESTYN and Care and Social Services Inspectorate Wales.

141. Annually the Wales Audit Office produces an Annual Improvement Report based on an assessment of the Council's arrangements to secure continuous improvement through the delivery of services.

142. During the financial year 2015/16 the Wales Audit Office completed the Corporate Assessment Follow On of the Council. The follow-on assessment reviewed the extent to which the Council was effectively addressing the issues raised in the Corporate Assessment where in September 2014 it was concluded that 'Fragmented leadership and management have meant that weak performance in key service areas has not improved'.

143. The follow-on review concluded that 'The Council has put in place better arrangements to support improvement and to address longstanding issues, but is now at a critical point in embedding them if it is to achieve a step change in delivering improved outcomes.' It was reported that the Wales Audit Office came to this conclusion because:

- 'overall, the Council has responded positively to the Corporate Assessment findings, and put better arrangements in place to support improvement and address longstanding issues; and
- the Council is now at a critical point in ensuring that improved arrangements are embedded and implemented consistently and constructively across the organisation in order to achieve a step change in delivering improved outcomes.'

144. A tracker system has been introduced to monitor external regulator reports and Council actions in respect of relevant recommendations and proposals for improvement.

### Internal Audit

145. Based on the programme of audit and investigatory work undertaken, and contributions to preparing some of the key governance documents e.g. the Corporate Risk Register and Annual Governance Statement, it is considered that the overall framework for financial control within the Council for 2015-16 remains satisfactory. This opinion has taken into consideration the existing complement of audit posts and focussed on priority areas and identifying productivity improvement opportunities as they arise through improved performance management.

146. It is becoming increasingly difficult to provide a satisfactory opinion, as whilst the financial control framework remains robust, audits continue to highlight system weakness in some areas and / or compliance issues which identify further opportunities to enhance control. There is a huge pressure on budgets and inevitably there are significant cuts being made to posts at a time where demands are steady or increasing and there is an appetite for change which brings with it new challenges and risks that needs to be managed.

147. It is noted that there has been an increase in the percentage of audits completed where a "Limited or No assurance" opinion was provided, which it is felt reflects to a degree, the pressure on resources across directorates, to maintain a sound control environment while struggling to retain efficient and



effective services and deliver the change agenda. This requires regular monitoring and reporting with key themes identified and targeted.

148. In addition to this general pressure on resources, areas of particular concern have been highlighted in quarterly progress reports presented to the Section 151 Officer and Audit Committee, and include:

- The Control Risk Self-Assessment approach has been a major step forward in gathering evidence to support sound governance, risk management and control arrangements and has been well received. The approach was used for all school audits undertaken in 2015/16, and has been rolled out for the audit of a number of fundamental systems. In schools it has provided an overview of key governance issues and in some individual schools follow up visits have identified some significant weaknesses in different aspects of governance and financial control. This continues to be closely monitored and the Group Auditor meets regularly with the Director of Education and now attends School Budget Forum. Audit also inputs to Head teacher briefings.
- Work on contracts has identified concerns over contract management skills as new ways of operating are being explored. Some Social Service audits highlighted some contract related matters and how these need addressing given the significance of the contract sums.
- In some audits it was evident that there was a lack of work instructions and process mapping to capture how procedures and systems operate. This was highlighted because of the potential impact, with a number of experienced staff leaving, stressing the need for proper documentation to ensure remaining and any new staff consistently follow tried and tested systems which should comply with Council rules and policies.

149. On a positive note the opportunity for Internal Audit to provide training on risk management and internal control as part of the Cardiff Manager programme to over 300 middle managers in 2015/16 is seen as a major step forward in raising awareness with managers around key areas of governance and has helped clarify and set out their responsibilities for leading on compliance

### **Audit Committee**

150. At the strategic level, based on the evidence presented to the Audit Committee during 2015/16, it is the considered view of the Committee that the Council does, for the most part, have sound financial controls and governance arrangements in place. Strategic risks are well captured and reviewed on a regular basis and these represent the true challenges facing the Council at the present time. Examples of where the Committee has continuing concerns, which will be incorporated into the Committee's Work Programme for 2016/17, include:

#### Organisational Development Programme

151. The Organisational Development Programme (ODP) has been discussed at Audit Committee meetings in 2015/16. This is with the clear recognition that delivery against the Organisational Development Plan is being monitored and challenged by other Committees (namely the Policy Review and Performance Scrutiny Committee).

152. Although some assurance can be placed on the work of Scrutiny, the Audit Committee has expressly noted that the importance of this programme of work for the Council on its improvement journey. The programme has a key role in moving the Council towards its new shape and is acknowledged as a critical savings enabler.

153. At a time when Audit Committee has continued to challenge the budget position when faced with unprecedented financial pressure, the recently issued Corporate Assessment Follow On report from the Wales Audit Office has highlighted a need for a clear link between Medium Term Financial Plan savings plans and work streams or projects in the ODP.

154. Audit Committee will reflect on the comments raised by the Wales Office, and will seek assurance from relevant management and through the work of Internal Audit, that the ODP is clearly aligned to and monitored against critical business objectives. In the forthcoming year, Audit Committee intends to invite the Leader and Chief Executive to attend and answer questions related to the Corporate Assessment Follow On.

155. In recognising the critical importance of the ODP to the Council, Internal Audit has initiated a Control Risk Self-Assessment (CRSA) approach to auditing an initial pilot of ODP projects and regular engagement with Management in the OD Team. Audit Committee anticipates the findings of Internal Audit and the ongoing assurance from the roll-out of the audit approach throughout 2016/17.

### Financial / Internal Control

156. The continuing reduction in resources, together with a growing population and greater demand for public services, mean that the Council is facing significant challenges in how it delivers services in the future. The Committee continues to receive regular updates from the Corporate Director Resources and other senior managers to seek assurances around governance and fundamental financial control.

157. Audit Committee receives regular reports in respect of the budget, treasury management and financial resilience. A key enabler for meeting severe financial pressures is reforming and redesigning services. There is a clear need to ensure strong internal controls are integrated within new or reformed processes and systems. At a time when many decisions have to be finance driven it is essential that internal controls are not neglected or impaired in the use of public monies.

158. Over 2015/16 there has been an increase in limited or no assurance audit reports from the Internal Audit Section. This is a concern that will require regular review by the Audit Committee, particularly when some isolated functions have repeatedly failed to maintain the required standards of internal control. The number of such reports is not yet at a level of significant concern, but the trend of limited assurance being reported has captured the attention of the Audit Committee. In instances where improvements are not promptly made we will be inviting those accountable to attend Audit Committee and explain the reasons for control weaknesses and to provide a firm commitment to improvement. This is with strong support and commitment from the Chief Executive to support management and the Audit Committee in driving improvements.

### Contract and Procurement Matters

159. Through a number of Internal Audits completed this year a consistent weakness has been contract management and performance monitoring. Some areas of the Council such as Social Services rely heavily on commissioned services for certain aspects of their services and spend a significant amount of money on this purpose. Internal Audit reports are regularly reporting limitations to assurance on the basis of a lack of clear contracts for high value spend and instances of lapsed contracts, in addition to weaknesses in contract management where contracts are in place.

160. The Building Maintenance Framework contract involves a significant amount of spending with a limited number of contractors for services under different lots. For some time, Audit Committee members have identified and raised concerns about the cost effectiveness and quality of work carried out by contractors within the current Framework. This has been based on Member observations of elderly and/or vulnerable tenants receiving substandard work or delays from contractors and sub-contractors. Some of these delays have been significant i.e. for weeks if not months. Many Members have also reported poor communication and situations where tenants have been left waiting in their homes all day for services which were not received when arranged.

161. Members have sought assurances that the quality of the work would be monitored more closely in future and welcomed the commissioning of the independent review by Constructing Excellence Wales (CEW). Far from being dismissive of concerns, the report echoed members' concerns and made a series of recommendations such as a Building Maintenance Project Board, which includes a Principal Auditor, to develop a series of actions and targets to address all the highlighted issues.

162. A presentation by the Assistant Director Housing and Communities and the Senior Category Manager (commissioning and Procurement) was made on the Building Maintenance Framework in November 2015 and the reasoning behind the five contract categories explained. With the help of OMs in Facilities Management and Community Maintenance, the Committee received a detailed explanation of the CEW remit, its findings and the resulting action plan.

Members have raised observations and the expectation that updated processes and standardisation will ensure effective management of contractor performance. This needs to be enabled through embedding

clear and accessible processes to raise concerns, issues or feedback which are consistently and transparently managed and responded to in a timely manner. Improvements are needed in monitoring and accountability to ensure that quality, time and cost issues are identified and rectified promptly, with lessons learnt from the existing framework and external (CEW) review and with contractors held to account for substandard performance through enactment of contractual terms and clauses. In November 2015, Audit Committee Members welcomed a communication from management involved of the introduction of 'mini-tendering' within each five categories as a means of introducing competition and hopefully value for money within the Framework arrangements.

163. The Audit Committee is seeking greater engagement with the Building Maintenance Framework Programme Board and such arrangements for the clear communication of concerns and also demonstration and assurance of progress made by the Board have been initiated following the year end.

164. The commissioning of the CEW review represents positive steps in seeking to improve contract management processes, but on a Council-wide basis there are areas where significant amounts of money are being spent without clear contracts, or where contracts are not being sufficiently monitored and managed. This is a finding which is consistently being reported.

At a time when the Council is moving towards new models of service delivery Audit Committee will continue to seek assurances that improvements are being made to contract management on a Council-wide basis. Audit Committee will continue to monitor the findings of Internal Audit reports and the progress of the Building Maintenance Framework Project Board.

### Schools Governance & Compliance

Audit Committee has continued to raise concerns about governance and compliance matters in schools. Historically, Audit Committee has received a greater proportion of 'Limited Assurance' audit reports in relation to schools, compared to the rest of the Authority. This trend has not improved in 2015/16, with Internal Audit opinions of both 'Limited Assurance' and 'No Assurance' issued to Cardiff schools this year. Particular concerns and details have been discussed in Audit Committee meetings, together with relevant management responses.

165. The Committee acknowledges that the Council is not able to set rules for schools to adhere to regarding contracting matters, albeit advice can be offered on good practice. Although practices can only be commended, given the size of school budgets and the reputational risks associated with weaknesses in school governance, this area of interest remains a priority of the Audit Committee. The Audit Committee continues to support the production and commending of best practice guidance to schools in the interests of strengthening financial control.

166. Effective financial management is another important element of governance in schools. Audit Committee has received a position statement on schools in deficit in June 2015. The Committee was advised that there are only a small number of schools that continue to cause concern to the Council. The Committee will continue to receive information on schools balances as part of the Director of Education & Life Long learning's report on governance in schools.

### Internal Audit Resources

167. The financial challenges facing the Council are having an impact across all services resulting in the reduction of resources. The Internal Audit section like others has seen a significant reduction in the number of staff in recent years, and a loss of experienced officers. Reliance is placed on the Internal Audit team to provide assurance to the Section 151 Officer and senior management on the key controls in place across the Council.

168. The Audit Committee has continued to express concern about the reducing number of audit staff, requesting that this is expressly stated in the Annual Governance Statement 15/16. Audit Committee members have also questioned if Internal Audit has sufficient resource to discharge its responsibility. The Head of Finance has assured the Audit Committee that although resourcing concerns are valid, post reductions in Internal Audit have not related to its core function. The Audit Committee will continue to require details of the Internal Audit resources available relative to its required activities, and the management of staffing limitations and risks through the Audit Manager's quarterly progress reports.

## Annual Governance Statement

169. At a time of financial pressure and significant change, with lots of officers leaving who have many years of experience, it is considered vital that a strong audit presence is maintained.

### Significant Governance Issues

170. Included in the Chief Executive and Senior Management Assurance Statements returned were twelve new issues which were discussed at a Senior Management meeting in May 2016. At this meeting, having considered each, it was decided that one new issue relating to progressing the recommendation and proposals for improvement in the WAO Corporate Assessment Follow On report should feature as a new significant governance issue in the Annual Governance Statement. The majority of the other issues presented were not considered strategic and were felt, best addressed within Directorates. The rest were mainly linked to Corporate risks (some of which may need changing to reflect new pressures).

171. There were four significant issues carried forward into 2015/16. Work has continued to be done on all of these with the issue relating to the Organisational Development Plan considered to be at a stage where issues have been addressed. The other three issues are considered to be ongoing at the end of the financial year 2015-16, together with the new governance issue identified through the review. Further work will be done in order to ensure these issues are addressed. As a result of the review, the four issues to carry forward at the year end position and details of these, with an updated position, are shown below.

Significant issue	Year End Position 2015/16	Responsible Officer
<p><u>WAO Corporate Assessment Follow On Report</u></p> <p>The WAO Corporate Assessment Follow On report was received formally by Cabinet on 10 March 2016. The report made one formal recommendation and 14 'proposals for improvement' relating to various corporate matters including governance issues.</p> <p><b>New issue</b></p>	<p><u>WAO Corporate Assessment Follow On Report</u></p> <p>The Statement of Action in response to the WAO recommendations was agreed by Cabinet on 21 March 2016 for implementation during 2016/17. WAO to review position in 12 months. Progress will be monitored by the Senior Management Team during 2016/17.</p>	<p>Senior Management Team</p>
<p><u>Capacity &amp; Decision Making</u></p> <p>The Council is facing unprecedented financial pressures where significant savings have had to be realised, consequently Directorates have seen a reduction in staff resources which increases the pressure on staff to have the capacity to provide professional and sound advice.</p> <p><u>Action at year end position 2015/16</u></p> <p>Reviewing delivery plans to ensure they remain fit for purpose when considering the likely amount of resources available in future years.</p>	<p><u>Capacity and Decision Making</u></p> <p>Continued reductions in resources (including staff) across the Council has reduced capacity and increased pressures on staff to provide professional and sound advice. Directorates have continued to mitigate against this by revising their service delivery plans and streamlining their activities to reflect the resources available. Much work has been done on identifying key activities to ensure efficient and effective use of reducing resources.</p> <p>Much work has been done on improving performance management arrangements and reporting thereof with a number of completed or ongoing restructures</p>	<p>Senior Management Team</p>

## Annual Governance Statement

Significant issue	Year End Position 2015/16	Responsible Officer
	<p>to deliver services most effectively with limited resources.</p> <p>Decision making has improved through prioritising work and restructuring teams to make the best use of internal expertise.</p> <p>In 2016/17 Directorates will be required to further tighten, rationalise and prioritise their work through their delivery plans and review action plans and consider what they can restructure or stop doing. Improvements will be monitored through performance management arrangements ensuring that there is clear visibility and management of risks. Further embedding of technology such as SharePoint and Online Services will improve access to information for staff and customers and therefore increase capacity for staff to provide advice.</p>	
<p><u>Organisational Development (OD) Programme</u></p> <p>The Cabinet acknowledges the range of critical challenges facing the Council. In order to respond to these challenges an ambitious programme of organisational change has been established to reflect the transformational ambition for the Council and for Cardiff. This includes a wide number of capital and other projects. We need to ensure that projects are commissioned through proper arrangements and that their subsequent sponsorship ensures that project objectives are met. The requirement to have sound processes and governance arrangements are critical to the success of the Programme.</p> <p><u>Action at year end position 2015/16</u></p> <p><b>Completed</b></p>	<p><u>Organisational Development (OD) Programme</u></p> <p>The OD programme is embedded in Year 2 of a 3 year programme, with programme management arrangements effectively in place. This view is supported by WAO recognition in their follow on corporate assessment that although there is work to do the OD programme is providing the direction of travel for organisation.</p>	<p>Senior Management Team</p>
<p><u>Commissioning Capability and Capacity</u></p>	<p><u>Commissioning Capability and Capacity</u></p>	



## Annual Governance Statement

Significant issue	Year End Position 2015/16	Responsible Officer
<p>In the new Organisational Framework this will be a critical competency and capability. The success of a number of programmes depends on having this capability and capacity in place e.g. Health &amp; Social Care transformation.</p> <p><u>Action at year end position 2015/16</u></p> <p>Building on the framework and developments there will be a further embedding of Strategic Commissioning across the Council.</p>	<p>The Council has pursued a more effective strategic commissioning approach. Directorates have worked with the Commissioning and Procurement team to develop the new Commissioning Framework. Whilst work has been ongoing there remains opportunity for enhancement as strategic commissioning becomes further embedded and formalised across the Council.</p> <p>Health and Social Care have developed commissioning models for residential and nursing care, domiciliary care and supported living.</p> <p>In 2015/16 Social Services has refocussed existing senior management resources to support a more effective strategic commissioning approach. A Central Social Service Business Unit is being developed and this will include the commissioning function.</p>	Senior Management Team
<p><u>Transparency of Internal Market Costing</u></p> <p>The Council's internal charging arrangements are not always sufficiently transparent in terms of rate setting, monitoring and charging. Some council wide arrangements, for instance the timescales operated by Service Desks are not always sufficiently aligned to the requirements of business critical services within Directorates.</p> <p><u>Action at year end position 2015/16</u></p> <p>Reviews continuing to be carried out to improve costing arrangements in the most critical areas.</p> <p>Building on the exercise with schools, there will be further work on other charging arrangements in 2016/17.</p>	<p><u>Transparency of Internal Market Costing</u></p> <p>Where possible Directorates have used in-house support and advice teams but have challenged some costs. Reviews in areas such as Central Transport Service remain ongoing in order to increase the transparency of charging.</p> <p>Internal charges to schools were reviewed in order to ensure full transparency and alignment of costs with income.</p>	Senior Management Team



## Significant Issues - The Cardiff and Vale of Glamorgan Pension Fund

172. During 2015/16, the governance structure for the Pension Fund was amended to include the Local Pension Board, in compliance with the Public Service Pensions Act 2013. The role of the Board is to assist the Council as Scheme Manager and Administering Authority to secure compliance with LGPS regulations and other legislation relating to the scheme. Board members were appointed from 1 July 2015 and the Board first met on 30 July. The Board will meet three times a year.

173. It is considered the following may have potential implications on future financial periods and are worthy of note in this statement.

Issue	Action	Responsible Officer
<p><u>Welsh Local Government Pension Funds Working Together – Wales Investment Pool.</u></p> <p>During 2014/15 Mercers were commissioned to work on the detailed business case for a collaborative investment vehicle for the eight LGPS Funds in Wales. The report was published in May 2015.</p> <p>In July 2015 the UK Government announced that all LGPS Funds in England and Wales would be required to join investment pools. Criteria for the pools were published in November.</p> <p>The Welsh Funds submitted their outline proposal to the DCLG in February 2016 and received a positive response in March. A detailed pooling proposal must be submitted in July 2015.</p> <p>The proposal will include a Joint Governance Committee of elected members from each Administering Authority supported by an Officer Working Group.</p>	<p><u>Welsh Local Government Pension Funds Working Together – Wales Investment Pool.</u></p> <p>The Cardiff and Vale of Glamorgan Pension Fund to continue to participate in the development of the Wales Investment Pool.</p> <p>Developments are regularly reported to the Pension Fund's Investment Advisory Panel and the Local Pension Board.</p>	<p>Corporate Director Resources</p>
<p><u>Pension Committee</u></p> <p>The Council's current constitution does not include a Pension Committee and all pensions functions are delegated to the Corporate Director Resources. It is proposed to establish a Pension Committee with responsibility for strategic issues whilst operational matters continue to be covered by officer delegations.</p>	<p><u>Pension Committee</u></p> <p>Amendment to the Council's Constitution to establish a Pension Committee in July 2016.</p>	<p>Corporate Director Resources</p>

## Cardiff Port Health Authority (CPHA)

174. During 2015/16, no significant governance issues have been identified in respect to the Cardiff Port Health Authority.

### Monitoring

175. We propose over the coming year to continue to take the steps required in order to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and we will monitor their implementation and operation as part of our next annual review.

### Certification by the Leader of the Council and the Chief Executive

176. The Council's Section 151 and Monitoring Officers are content that the process followed has been robust and has ensured the engagement of the Council's Senior Management Team.

177. We have been advised, by the Council's Section 151 and Monitoring Officers, on the implications of the review of effectiveness based on the systems of internal control. There are plans to provide improvements in review processes and address weaknesses to ensure continuous improvement of the system of internal control.

178. On the basis of this process, the legal and financial advice of the statutory officers, and the Council's Policies and working arrangements we certify that we approve the Annual Governance Statement 2015/16.

**Paul Orders, Chief Executive**

**Date: 29 September 2016**

**Councillor Phil Bale, Leader of the City of Cardiff Council**

**Date: 29 September 2016**

**Knowledge of basic accountancy terminology is assumed. However, there are certain specialist terms related to local government finance, which are described below:**

### **Accruals Basis**

The accruals principle is that income is recorded when it is earned rather than when it is received, and expenses are recorded when goods or services are received rather than when the payment is made.

### **Agency Services**

The provision of services or functions, which are the responsibility of one Authority or public body, by another. The policy and financial resources are set by the principal Authority and implemented by the agent Authority.

### **Assets Held for Sale**

Assets meeting all the criteria of:- immediately available for sale, where the sale is highly probable, actively marketed and expected to be sold within 12 months.

### **Asset Under Construction**

An asset that is not yet complete.

### **Borrowing**

Loans taken out taken out by the Authority to pay for capital expenditure or for the prudent management of the Council's financial affairs.

### **Capital Adjustment Account**

The Account accumulates (on the debit side) the write-down of the historical cost of non-current assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (revenue expenditure funded by capital under statute). The balance on the account thus represents timing differences between the amount of the historical cost of non-current assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

### **Capital Expenditure**

Capital expenditure pays for improvements to existing and new assets used in the delivery of Council services as well as other items determined by Regulation. Capital resources are scarce, costly and also have long term revenue implications over many years and even generations where capital expenditure is funded by borrowing. Hence the requirement of the Prudential Code to ensure what is charged as Capital Expenditure is Prudent, Sustainable and Affordable.

The statutory definition of capital expenditure is given in the Local Government Act 2003, the Local Authorities (Capital Finance) Regulations 2003 and 2004 amended. Statute relies on the accounting measurement of cost in IAS 16 to determine whether expenditure is eligible to be capitalised or whether it should be treated as revenue expenditure. Key to what is eligible as capital spend are the following words in IAS 16 - 'Costs directly attributable to bringing the specific asset into working condition for its intended use'.

### **Capital Financing Requirement**

An Authority's underlying need to borrow for a capital purpose. It measures capital expenditure incurred but not yet financed by the receipt of grants, contributions and charges to the revenue account via a prudent minimum revenue provision.

### **Capital Receipts**

Income from the sale of capital assets that can be used to fund new capital expenditure schemes, or reduce the underlying need to borrow. Capital receipts cannot be used to fund revenue expenditure, unless they relate to the costs of securing disposal or where a ministerial permission allows.

## **Carrying Amount**

The Balance Sheet value recorded of either an asset or a liability.

## **Cash and Cash Equivalents**

Sums of money available for immediate use and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

## **Chartered Institute of Public Finance & Accountancy (CIPFA)**

CIPFA is the leading professional accountancy body which determines accounting standards and reporting standards to be followed by Local Government.

## **Civil Parking Enforcement**

A responsibility granted by Welsh Government designating Cardiff as a "Civil Enforcement Area". This gives the Council direct control over the deployment of enforcement staff across the highway network, allowing enforcement to be targeted more effectively to local needs and transportation strategies.

## **Community Assets**

These are non-current assets that the Council intends to hold in perpetuity which have no determinable finite useful life and, in addition, may have restrictions on their disposal. Examples include parks and historical buildings not used for operational purposes.

## **Contingent Liabilities or Assets**

These are amounts potentially due to or from individuals or organisations which may arise in the future but which at this time cannot be determined accurately, and for which provision has not been made in the Council's accounts.

## **Council Fund Balance**

The Council Fund Balance represents the cumulative retained surpluses on the Council's revenue budget. It provides a working balance which can be used to cushion the Council against unexpected events or emergencies. It is reviewed annually to ensure it remains at an appropriate level.

## **Credit Criteria**

The parameters used as a starting point in considering with whom the Council may place investments, aimed at ensuring the security of the sums invested.

## **Credit Rating**

A credit rating assesses the credit worthiness of an individual, corporation or country. Credit ratings are calculated from financial history and current assets and liabilities. Typically, a credit rating tells a lender or investor the probability of the subject being able to pay back a loan.

## **Creditors**

Amounts owed by the Council for work done, goods received or services rendered, for which payment has not been made at the date of the balance sheet.

## **Current Service Cost**

Current Service Cost is the increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, i.e. the ultimate pension benefits "earned" by employees in the current year's employment.

## **Current Value**

The current value of an asset reflects the economic environment prevailing for the service or function the asset is supporting at the reporting date.

## **Debtors**

These are sums of money due to the Council that have not been received at the date of the Balance Sheet.

## **Deferred Capital Receipts**

These represent capital income still to be received after disposals have taken place.

## **Defined Benefit Scheme**

This is a pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

## **Defined Contribution Scheme**

A Defined Contribution Scheme is a pension or other retirement benefit scheme into which an employer pays regular contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

## **Depreciation/Impairment/Amortisation**

A charge made to the Comprehensive Income and Expenditure Statement to reflect an estimate of the use or consumption of non-current assets in the year in the provision of Council services.

## **De-recognition**

Financial assets and liabilities will need to be removed from the Balance Sheet once performance under the contract is complete or the contract is terminated.

## **Direct Revenue Financing**

The amount of revenue funding in the year used to pay for capital expenditure incurred.

## **Earmarked Reserves**

Amounts set aside to be used to meet specific, known or predicted future expenditure.

## **External Audit**

The independent examination of the activities and accounts of Local Authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Authority has made proper arrangements to secure value for money in its use of resources.

## **Fair Value**

Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

## **Finance Lease**

A finance lease is a lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

## **Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables and trade payables and the most complex ones such as derivatives and embedded derivatives.

## **Heritage Asset**

A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

## **Highways Network Asset**

A grouping of interconnected components, expenditure on which is only recoverable by continued use of the asset created, i.e. there is no prospect of sale or alternative use. Components include

carriageways, footways and cycle tracks, structures, street lighting, street furniture, traffic management systems and land.

### **Housing Revenue Account (HRA)**

Local Authorities are required to maintain a separate account - the Housing Revenue Account - which sets out the expenditure and income arising from the provision of Council housing. Other services are charged to the Council Fund.

### **Impairment**

A reduction in the value of assets below its value brought forward in the Balance Sheet. Examples of factors which may cause such a reduction in value include general price decreases, a significant decline in a fixed asset's market value and evidence of obsolescence or physical damage to the asset.

### **Infrastructure Assets**

Fixed Assets which generally cannot be sold and from which benefit can be obtained only by continued use of the asset created. Examples of such assets are highways, footpaths, bridges and water and drainage facilities.

### **Intangible Assets**

These are assets that do not have physical substance but are identifiable and controlled by the Council. Examples include software, licenses and patents.

### **Investment Properties**

Property, which can be land or a building or part of a building or both, that is held solely to earn rentals or for capital appreciation or both, rather than for operational purposes.

### **Investments**

The purchase of financial assets in order to receive income and/or make capital gain at a future time, however with the prime concern being security of the initial sum invested.

### **Joint Venture**

A joint venture is a joint arrangement whereby the parties who have joint control of the arrangement have rights to the net assets of the arrangement.

### **Lender Option Borrower Option Loans (LOBOs)**

Loans to the Council where the lender can request a change in the rate of interest payable by the Council at pre-defined dates and intervals. The council at this point has the option to repay the loan.

### **Liabilities**

These are amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the Balance Sheet date.

### **Materiality**

Information is material if omitting it or misstating it could influence the decisions that users make on the basis of financial information about a specific reporting authority.

### **Market Loans**

Borrowing that is sourced from the market i.e. organisations other than the Public Works Loan Board or a Public Body.

### **Net Book Value (NBV)**

The amount at which non-current assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.



### **Non-domestic rates (NDR)**

A levy on businesses collected by billing Authorities, on behalf of the Welsh Government, and paid into an All Wales Pool. The Pool is then redistributed amongst all Welsh Authorities on the basis of population.

### **Operating Lease**

This is a type of lease, usually of computer equipment, office equipment, furniture, etc. where the balance of risks and rewards of holding the asset remains with the lessor. The asset remains the property of the lessor and the lease costs are revenue expenditure to the Authority.

### **Pension Fund**

A fund built up from deductions from employees' pay, contributions from employers and investment income from which pension benefits are paid.

### **Precept**

A demand levied by one public Authority, which is collected on its behalf by another Authority.

### **Prior Period Adjustments**

These are material adjustments which are applicable to an earlier period arising from changes in accounting policies or for the correction of fundamental errors.

### **Property, Plant and Equipment (PPE)**

Tangible assets (i.e. assets that have physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and are expected to be used during more than one year.

### **Provisions**

Amounts set aside in respect of liabilities or losses which are likely or certain to be incurred, but in relation to which the exact amount and date of settlement may be uncertain.

### **Prudential Code for Capital Finance**

The system introduced on 1 April 2004 by Part 1 of the Local Government Act 2003 which allows local Authorities to borrow without Government consent, provided that they can afford to service the debt from their own resources and that any such borrowing is prudent and sustainable. This requires the preparation and approval of various indicators.

### **Prudent Revenue Provision (PRP)**

An amount set aside as a provision each year to repay loans taken out to pay for capital expenditure. This has the effect of reducing the Capital Financing Requirement (CFR).

### **Public Works Loan Board (PWLB)**

The Public Works Loan Board is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. PWLB's function is to lend money from the National Loans Fund to local Authorities and other prescribed bodies, and to collect the repayments.

### **Recharge**

An internal charge for services rendered by one Council directorate or section to another.

### **Related Parties**

Related parties are Central Government, other Local Authorities, precepting and levying bodies, subsidiary and associated companies, Elected Members, all senior officers from Director and above. For individuals identified as related parties, the following are also presumed to be related parties:

- members of the close family, or the same household; and
- partnerships, companies, trusts or other entities in which the individual, or member of their close family or the same household, has a controlling interest.

### **Reserves**

Reserves are also amounts set aside for future use. Reserves may be for a specific purpose in which case they are referred to as 'earmarked reserves' or they may be general reserves (or balances) which every Authority must maintain as a matter of prudence.

### **Revaluation Reserve**

The Reserve records the accumulated gains on the non-current assets held by the Authority arising from increases in value as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value).

### **Revenue Expenditure funded from Capital Under Statute (REFCUS)**

Represents expenditure that may properly be capitalised under statutory provisions but which creates no tangible asset for the Authority e.g. house renovation grants to private individuals or revenue expenditure which would normally be charged to the revenue account, but which can be charged to capital following approval by the Welsh Government.

### **Revenue Support Grant**

General government grant in support of local Authority services. It seeks to even out the effects on the council taxpayer of differences in needs between Authorities.

### **Service Reporting Code of Practice (SeRCOP)**

Prepared and published by CIPFA, the Service Reporting Code of Practice (SeRCOP) is reviewed annually to ensure that it develops in line with the needs of modern Local Government, Transparency, Best Value and public services reform. SeRCOP establishes proper practices with regard to consistent financial reporting for services and in England and Wales, it is given legislative backing by regulations which identify the accounting practices it propounds as proper practices under the Local Government Act 2003.

### **Term Deposits**

A term deposit is a money deposit at a banking institution that cannot be withdrawn for a certain "term" or period of time.

### **Treasury Management**

The process by which the Council controls its cash flow and its borrowing and lending activities.

### **Trust Funds**

Funds held in trust which are administered by the Council.

**ANNUAL RETURN**

**2015/16**

**of**

**CARDIFF PORT HEALTH AUTHORITY**

## NARRATIVE REPORT

Port Health Authorities are constituted with the primary objective of preventing the spread of infectious diseases without creating unnecessary interference to world shipping.

Cardiff Port Health Authority was originally established by a Provisional Order in 1882, becoming permanently constituted by the Cardiff Port Order (1894) and consolidated by the Cardiff Port Order (1938) and the Port Health Authorities (Wales) Order (1974). Its Authority covers the area, from low water mark, three miles seaward, between Sully Island and the River Rhymney, including all water, docks, harbours and vessels.

The Authority, through the officers of the Environmental Service of the Council, inspects ships entering the area to ensure compliance with health regulations. To meet the expenditure incurred in these activities, the Authority raises a levy on the County Council of the City and County of Cardiff and the Vale of Glamorgan Council. Its other main revenue source is income arising from the granting of Ship Sanitation Control Exemption Certificates/Ship Sanitation Control Certificates (SSCEC/SSCC).

## ACCOUNTING POLICIES

### 1. General

The accounting statements that follow have been prepared in accordance with proper practices as required by the Accounts and Audit (Wales) Regulations 2014 (as amended).

### 2. Debtors and Creditors

The transactions of the Port Health Authority are recorded on an accruals basis. Where there is insufficient information available to provide actual figures, estimates are used although this element is not significant.

### 3. Support Services Costs

The Council makes recharges in respect of the cost of support services to the services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Accounting Practice 2015/16 (SERCOP). This applies to support service recharges from the Council directorates to the Port Health Authority.

## Section 1 – Accounting statements for Cardiff Port Health Authority:

	Year ending	
	31 March 2015 (£)	31 March 2016 (£)
1. Balances brought forward	93,268	133,210
2. (+) Income from local taxation and/or levy	175,825	159,850
3. (+) Total other receipts	1,837	1,314
4. (-) Staff costs	108,011	125,428
5. (-) Loan interest/capital repayments	0	0
6. (-) Total other payments	29,709	17,725
7. (=) Balances carried forward	133,210	151,221
8. (+) Debtors and stock balances	72	0
9. (+) Total cash and investments	143,916	154,637
10. (-) Creditors	10,778	3,416
11. (=) Balances carried forward	133,210	151,221
12. Total non-current assets and long-term assets	0	0
13. Total borrowing	0	0

## Section 2 – Annual Governance Statement

We acknowledge as the members of the Body, our responsibility for ensuring that there is a sound system of internal control, including the preparation of the accounting statements. We confirm, to the best of our knowledge and belief, with respect to the Body’s accounting statements for the year ended 31 March 2016, that:

	Agreed?	
	Yes	No
1. We have approved the accounting statements which have been prepared in accordance with the requirements of the Accounts and Audit (Wales) Regulations 2014 and proper practices.	Yes	
2. We have maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption, and reviewed its effectiveness.	Yes	
3. We have taken all reasonable steps to assure ourselves that there are no matters of actual or potential non-compliance with laws, regulations and codes of practice that could have a significant financial effect on the ability of the Body to conduct its business or on its finances.	Yes	
4. We have provided proper opportunity for the exercise of electors’ rights in accordance with the requirements of the Accounts and Audit (Wales) Regulations 2014.	Yes	
5. We have carried out an assessment of the risks facing the Body and taken appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.	Yes	
6. We have maintained an adequate and effective system of internal audit of the Body’s accounting records and control systems throughout the year and have received a report from the internal auditor.	Yes	
7. We have taken appropriate action on all matters raised in previous reports from internal and external audit.	Yes	
8. We have considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on the Body and, where appropriate, have included them on the accounting statements.	Yes	



## Section 3 – Certification and approval

### Approval and certification of the accounts and annual governance statement

The Body is responsible for the preparation of the accounting statements in accordance with the requirements of the Accounts and Audit (Wales) Regulations 2014 and for the preparation of an Annual Return which:

- summarises the Body's accounting records for the year ended 31 March 2016; and
- confirms and provides assurance on those matters that are important to the external auditor's responsibilities.

<p><b>Certification by the RFO</b></p> <p><b>Certificate under Regulation 15(1) Accounts and Audit (Wales) Regulations 2014</b></p> <p>I certify that the accounting statements contained in this Annual Return presents fairly the financial position of the Body, and its income and expenditure, or properly presents receipts and payments, as the case may be, for the year ended 31 March 2016.</p>	<p><b>Approval by the Body</b></p> <p><b>Approval of accounting statements under Regulation 15(2) Accounts and Audit (Wales) Regulations 2014 and the Annual Governance Statement</b></p> <p>I confirm that these accounting statements and Annual Governance Statement were approved by the Body under body minute reference:</p>
<p><b>RFO signature:</b></p>	<p><b>Chair signature:</b></p>
<p><b>Name: Christine Salter</b></p>	<p><b>Name: Councillor Monica Walsh, Lord Mayor</b></p>
<p><b>Date: 29 September 2016</b></p>	<p><b>Date: 29 September 2016</b></p>

### External Audit Certificate

The external auditor conducts the audit in accordance with guidance issued by the Auditor General for Wales.

On the basis of their review of the Annual Return and supporting information, they report whether any matters that come to their attention give cause for concern that relevant legislation and regulatory requirements have not been met. We certify that we have completed the audit of the Annual Return for the year ended 31 March 2016 of Cardiff Port Health Authority:

### External auditor's report

On the basis of our review, in our opinion, the information contained in the Annual Return is in accordance with proper practices and no matters have come to our attention giving cause for concern that relevant legislation and regulatory requirements have not been met.

Other matters not affecting our opinion which we draw to the attention of the Body are included in our report to the Body dated 29 September 2016.

**External auditor's signature:**

**For and on behalf of the Auditor General for Wales**

**External auditor's name:**

**Date:**

### Electronic Publication of Financial Statements

*The maintenance and integrity of the County Council of the City and County of Cardiff's website is the responsibility of the Accounting Officer/Client Officer; the work carried out by auditors does not involve consideration of these matters and accordingly auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.*

**STATEMENT OF ACCOUNTS**

**2015/16**

**OF**

**CARDIFF HARBOUR AUTHORITY**

## Foreword

### Introduction

This document presents the Statement of Accounts for Cardiff Harbour Authority. Section 42(1) of the Harbours Act 1964 sets out that statutory undertakings, such as local authorities that have functions of maintaining, improving or managing a harbour are required to prepare an annual statement of accounts relating to the harbour activities. These accounts have been prepared on an IFRS basis, in line with the requirements of the Companies Act 2006. Cardiff Harbour Authority is subsumed within the County Council of the City and County of Cardiff and is, therefore, not a company. As a result, this foreword is in place of the director's report required by the Companies Act 2006.

### Agreement

By an Agreement dated 27 March 2000 made pursuant to and for the purposes of section 165 of the Local Government Planning and Land Act 1980 (as amended) the Council agreed to take responsibility for and to discharge the harbour authority undertaking and obligations in regard to the bay and the outer harbour under the terms of the Cardiff Bay Barrage Act 1983.

The Agreement has since been varied by the following Deeds of Variation:

- Dated 25 August 2006 and made between the National Assembly for Wales and the Council.
- Dated 27 March 2007 and made between the National Assembly for Wales and the Council.
- Dated 15 September 2009 and made between the Welsh Ministers and the Council.
- Dated 5 April 2011 and made between the Welsh Ministers and the Council.
- Dated 3 April 2014 and made between the Welsh Ministers and the Council.

### Review of the Financial Year

The existing three year budget, which was agreed with the Welsh Ministers, covers the period 2014/15 to 2016/17. The revised budget for 2015/16 was set at £6.253 million which represented a reduction of £0.144 million on the previous year. This has increased the level of financial risk to the Council as any unforeseen costs have to be absorbed within the agreed fixed cost budget unless there are qualifications within the agreement.

An amount of £10,000 was received in respect of the share of previous years underspend against the fixed cost budget. This increased the budget allocation to £6.263 million.

The financial deficit for the year ended 31 March 2016 was £2.852 million (£2.429 million in 2014/15).

Total Capital Expenditure incurred and funded by Harbour Grant during the year was £312,000. This forms part of a three year programme to 2016/17 for works at the harbour, barrage and surrounding environmental infrastructure. Works included in the programme are: barrage crane, catamaran survey vessel, public realm improvements and replacement of water quality monitoring equipment.

## Key Achievements

During 2015/16 Cardiff Harbour Authority continued to work hard to meet its statutory obligations. The achievements against the Harbour Authority action plan and performance indicators are reported quarterly to the Welsh Government and are highlighted below:

- Operated with a budget reduction and delivered the business plan within budget at year end.
- The resilience of the Barrage and Harbour Master teams has been further enhanced by the recruitment of a mechanical engineering apprentice and a marine engineer apprentice.
- In June 2015 the Extreme Sailing Series (ESS) returned to Cardiff. This was the first year as a stand alone event – without the support of the Bay Beach or Harbour Festival. The marketing and PR campaign was successfully delivered as per the ESS contract. Also the new format proved popular with visitors, with a variety of positive feedback, and the footfall over the three day event was a success with over 65,000 attendees.
- The community liaison team created a partnership with the Reardon Smith Nautical Trust to deliver the 'Reardon Smith Sailing Academy' with the Cardiff Sailing School. Over the next year RSNT will invest £10,000 to cover the cost of a variety of courses and equipment to give school children the opportunity to complete courses for free. The objective of the academy is to encourage the participants to forge a career in the sailing industry.
- With a significant amount of time and effort from the Barrage engineering team they have managed to considerably increase the efficiency of the Pont y Werin fibre optic link and replaced the pedestrian gates which were previously problematic.
- High river flows have been discharged in the last 5 months without any issues affecting residents on the rivers. There have been several unexpected issues with the Sluice gates however due to the efforts of the Engineering and Operational teams any potential serious events have been mitigated.
- 2015 saw the return of the Welsh Schools Indoor Rowing Championships & Welsh Indoor Rowing Championships to the Water Activity centre after a two year absence. Both returned with excellent entry levels to establish its position as one of the premier events within the indoor rowing schedule, being extremely popular with competitors and spectators alike.

## **Annual Governance Statement**

The Cardiff Harbour Authority is not a separate entity to the Council and the financial transactions and systems, governance and controls of the Cardiff Harbour Authority are integrated into those of the Council. For reference, the Annual Governance Statement can be found with the Statement of Accounts for the Council. The financial statements that follow are an extract from the accounts of the County Council of the City and County of Cardiff, where such transactions can be identified separately without significant cost. The extract has been amended to remove those entries required by the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 that are not recognised by International Financial Reporting Standards.

## Statement of Responsibilities for the Financial Statements and Corporate Director Resources Certificate

### **The Corporate Director Resources responsibilities**

The Corporate Director Resources is responsible for the preparation of the Statement of Accounts in accordance with the requirements of the Harbours Act 1964.

In preparing these financial statements, the Corporate Director Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the requirements of the Harbours Act 1964.

The Corporate Director Resources has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

### **The Corporate Director Resources Certificate**

The financial statements for the Cardiff Harbour Authority give a true and fair view of the financial position of the Authority at 31 March 2016 and its income and expenditure for the year ended 31 March 2016

**Christine Salter**  
Corporate Director Resources

**Date: 29 September 2016**



Audit report of the Auditor General to those Charged with Governance of Cardiff Harbour Authority

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## Accounting policies

In accordance with the Accounts and Audit (Wales) Regulations 2014, this Statement of Accounts summarises the Harbour Authority's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The accounts are prepared in accordance with International Financial Reporting Standards (IFRS). A number of the accounting policies used in preparing these accounts, along with any critical assumptions and sources of estimation used are the same as those for the accounts of the Council. Whilst these are not replicated in full, the key policies applied are below:-

### **Accounting policies used when formulating the accounts**

#### **1. Accruals of Income and Expenditure**

Activity is accounted for in the year that it takes place, not simply when the cash payments are made or received. Where income and expenditure have been recognised, but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet.

#### **2. Employee Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Harbour Authority. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to expenditure.

#### **3. Grants - Revenue**

Grants and other contributions relating to revenue expenditure are accounted for on an accruals basis and recognised when:

- the Harbour Authority will comply with the conditions for their receipt.
- there is reasonable assurance that the grant or contribution will be received.

The accounting treatment will vary depending on whether it is deemed that conditions inherent in the agreement have been complied with. Monies advanced as grants for which conditions have not been yet been satisfied are carried in the Balance Sheet as Revenue Grants receipts in advance. When conditions have been satisfied, the grant or contribution is credited to the Comprehensive Income and Expenditure Statement. Where there is no reasonable assurance that the conditions will be met, any cash received will not be recognised as a receipt of grant monies but as a repayment due to the awarding body. The cash received is held on the Balance Sheet as a liability.

#### **4. Grants and Contributions – Capital**

Grants and contributions that are applied in the year to fund capital schemes are treated as revenue income and credited to the Comprehensive Income and Expenditure Statement.

#### **5. Inventories**

Inventories are measured and held at the lower of cost or net realisable value. When such inventories are sold, exchanged or distributed, the carrying amount is recognised as an expense in the Comprehensive Income and Expenditure Statement.

#### **6. Operating Leases**

Payments for operating leases are charged to the relevant service revenue account on an accruals basis. The charges are made evenly throughout the period of the lease.

#### **7. Overheads and Support Services Costs**

The Council makes recharges in respect of the cost of support services to the Cardiff Harbour Authority. The total absorption costing principle is used so that the full cost of overheads and support services are shared between users in proportion to the benefits received.

## 8. Property, Plant, Equipment, Community and Heritage Assets

Assets that have physical substance used in the production or supply of goods or services, those intended to be held indefinitely and those for the promotion of culture and knowledge and expected to be used during more than one financial year.

### Recognition:

Expenditure on the acquisition, creation or enhancement of such assets is capitalised on an accruals basis. All expenditure incurred on existing assets is assumed to result in enhancement of the asset and will be shown in the accounts as an addition to the asset. This together with a 3-year rolling programme of revaluations ensures that the values of land and buildings carried in the accounts are not materially misstated and ensures a sustainable cost/ benefit approach to valuation and accounting for capital expenditure on land and buildings in the year.

The Council recognises heritage assets where it may have incurred separately identifiable expenditure on their acquisition or preservation at historic cost or where it has information on the value of the asset.

### Measurement:

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the specific asset into working condition for its intended use. The Council does not capitalise borrowing costs.

These assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure assets – depreciated historical cost. Balance sheet values reflect historic expenditure incurred on such assets from a point in time. Accordingly the balance sheet does not represent the true value and size of infrastructure assets. This is likely to change in future years,
- Community Assets and Assets under Construction are included in the Balance Sheet at historic cost.
- Heritage Assets are included at historic cost if included in the accounts and only measured at fair value where the benefits of doing so outweigh the costs.

### Revaluation:

Assets included in the Balance Sheet at fair value are revalued as part of a three year rolling programme.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to expenditure.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation.

### Charges to Revenue for Non-Current Assets:

Services are debited with the following amounts to record the cost of holding assets during the year:

- depreciation attributable to the assets used by the relevant service
- impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

The Harbour Authority does not receive grant for depreciation or any other accounting adjustments for non-current assets.

### Impairment and Downward Revaluation:

Assets are assessed at each year-end as to whether there is any indication that an asset may be reduced in value, either due to a reduction in service potential (impairment) or general market fluctuations (downward revaluation). Where either type of loss is identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is charged to expenditure in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

## Depreciation:

Depreciation is provided for on all Property, Plant and Equipment assets by an allocation of their depreciable amounts over their estimated useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land, heritage and community assets) as well as assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

Asset category	Initial Useful Life in years
Intangible Assets	5
Land	n/a
Buildings	17-70
Vehicles, Plant, Furniture and Equipment	7
Infrastructure **	10-120
Community Assets, Investment Properties, Heritage Assets, Surplus Assets and Assets Held for Sale	n/a

\*\* Included within Infrastructure is the Cardiff Bay Barrage which is being depreciated over the design life of 120 years.

## 9. Reserves

The Harbour Authority holds one usable reserve. It is used to hold accumulated operational surpluses which can be used to fund future expenditure commitments and as a contingency against unforeseen events. Certain reserves are kept to manage the accounting processes for non-current assets, retirement and employee benefits and do not represent usable resources for the Harbour Authority.

## 10. Value Added Tax

The Harbour Authority does not have a separate VAT registration to the Council and, apart from certain cases where the Harbour Authority funds supplies of goods or services to other persons or organisations, the Harbour Authority is reimbursed for VAT. The revenue accounts have, therefore, been prepared exclusive of this tax.

## Guide to the Financial Statements

### **Comprehensive Income and Expenditure account**

This statement shows the accounting cost in the year of providing services, in accordance with generally accepted accounting practices.

### **Balance Sheet**

The Balance Sheet shows the value as at the balance sheet date of the assets and liabilities recognised by the Harbour Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves comprise both those reserves that may be used to provide services and those that the Authority is not able to use to provide services. Reserves also include those that hold unrealised gains and losses.

### **Cashflow Statement**

A Cashflow statement has not been provided, in accordance with Section 394 of the Companies Act 2006. Information in relation to the cashflows of the Harbour Authority can be found within the Council's Statement of Accounts.

### **Notes to the Core Financial Statements**

These notes provide any further analysis required to explain those figures contained in the financial statements.



# Cardiff Harbour Authority

## Comprehensive Income and Expenditure Account for the year ended 31 March 2016

2014/15 £000		2015/16 £000
	<b>Income</b>	
(6,044)	Government Grants	(5,930)
(280)	Grants Relating to Previous Years	0
(324)	Capital Grants Applied	(312)
(884)	Fees and Charges	(876)
<b>(7,532)</b>	<b>Total Income</b>	<b>(7,118)</b>
	<b>Expenditure</b>	
2,664	Employees	2,616
1,298	Premises	1,461
73	Transport	172
2,269	Supplies and Services	2,049
628	Support Services	558
3,029	Depreciation	3,114
<b>9,961</b>	<b>Total Expenditure</b>	<b>9,970</b>
<b>2,429</b>	<b>Net Expenditure for the year</b>	<b>2,852</b>

**Balance Sheet as at 31 March 2016**

31 March 2015 £000		Note Ref	31 March 2016 £000
	<u>Property, plant and equipment</u>		
7,532	Land and Buildings	2	6,692
338	Vehicles, Plant, Furniture & Equipment	2	404
163,218	Infrastructure	2	160,876
1,103	Community Assets	2	1,103
475	Surplus Assets	2	0
0	Investment Assets		358
<b>172,666</b>			<b>169,433</b>
56	Heritage Assets	2	56
128	Intangible Assets	2	64
<b>172,850</b>	<b>Long-term assets</b>		<b>169,553</b>
485	Stocks and Work in Progress	5	382
537	Debtors	3	589
1,936	Cash		2,418
<b>3,008</b>	<b>Current assets</b>		<b>3,389</b>
(2,424)	Creditors	4	(2,558)
<b>(2,424)</b>	<b>Current liabilities</b>		<b>(2,558)</b>
<b>173,434</b>	<b>Net assets</b>		<b>170,384</b>
	<b>Reserves:</b>		
168,501	General Reserve	1	165,649
4,933	Revaluation Reserve	1	4,735
<b>173,434</b>	<b>Total Reserves</b>		<b>170,384</b>

## Notes to the Core Financial Statements

### 1. Reserves

2015/16	General Reserve	Revaluation Reserve
	£000	£000
<b>Balance at 1 April 2015</b>	168,501	4,933
Surplus/(Deficit) for the year	(2,852)	(198)
<b>Closing Balance at 31 March 2016</b>	165,649	4,735

Comparative movements for 2014/15:

2014/15	General Reserve	Revaluation Reserve
	£000	£000
<b>Balance at 1 April 2014</b>	170,930	4,933
Surplus/(Deficit) for the year	(2,429)	0
<b>Closing Balance at 31 March 2015</b>	168,501	4,933

Held within the General Reserve is an earmarked amount reserved for project activities and contingencies. This amount is £0.756m in 2015/16 (£0.697m).

## 2. Movements in Property, Plant, Equipment & Other Long Term Assets

Long term assets are primarily Property, Plant and Equipment, with movements analysed in the table that follows.

2015/16	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Investment Assets £000	Surplus Assets £000	Total Property, Plant & Equipment £000	Heritage Assets £000	Intangible Assets £000
<b>Cost or Valuation</b>									
At 1 April 2015	7,774	504	218,563	1,103	475	0	<b>228,419</b>	56	319
Additions	56	161	95	0	0	0	<b>312</b>	0	0
Impairment losses/reversals to RR	(445)	0	0	0	0	0	<b>(445)</b>	0	0
Impairment losses / reversals to SDPS **	(325)	0	0	0	0	0	<b>(325)</b>	0	0
Disposals	0	0	0	0	(117)	0	<b>(117)</b>	0	0
Other reclassifications	0	0	0	0	0	0	<b>0</b>	0	0
Revaluation increases /(decreases) to RR*	(142)	0	0	0	0	0	<b>(142)</b>	0	0
Revaluation increases /(decreases) to SDPS**	(169)	0	0	0	0	0	<b>(169)</b>	0	0
<b>At 31 March 2016</b>	<b>6,749</b>	<b>665</b>	<b>218,658</b>	<b>1,103</b>	<b>358</b>	<b>0</b>	<b>227,533</b>	<b>56</b>	<b>319</b>
<b>Depreciation</b>									
At 1 April 2015	242	166	55,345	0	0	0	<b>55,753</b>	0	191
Depreciation charge	57	95	2,437	0	0	0	<b>2,589</b>	0	64
Depreciation written out on impairment	(20)	0	0	0	0	0	<b>(20)</b>	0	0
Disposals	0	0	0	0	0	0	<b>0</b>	0	0
Depreciation written out to SDPS	(222)	0	0	0	0	0	<b>(222)</b>	0	0
<b>At 31 March 2016</b>	<b>57</b>	<b>261</b>	<b>57,782</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>58,100</b>	<b>0</b>	<b>255</b>
<b>Net Book Value:</b>									
<b>At 31 March 2016</b>	<b>6,692</b>	<b>404</b>	<b>160,876</b>	<b>1,103</b>	<b>0</b>	<b>358</b>	<b>169,433</b>	<b>56</b>	<b>64</b>
<b>At 31 March 2015</b>	<b>7,532</b>	<b>338</b>	<b>163,218</b>	<b>1,103</b>	<b>0</b>	<b>475</b>	<b>172,666</b>	<b>56</b>	<b>128</b>

# Cardiff Harbour Authority

Comparative movements for 2014/15:

2014/15 Restated	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Investment Assets £000	Surplus Assets £000	Total Property, Plant & Equipment £000	Heritage Assets £000	Intangible Assets £000
<b>Cost or Valuation</b>									
At 1 April 2014	7,759	1,057	218,409	1,103	0	475	<b>228,803</b>	56	319
Additions	15	155	154	0		0	<b>324</b>	0	0
Impairment losses/reversals to RR	0	0	0	0	0	0	<b>0</b>	0	0
Impairment losses / reversals to SDPS **	0	0	0	0	0	0	<b>0</b>	0	0
Disposals	0	(708)		0	0	0	<b>(708)</b>	0	0
Other reclassifications	0	0	0	0	475	(475)	<b>0</b>	0	0
Revaluation increases /(decreases) to RR*	0	0	0	0	0	0	<b>0</b>	0	0
Revaluation increases /(decreases) to SDPS**	0	0	0	0	0	0	<b>0</b>	0	0
<b>At 31 March 2015</b>	<b>7,774</b>	<b>504</b>	<b>218,563</b>	<b>1,103</b>	<b>475</b>	<b>0</b>	<b>228,419</b>	<b>56</b>	<b>319</b>
<b>Depreciation</b>									
At 1 April 2014	188	802	52,506	0	0	0	<b>53,496</b>	0	127
Depreciation charge	54	72	2,839	0	0	0	<b>2,965</b>	0	64
Depreciation written out on impairment	0	0	0	0	0	0	<b>0</b>	0	0
Disposals	0	(708)	0	0	0	0	<b>(708)</b>	0	0
Depreciation written out to SDPS	0	0	0	0	0	0	<b>(222)</b>	0	0
<b>At 31 March 2015</b>	<b>242</b>	<b>166</b>	<b>55,345</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>55,753</b>	<b>0</b>	<b>191</b>
<b>Net Book Value:</b>									
<b>At 31 March 2015</b>	<b>7,532</b>	<b>338</b>	<b>163,218</b>	<b>1,103</b>	<b>475</b>	<b>0</b>	<b>172,666</b>	<b>56</b>	<b>128</b>
<b>At 31 March 2014</b>	<b>7,571</b>	<b>255</b>	<b>165,903</b>	<b>1,103</b>	<b>0</b>	<b>475</b>	<b>175,307</b>	<b>56</b>	<b>192</b>

## 3. Stock

Movements in stock during the financial year are as follows:

	2014/15 £000	2015/16 £000
At 1 April 2015	1,113	485
Stock transferred from CI&E	0	0
Stock transferred to Cardiff Bay Visitor Centre	(17)	0
Stock written off to the CI&E	(611)	(103)
<b>Balance carried forward</b>	<b>485</b>	<b>382</b>

## 4. Debtors

	2014/15 £000	2015/16 £000
Central Government Bodies	513	513
Trade Receivables	24	24
<b>Total</b>	<b>537</b>	<b>589</b>

## 5. Creditors

	2014/15 £000	2015/16 £000
Central Government Bodies	(2,001)	(1,978)
Trade Payables	(423)	(580)
<b>Total</b>	<b>(2,424)</b>	<b>(2,558)</b>



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# Audit of Financial Statements Report

## The County Council of the City and County of Cardiff

**Audit year:** 2015-16

**Issued:** September 2016

**Document reference:** 494A2016

# Status of report

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

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties.

In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at [info.officer@audit.wales](mailto:info.officer@audit.wales).

# Contents

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The Auditor General intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

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# Summary report

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## Introduction

1. The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of the County Council of the City and County of Cardiff (the Council) at 31 March 2016 and its income and expenditure for the year then ended.
2. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
3. The quantitative levels at which we judge such misstatements to be material for the Council's accounts is £12.6 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity, for example, the remuneration note.
4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
5. This report sets out for consideration the matters arising from the audit of the financial statements of the Council, for 2015-16, that require reporting under ISA 260.

## Status of the audit

6. We received the draft financial statements for the year ended 31 March 2016 on 15 June 2016 in line with our agreed deadline and have now substantially completed the audit work
7. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with officers.

## Proposed audit report

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

## Significant issues arising from the audit

### Uncorrected misstatements

10. There are no misstatements identified in the financial statements, which remain uncorrected.

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## Corrected misstatements

11. There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#).

## Other significant issues arising from the audit

12. In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There was one issue arising in these areas this year:
- **We have no significant concerns about the qualitative aspects of your accounting practices and financial reporting but you need to clear old creditors balances from the ledger.** Overall we found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear. However, our testing did identify a number of prior years' creditors balances which hadn't been cleared when payments or adjustments had been made. Extended testing provided assurance that these balances were matched by debit entries to other codes and therefore the creditors balance in the accounts was materially correct. But, by not matching creditors and clearing, you increase the complexity of the year end reconciliation process and the testing required to verify figures in the accounts. You also increase the risk that transactions may be included which are not true creditors.
  - **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work.
  - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
  - **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
  - **We did not identify any material weaknesses in your internal controls**
  - **There are no 'other matters' specifically required by auditing standards to be communicated to those charged with governance.**



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## Independence and objectivity

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

# Appendix 1

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## Final Letter of Representation

(Audited body's letterhead)

Huw Vaughan Thomas  
Auditor General for Wales  
24 Cathedral Road  
Cardiff  
CF11 9LJ  
[Date]

## Representations regarding the 2015-16 financial statements

This letter is provided in connection with your audit of the financial statements of the County Council of the City and County of Cardiff (the Council) for the year ended 31 March 2016 for the purpose of expressing an opinion on their truth and fairness and their proper preparation. We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

## Management representations

### Responsibilities

We have fulfilled our responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and CIPFA Code of Practice on Local Authority Accounting in the UK 2015-16; in particular the financial statements give a true and fair view in accordance therewith.
- the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

### Information provided

We have provided you with:

- Full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
  - additional information that you have requested from us for the purpose of the audit; and

- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- Our knowledge of fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements;
- The identity of all related parties and all the related party relationships and transactions of which we are aware;
- Our knowledge of all known partnerships and joint working/ collaborative arrangements that would impact on the financial statements.

## Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The Council has complied with all conditions imposed by relevant grant paying organisations and can reasonably expect to receive the amounts of grant included within the accounts.

The Council has complied with all aspects of contractual agreements that would require adjustment to, or disclosure in, the accounting statements and related notes.

The reserves of the Council have been reviewed and are properly treated within the final accounts in accordance with the CIPFA guidance.

The provisions of the Council have been reviewed and have been properly treated within the final accounts in accordance with IAS 37.

The Council has accounted for and disclosed its partnership and joint/collaborative working arrangements in accordance with accounting standards and the CIPFA Code.

The agreed recommendations set out in the 2014-15 WAO financial accounts reports have been satisfactorily implemented.

The financial statements are free of material misstatements, including omissions.

## Representations by the Council

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

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the County Council of the City and County of Cardiff on [insert date].

Signed by:

[Officer who signs on behalf of management]

Date:

Signed by:

[Officer or Member who signs on behalf of those charged with governance]

Date:

# Appendix 2

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## Proposed audit report of the Auditor General to the Members of the County Council of the City and County of Cardiff

I have audited the accounting statements and related notes of:

- the County Council of the City and County of Cardiff; and
- the County Council of the City and County of Cardiff Group; and
- Cardiff and Vale of Glamorgan Pension Fund

for the year ended 31 March 2016 under the Public Audit (Wales) Act 2004.

The County Council of the City and County of Cardiff's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement.

The County Council of the City and County of Cardiff's Group accounting statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement.

The Cardiff and Vale of Glamorgan Pension Fund's accounting statements comprise the Fund Account and the Net Assets Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 based on International Financial Reporting Standards (IFRSs).

### **Respective responsibilities of the responsible financial officer and the Auditor General for Wales**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page XX, the responsible financial officer is responsible for the preparation of the statement of accounts, including the County Council of the City and County of Cardiff's Group accounting statements and the Cardiff and Vale of Glamorgan Pension Fund's accounting statements, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

### **Scope of the audit of the accounting statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to

the County Council of the City and County of Cardiff; the County Council of the City and County of Cardiff Group and the Cardiff and Vale of Glamorgan Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

#### **Opinion on the accounting statements of County Council of the City and County of Cardiff**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the County Council of the City and County of Cardiff as at 31 March 2016 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

#### **Opinion on the accounting statements of County Council of the City and County of Cardiff Group**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the County Council of the City and County of Cardiff Group as at 31 March 2016 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

#### **Opinion on the accounting statements of Cardiff and Vale of Glamorgan Pension Fund**

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of the Cardiff and Vale of Glamorgan Pension Fund during the year ended 31 March 2016 and of the amount and disposition of the fund's assets and liabilities as at that date, other than liabilities to pay pensions and benefits after the end of the scheme year ; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

#### **Opinion on other matters**

In my opinion, the information contained in the Narrative Report is consistent with the accounting statements and related notes.



**Matters on which I report by exception**

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

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

**Certificate of completion of audit**

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

**For and on behalf of**

**Huw Vaughan Thomas**

**Auditor General for Wales**

**24 Cathedral Road**

**CARDIFF**

**CF11 9LJ**

**30 September 2016**

## Appendix 3

### Summary of corrections made to the draft financial statements which should be drawn to the attention of the Council

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

	Value of correction	Nature of correction	Reason for correction
1	£441,000	Increase in Long-Term Investment balance at 31 March 16 on Balance Sheet.	Disclosure on Balance Sheet disagreed to supporting working paper analysis. Net nil impact, misclassification of balance as opposed to misstatement of balance.
2	£12,000	Increase in Short-Term Debtors balance at 31 March 16 on Balance Sheet, resulting in further amendments to Note 23 analysis.	As above.
3	(£453,000)	Decrease in Long-Term Debtors balance at 31 March 16 on Balance Sheet.	As above.
4	(£927,000)	Increase in Short-Term Provisions balance at 31 March 16 on Balance Sheet, resulting in further amendments to Note 27.	Formula error identified in analysis of Cardiff Insurance provision classification between Long-Term and Short-Term elements. Net nil impact, misclassification of balance as opposed to misstatement of balance.
5	£927,000	Decrease in Long-Term Provisions balance at 31 March 16 on Balance Sheet, resulting in further amendments to Note 27.	As above.
6	£2,364,000	Increase in Short-Term Creditors balance at 31 March 16 on Balance Sheet, resulting in further amendments to Note 25 and Note 34.	Number of credit balances included incorrectly in Short-Term Debtors as opposed to Short-Term Creditors. Net nil impact on bottom line.

	Value of correction	Nature of correction	Reason for correction
7	£2,364,000	Increase in Short-Term Debtors balance at 31 March 16 on Balance Sheet, resulting in further amendments to Note 23 and Note 34.	As above.
8	£3,051,000	Increase in carrying value of three community centres (Plasnewydd, Pentrebane and Butetown) to reflect reclassification from Investment Properties to Operational Buildings.	Adjustment to classification of buildings identified for Community Asset Transfer (CAT) to reflect the CIPFA Code of Practice. Correction of classification necessitates changing carrying value.
9	Various Remuneration disclosures in Note 11.1, Note 11.2 and Note 11.3	Amendments to the Note 11.3 table disclosing Senior Officer Remuneration required to correctly reclassify £20,000 Payments in Lieu of Notice (PILON) received by 1 Director, and include £252,000 pension strain costs incurred for 2 Directors early access to pensions.  In addition, a number of minor corrections and adjustments were made to record correct start dates, accurate median remuneration and to adjust the separate Exit Packages table to record PILON costs incurred.	Amendments to disclosures in the accounts – highlighted as material by nature.
10	Various Related Parties disclosures in Note 13	Amendment to reclassify £18,500 grants paid to voluntary organisations in which members had an interest, from incorrect inclusion under payments for goods and services procured from the same voluntary organisations.  Also amended to recognise that there were goods and services of £1,423 commissioned from 1 company in which a Chief Officer had an interest as a representative of the Council.	Amendments to disclosures in the accounts – highlighted as material by nature.
	Various	A number of amendments to narratives and notes to the financial statements have been made to correct transposition errors, cross referencing etc.	To ensure that notes are accurate and cross reference within the body of the financial statements.



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# Audit of Financial Statements Report and Management Letter

## Cardiff & Vale of Glamorgan Pension Fund

**Audit year:** 2015-16

**Issued:** September 2016

**Document reference:** 496A2016



# Status of report

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

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties.

In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at [info.officer@audit.wales](mailto:info.officer@audit.wales).

# Contents

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This document summarises the conclusions on the 2015-16 audit including our recommendations for the year. The Auditor General intends to issue an unqualified audit report on your financial statements.

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# Summary report

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## Introduction

1. The purpose of this report is twofold:
  - to set out for consideration the matters arising from the audit of the financial statements of Cardiff & Vale of Glamorgan Pension fund (the Pension Fund), for 2015-16, that require reporting to those charged with governance, in time to enable appropriate action; and
  - to formally communicate the completion of our audit and capture the recommendations arising from our audit work for the year.
2. The Auditor General's responsibilities were set out in our Audit Plan along with your responsibilities as those charged with governance; we do not repeat them in detail again here.
3. We confirm we have undertaken the audit as planned and our performance against the agreed measures are reported in [Appendix 4](#). We have no other issues to report to you other than in this report.
4. We are particularly grateful to the Pension Fund and staff for their assistance, good quality working papers and draft accounts provided during the course of our audit.
5. The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Cardiff and Vale of Glamorgan Pension Fund at 31 March 2016 and its income and expenditure for the year then ended.
6. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
7. The quantitative level at which we judge such misstatements to be material is £16.5 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.

## Status of the audit

8. We received the draft financial statements for the year ended 31 March 2016 on 15 June in line with our agreed deadline, and have now substantially completed the audit work.
9. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with officers.

---

## Proposed audit report

10. It is the Auditor General's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
11. The proposed audit report is set out in [Appendix 2](#).

## Significant issues arising from the audit

### Uncorrected misstatements

12. There are no misstatements identified in the financial statements, which remain uncorrected.

### Corrected misstatements

13. There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#).

### Other significant issues arising from the audit

14. In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year:
  - **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
  - **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work.
  - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
  - **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
  - **We did not identify any material weaknesses in your internal controls.**
  - **There are no 'other' matters specifically required by auditing standards to be communicated to those charged with governance.**

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## Recommendations arising from our 2015-16 audit work

15. The recommendations arising from our audit work are set in [Appendix 5](#). Management has responded to them and we will follow up progress on them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

## Independence and objectivity

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

# Appendix 1

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## Final Letter of Representation

Auditor General for Wales  
24 Cathedral Road  
Cardiff  
CF11 9LJ

[Date]

## Representations regarding the 2015-16 financial statements

This letter is provided in connection with your audit of the financial statements of Cardiff and Vale of Glamorgan Pension Fund for the year ended 31 March 2016 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

I confirm that to the best of my knowledge and belief, having made enquiries as I consider sufficient, I can make the following representations to you.

## Management representations

### Responsibilities

I have fulfilled my responsibilities for:

- The preparation of the financial statements in accordance with legislative requirements and the 2015-16 Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith.
- The design, implementation, maintenance and review of internal control to prevent and detect fraud and error.



## Information provided

We have provided you with:

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

## Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. There were no uncorrected misstatements.

## Representations by those charged with governance

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

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by County Council of the City and County of Cardiff on xx September 2016.

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

Signed by:

[Officer who signs on behalf of management]

Date:

Signed by:

[Officer or Member who signs on behalf of those charged with governance]

Date:

# Appendix 2

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## Proposed audit report of the Auditor General to the Members of the County Council of the City and County of Cardiff

I have audited the accounting statements and related notes of:

- the County Council of the City and County of Cardiff; and
- the County Council of the City and County of Cardiff Group; and
- Cardiff and Vale of Glamorgan Pension Fund

for the year ended 31 March 2016 under the Public Audit (Wales) Act 2004.

The County Council of the City and County of Cardiff's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement.

The County Council of the City and County of Cardiff's Group accounting statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement.

The Cardiff and Vale of Glamorgan Pension Fund's accounting statements comprise the Fund Account and the Net Assets Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 based on International Financial Reporting Standards (IFRSs).

### **Respective responsibilities of the responsible financial officer and the Auditor General for Wales**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page XX, the responsible financial officer is responsible for the preparation of the statement of accounts, including the County Council of the City and County of Cardiff's Group accounting statements and the Cardiff and Vale of Glamorgan Pension Fund's accounting statements, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

### **Scope of the audit of the accounting statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the County Council of the City and County of Cardiff; the County Council of the City and

County of Cardiff Group and the Cardiff and Vale of Glamorgan Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

#### **Opinion on the accounting statements of County Council of the City and County of Cardiff**

- In my opinion the accounting statements and related notes:
- give a true and fair view of the financial position of the County Council of the City and County of Cardiff as at 31 March 2016 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

#### **Opinion on the accounting statements of County Council of the City and County of Cardiff Group**

- In my opinion the accounting statements and related notes:
- give a true and fair view of the financial position of the County Council of the City and County of Cardiff Group as at 31 March 2016 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

#### **Opinion on the accounting statements of Cardiff and Vale of Glamorgan Pension Fund**

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of the Cardiff and Vale of Glamorgan Pension Fund during the year ended 31 March 2016 and of the amount and disposition of the fund's assets and liabilities as at that date, other than liabilities to pay pensions and benefits after the end of the scheme year; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

#### **Opinion on other matters**

In my opinion, the information contained in the Foreword is consistent with the accounting statements and related notes.

**Matters on which I report by exception**

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

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

**Certificate of completion of audit**

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

**For and on behalf of**

**Huw Vaughan Thomas**

**Auditor General for Wales**

**24 Cathedral Road**

**CARDIFF**

**CF11 9LJ**

**30 September 2016**

## Appendix 3

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### Summary of corrections made to the draft financial statements which should be drawn to the attention of those charged with governance

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

	Value of correction	Nature of correction	Reason for correction
1	£529,000	A decrease in the market value of investments at 31 March, and an equivalent decrease in the Change in market value of investments. The amendments affect the Fund Account for the year and the Net Asset Statement, as well as Notes 10, 11, 12 and 13.	Incorrect prices had been applied in the valuations of two investments.
2	£1,511,000	An increase in the market value of Investments at 31 March and an equivalent increase in the Change in market value of investments. The amendments affect the Fund Account for the year and the Net Asset statement, as well as Notes 10, 11, 12 and 13.	The original valuation was based on 31 December 2015 data; at time of audit, the year end valuation was available.
3	£523,292	An increase in the value of lump sum benefits payable at 31 March and an equivalent increase in Unpaid benefits. The amendments affect the Fund Account for the year and the Net Asset statement, as well as Note 6.	To include lump sum payments not accrued for previously.
4	various	The inclusion of 2014-15 comparative figures in Notes 5 and 6.	Comparative figures are a financial reporting requirement.
5	various	A number of amendments to narratives and notes to the financial statements have been made to correct transposition errors, cross referencing etc.	To ensure that notes are accurate and cross reference within the body of the financial statements.



# Appendix 4

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## Wales Audit Office performance measures

We have agreed a range of targets for the delivery of our work and I have summarised our assessment of achievements against these targets below:

Planned output	Target	Outcome
2016 Audit Plan	March 2016	February 2016
Financial accounts work: <ul style="list-style-type: none"><li>• Audit of Financial Statement</li><li>• Opinion on Financial Statements</li></ul>	September 2016	September 2016

## Appendix 5

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### Recommendations arising from our 2015-16 audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

<b>Matter arising 1 – Regular reconciliation of SAP ledger to pensions payroll needs to be introduced.</b>	
<b>Findings</b>	For Benefits payable it was identified that the monthly reconciliation between the SAP ledger and the pensions payroll had not been completed during the year.
<b>Priority</b>	Medium.
<b>Recommendation</b>	A quarterly reconciliation between the SAP pensions payroll/ledger and Altair pensioner accounts should be undertaken.
<b>Benefits of implementing the recommendation</b>	Completion of such a reconciliation will ensure the accuracy of the ledger account.
<b>Accepted in full by management</b>	Yes.
<b>Management response</b>	The reconciliation process was developed towards the end of the 2015-16 financial year and implemented early in 2016-17
<b>Implementation date</b>	31 August 2016





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**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 5.6**

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**WALES INVESTMENT POOL GOVERNANCE ASPECTS**

**Reason for this Report**

1. The Audit Committee Terms of Reference set out the Committee's responsibility for Governance, Risk and Control.
2. This report has been prepared to provide Audit Committee Members with an update on the development of a Wales Investment Pool to manage on a collaborative basis the investment assets of the eight Local Government Pension Scheme (LGPS) funds in Wales and the proposed governance arrangements for the Pool.

**Background**

3. The eight LGPS funds in Wales have been working together for several years to identify areas of potential collaboration, under the direction of the Society of Welsh Treasurers (SWT) Pensions Subgroup. In 2013 the Subgroup published a report "Welsh Local Government Pension Funds: Working Together" which identified investments as the area where collaboration might yield the most significant savings. The Subgroup then commissioned Mercers Ltd to identify options for collaborative investing and in May 2015 their report recommending a Common Investment Vehicle (CIV) was issued. In September 2015 the eight funds agreed to proceed with establishing a CIV on a voluntary basis and Hymans Robertson were appointed in December 2015 to advise on the procurement of a CIV from a third party provider.
4. The UK Government has issued a number of consultations on the management of LGPS investments and in 2015 announced that all LGPS funds in England and Wales must join together to form investment pools rather than the current arrangement whereby individual funds appoint investment managers themselves. The Welsh funds submitted an outline proposal for a Wales Investment Pool in February 2016 and detailed proposals were submitted on 15 July 2016. The proposals included letters of support from the Chairs of Committees and Panels of the eight funds. A positive response was received from the Minister for Local Government to the outline proposal but no response has yet been received from the DCLG to the detailed proposals.
5. A redacted form of the submission (omitting details of costs of services which are being procured from commercial providers) has been published on administering authority web sites and is attached as an appendix to this report.
6. The Pool will not be a merger of the eight funds. Each fund will retain its distinct identity and the administering authorities remain responsible for complying with the LGPS



regulations and pensions legislation in respect of their members. Annual Statements of Accounts and triennial Actuarial Valuations will still be prepared for each individual pension fund and each fund will determine its own funding strategy. The Pool will have a limited remit and its objectives, as set out in the submission document, will be:

- To provide pooling arrangements which allow individual funds to implement their own investment strategies (where practical).
- To achieve material cost savings for participating funds while improving or maintaining investment performance after fees.
- To put in place robust governance arrangements to oversee the Pool's activities. To work closely with other pools in order to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments.

## Issues

7. The Wales Investment Pool proposal includes the establishment of a Joint Governance Committee comprising elected members from each administering authority, supported by an Officer Working Group. It is also proposed to appoint a Financial Conduct Authority (FCA) regulated Operator to supply the necessary infrastructure for establishing a pooling vehicle and to manage the Pool on behalf of the eight funds.
8. At the meeting of Full Council on 30 June 2016, Council approved the establishment of a Pensions Committee to exercise strategic oversight of its responsibilities for the administration of the Pension Fund. This will enable an elected member of the Council to participate fully in the Joint Governance Committee. The Terms of Reference of the Pensions Committee include the setting of the Fund's strategic objectives and approving the policy statements required by the LGPS Regulations covering Governance, Communications, Funding Strategy and Investment Strategy.
9. Work is ongoing within tight deadlines to establish the governance arrangements for the Pool including the drafting of an Inter-Authority Agreement (incorporating the Terms of Reference for the Joint Committee), the specification of the services to be provided by the Operator and the role of the Officer Working Group. Consideration is also being given to the needs of the Pool for specialist legal and investment advice. It is anticipated that the Joint Committee will meet in a shadow form (i.e. without decision making powers) during the remainder of 2016 and will be formally established early in 2017. The shadow Committee will oversee the procurement process for the Operator but the full Joint Committee will make the final recommendation to appoint the bidder who best meets the specification criteria.
10. The eight administering authorities will continue to retain control over setting their investment strategy and detailed asset allocation. Cardiff's Investment Advisory Panel will continue in its current form during the period of transition to the new pooled arrangements but its role will be reviewed in the medium term.
11. Cardiff's Local Pension Board was established in July 2015. Its role is defined by the Public Service Pensions Act 2013 and the Terms of Reference approved by Council, which is to assist the Council as Scheme Manager and Administering Authority
  - to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the scheme
  - to secure compliance with any requirements imposed by the Pensions Regulator in relation to the LGPS
  - to ensure the effective and efficient governance and administration of the scheme.

Pooling of investments should not have a major impact on this role but the Board is receiving regular updates of pooling developments and will also develop its relationship with the Pensions Committee.

12. There will be implications for the preparation and audit of the Statement of Accounts after the establishment of the Pool. Information will be required from the Joint Governance Committee and the Operator to provide the necessary assurances to the Welsh Audit Office and the Senior Management Assurance Statement will need to be reviewed to reflect the new arrangements.

### **Legal Implications**

13. There are no legal implications directly arising from the recommendations of this report.

### **Financial Implications**

14. There are no direct implications arising from this information report.

### **Recommendations**

15. That the committee note the progress in the development of the Wales Investment Pool.

## **CHRISTINE SALTER CORPORATE DIRECTOR RESOURCES**

The following Appendices are attached:

Welsh LGPS Funds: Working Together Report March 2013

Mercers Report to SWT July 2015

Wales Pool submission to the DCLG 15 July 2016

Background Papers

Report to Council 30 June 2016

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# ALL WALES COLLABORATION

JULY 2015

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## Executive Summary

This paper provides an overview of the work completed to support the eight Welsh LGPS Funds (“the Welsh Funds”) in their considerations in establishing a collaborative governance and investment framework. The paper recommends that the Welsh Funds:

- Spend time to develop a shared set of principles for collaboration.
- Pursue a more collaborative approach in order to avail the key benefits which include economies of scale and lower costs, increased consistencies, enhanced governance and operational management across the Welsh Funds.
- Select a single passive provider for passive assets to obtain immediate cost savings. A pooling structure would not be required to achieve these gains.
- Establish a pooling framework to extend on collaboration beyond passive assets.
- Adopt a regulated (pooling) vehicle along with a model that supports leveraging the infrastructure of a third party provider (rather than building such infrastructure internally).
- Consider framing the new collaborative framework as optional for each Welsh Fund but target mandates that are common to all to ensure strong uptake and an engaged and simple approach.
- Consider active equity as the immediate mandate to commence under the new collaborative framework. The analysis conducted highlights that these mandates offer the greatest potential for cost savings and improved net of fees returns.

Agree a set of next steps to take forward the project, including a workshop / training session and development of a project plan, including the potential tender process to assess suitable partners/providers to support the new collaborative framework.



## Background

We begin at the point at which the eight LGPS Funds in Wales have decided there is merit in exploring whether investing their assets together is (tangibly) worthwhile.

There are a range of options for investing collectively and for each option we have considered;

- The costs of set up
- The financial benefits
- Implementation issues
- The governance implications
- The legal implications

We have made recommendations in terms of the options we feel should be taken forward and as such have provided details of next steps for implementation.

### Proven Benefits?

At the outset of the project, Officers of the eight Funds were clear that a discussion was needed on the benefits of collaborative investing and the extent to which these were proven; the rationale being that this may help form the guiding principles or aims of any collaboration project.

In order for collaboration to be “proven”, we arguably need to obtain improved investment returns after fees.

Reductions in fees are of course tangible, but arriving at improved investment returns can be a result of a number of inter-related factors, and so the singular impact of collaboration may be difficult to definitively prove.

Nonetheless, there are a range of factors, be they direct or indirect, that collaboration will bring to the table, which we believe will have a measurable benefit;

- Increased scale would **reduce costs** but also allow for more **diversified, but focused** portfolios

Care would need to be taken not to “over-diversify”; however, a weight of collective assets would allow for more focused or specialised portfolios, perhaps covering opportunities that would not be possible on an individual Fund basis. We also believe there is a real opportunity to take a long term approach in illiquid, alternative assets that may not exist at an individual Fund level presently. A carefully considered collective vehicle, tailored for the needs of the LGPS, would have distinct merits – managed by the LGPS for the LGPS.

There needs to be an awareness of **diseconomies of scale** however (for example, smaller boutique managers may not be able to facilitate large pools of assets).

- Improvements in governance

By delegating manager decisions to a joint Welsh body, individual Funds will have more time to spend on strategic issues such as funding and investment strategy. Structured correctly, a joint body operating outside the usual Committee cycle will increase the speed of decision making and

be able to be more “market aware”. There is of course also the point that “eight heads may be better than one” in terms of diversity of ideas.

- Increasing operational efficiencies

Currently eight Funds are independently diverting internal resources and paying fees to external providers. Where there is commonality in services required, whether it be investment related (e.g. a manager selection requirement for a particular asset class) or operational (e.g. use of a custodian), collaboration can drive operational efficiencies of a significant magnitude.

## Governance

### Governance is Key

Key to any potential collaborative project is whether each individual Fund is on board and willing to commit to a **shared set of principles**. With this in place, a sensible governance structure will be easier to achieve.

It is worth noting that we are not recommending any degree of compulsion for any individual Welsh Fund to invest in a collaborative Welsh entity; although clearly the direction of travel post Budget is that meaningful steps are likely to be required by all Funds in England and Wales. However, each Fund (and its associated Committees), if deciding to use the structure, will need to be on board with the concept of delegation to a collective entity of some description with respect to manager selection, monitoring and implementation. With this in mind, we would suggest that it is crucial that a joint vision or set of principles is established at outset that local Committees can buy into and reference at future points.

We would strongly recommend that after consideration of this report, the eight Funds prioritise the establishment of a shared set of principles. Issues to resolve will include:

- What is the primary aim of collaboration?
  - Cost savings
  - Pursuit of excellence – governance and investments
  - Implementation of a long term investment philosophy
- How will success be measured?
- Will decisions require a majority or full consent?
- Will all Funds approach engagement with Committees collectively or individually (at outset and on an ongoing basis)?
- How will operational issues such as procurement be dealt with?
- How often and where will the group meet, and with the difficulties presented by geography and travel, will sub groups for potentially separate work streams be established?
- What asset classes / mandates to include in the initial collaboration framework?

## Good governance is crucial

There is academic research that suggests the existence of a good governance premium; ranging from 0.05% p.a. (Clarke, 2007) to 1-3% p.a. (Ambachtsheer 2007, Watson Wyatt 2006)

“Pension Fund Governance can make a positive difference to financial performance, cost efficiency, and the trust of stakeholders in the institution” (Clark, 2007)

There are several reasons as to the relevance of a governance premium in this case. In the first instance, by delegating investment manager issues to a collective entity, the more important considerations of funding and investment policies can be given more time by Committees (locally) at each Welsh Fund. Second, the governance structure of the collective entity itself is of utmost importance in the role it plays in efficient decision making and implementation.

Any collective entity will have an Investment Committee of some description that will need a Terms of Reference to determine its precise make up and roles / responsibilities and this will become more tangible once a collective model is established. In the meantime, we would make the following initial suggestions:

- All Funds participating will require representation, but on the grounds that it is our opinion (and experience) that smaller groups tend to operate more efficiently, we would recommend that each Fund has just one representative;
- Depending on the structure chosen, it may be that an independent chair and a secretary are considered. Otherwise, it may be worth considering having a rotating chair with perhaps each Fund’s representative serving as chair for six months;
- To maximise the professionalism of decision making, we would suggest that the Fund representatives are Officers with investment experience / expertise;
- It may be worth considering having an elected official from each local Committee form a Consultative Committee that could receive periodic reports from the Investment Committee.

### Summary:

- Key to any potential collaborative project is whether each individual Fund is on board and willing to commit to a shared set of principles.
- We would suggest that these principles are formalised at outset and are focused around:
  - Aims of collaboration
  - Measures of success
  - Decision making process
  - Engagement at a local level
  - Operational considerations
- In putting in place an appropriate governance structure, a balance needs to be struck between retention of issues at a local level (where appropriate); but the need to delegate aspects where it “makes sense” to do so.

## Avoiding Complexity

### What can be done within the current arrangements for each Fund?

It would seem sensible before embarking on a project requiring change, to consider whether there are efficiencies that can be easily exploited within the existing arrangements.

We have considered the following areas:

- Investment manager fees (based on commonalities across current assets / manager structure);
- Other expenses (e.g. custodian and consulting costs).

### Investment manager fees

An obvious place to start is to review the aggregate investment manager fees currently in place across the eight Funds. We reviewed the following areas:

- Aggregate fees – how do fees of the eight Funds in aggregate compare to other large mandates?
- Potential for savings within passive mandates
- Commonalities within active mandates
- Initial thoughts on alternatives
- Implications for bond portfolio

A summary of our findings is below. Further detail on each aspect is outlined in the appendix.

	Comment
<b>Aggregate fees</b>	Current fees are generally competitive across the board compared to our Global Fee Survey (used to benchmark fees relative to the industry). However, due to the lack of comparable data, our Fee Survey does not provide information on mandates of the scale possible across the eight Welsh funds collectively.
<b>Potential for savings within passive mandates</b>	<p>Fees are relatively good value compared to other passive mandates globally. However, this is an area of increasing focus for joint procurements, so it may be an area worthy of investigation.</p> <p>We believe there is potential for fee savings in Wales as a collective seeking to negotiate with the leading passive managers. Based on recent experience, this <b>could</b> lead to savings of £800,000 p.a.</p> <p>We would caution however that other factors (such as profits on stock lending and costs of trading) would also need due consideration in addition to headline manager fees.</p>
<b>Commonalities within active UK and global equity strategies</b>	There is limited commonality between the Funds' manager line-up. Even where there are consistencies at a manager level, due to Fund specific requirements in the majority of cases there is little scope to enable Funds

	<p>to leverage any economies of scale under the current structure.</p> <p>However, there is consistency of strategy and allocation across the Funds and so equity mandates may actually offer the greatest scope for initial collaboration.</p>
<b>Initial thoughts on alternative assets</b>	<p>It is very difficult to quantify any potential for immediate cost savings through leveraging any commonalities due to complex structures in place. There is also little point in attempting to renegotiate fees with private markets managers given the Funds are “locked in” to these investments.</p> <p>There is potential for significant savings should Funds collaborate on alternatives under a revised model that aggregates Funds’ assets – but the “model” will need to be in place first.</p>
<b>Implications for bond portfolios</b>	<p>The make-up of the individual Funds’ bond portfolios are wide ranging, and can broadly be categorised into UK Government, UK Corporate and Global bonds.</p> <p>There is little commonality between mandates and so little scope to harvest significant fee savings with mandates in their current formats. We do however note that from a strategic perspective the case for holding bonds in the current environment is changing. Therefore to the extent to which these mandates are up for review there may be more potential for collaboration going forward.</p>
<b>Other expenses</b>	<p>The Funds incur “other” expenses of c£1.6m p.a., with the largest expenses relating to custodian and consulting costs.</p> <p>We would view custody as an area where fee savings could be made. From the data provided, there are at least 3 named custodians and by looking to procure a single custodian across Wales we would expect significant savings to be made as a result of incredibly aggressive pricing in the market. We would suggest any wins here are considered as part of the wider collective investment model for Wales as opposed to a stand-alone custodian decision being made.</p>



**Summary:**

- We have investigated the potential for cost efficiencies in respect of investment manager fees and other expenses under the existing arrangements. Given the allocations and consistency of UK and global equity across the Funds, these mandates offer the greatest scope for initial collaboration.
- The diversity across mandates at present suggests that there are limited initial savings to be made without aggregating assets in some way. The exception would be the passively managed funds, which could achieve savings of c£800,000 p.a. should the funds appoint a common manager.
- There are also potential fee savings to be made in respect of appointing a common custodian. We would however suggest that this is considered as part of any wider collective investment model considered.

## Asset Pooling

### **Should Assets be Pooled?**

In order to achieve lasting scale, we believe that there needs to be some form of asset pooling across Funds. This need not be wholesale; we would suggest that careful consideration is given to the type of assets or mandates that would provide either the greatest efficiencies, or the greatest opportunity for creating excellence in investment.

Joint procurements would provide an initial level of cost savings, but there still needs to be some sort of structure in place to enable the project to “have legs” and with that in mind, joint procurements probably have more mileage for less complex mandates such as passive.

The advantage of pooling is that it provides some sort of physical structure on which a joint entity can be based.

As part of this exercise, Officers considered in detail various methods of asset pooling and the types of structure that exist. The conclusion was reached that from a risk management perspective, a regulated structure with proper operational controls and expertise will provide a more robust solution and establish a professional framework that would stand up to best practice and provide longevity of approach.

Whilst at first glance, an unregulated structure like a Common Investment Fund may feel like a more simple solution it doesn't solve any governance issues for the Welsh Funds. There would need to be a lead authority or a joint body of some description that would take responsibility for manager selections, reporting and monitoring, transitions, and unitisation.

## A Joint Structure

### How to achieve a joint, regulated structure

In order to establish a Welsh fund / vehicle, a Management Company will be required and there are two options; either “build” a Welsh Management Company, or “rent” the structure from a provider.

In practice, the two options become three;

1. Establish a Welsh Management Company (“build”);
2. Use the Management Company of a third party custodian (“rent”);
3. Access the Management Company of third party provider to tailor a Welsh solution (“rent”).

### *Option 1 – Establish a Management Company (the “build” option)*

#### Costs and Timescales

Officers have considered in detail the requirements, timelines, costs and ongoing obligations associated with the establishment of a management company and related regulated fund structure.

As a guide, we estimate that the minimum timeframe involved to establish a fund and related entities is **12-18 months**. The timeframe is also contingent on a dedicated team of internal and external resources working on this project on a full-time basis and all aspects of the project going to plan.

In addition to the external tax and legal costs that we expect will be incurred (estimated to be in the region of £0.5m to £0.8m) considerable resources, both internal and external (in the form of consultants) in terms of time and costs need to be considered.

We estimate total resource related costs (internal and external) to be in the region of £2.7 to £3.1m, bringing the **total initial cost estimate to between £3.2m and £3.9m**.

This estimate is based on Mercer’s own experience and cannot be relied upon as a definitive figure and is also contingent on no OJEU processes being triggered for providers, which we believe in practice is unlikely.

Under the appropriate regulation, the initial capital requirement for the Management Company is estimated to be between £3 - £6 million. This amount is subject to regulatory change and ongoing monitoring by the Welsh Funds.

#### On-going considerations

Having established a Management Company and related Fund, the Welsh Funds have ultimate fiduciary responsibility.

While certain functions may be outsourced, there is a requirement that the Fund is not a “letter box” entity. The Management Company will need to satisfy the Regulator on an ongoing basis that it has adequate management resources to conduct its activities effectively and employs personnel with the skills, knowledge necessary for the discharge of the responsibilities allocated to them.

There are considerable ongoing governance, oversight and reporting requirements to be undertaken by the Welsh Funds as a result of the establishment of regulated entities and funds. Examples include:

- Board representation and quarterly Board meetings
- Required governance structure and committees, internal policies and procedures to mitigate risk
- Oversight of all service providers
- Regulatory reporting and filings

The Welsh Funds will be subject to the Regulator's supervision, which is carried out as follows:

- Analysis of returns submitted to the Regulator
- Risk-rating of companies
- Themed and general inspections
- Review meetings
- Regular correspondence and engagement with companies under Central Bank supervision

The Regulator has the power to impose sanctions on regulated entities for breaches of regulatory requirements ranging from substantial fines to, ultimately, the loss of authorisation. It is therefore crucial that any regulated entity has access to an adequately resourced and experienced team of compliance professionals. As is common with regulators around the world, the Central Bank is increasingly focused on supervision and enforcement.

### ***Option 2 – Access the Management Company of a third party provider (the “rent” option)***

The second option would be to use the standalone, pre-existing Management Company of a Custodian or an Investment Manager (for example). This approach would provide the benefits of avoiding to “build” an internal management company and would therefore avoid the associated cost and complexity outlined in Option 1.

There are of course a range of governance considerations related to this option and Officers will consider these in detail before and as part of any potential procurement exercise.

However, it should also be noted, that while a Custodian and/or Investment Manager may be able to provide a Management Company and infrastructure, the needs to support a collaboration framework are typically wider. The Welsh Funds would still require internal resources to support the governance and operations layer outside the Management Company to cover project management, manager appointments and implementation and asset transition.

A Custodian would not typically have the internal investment expertise or capabilities to provide this wider support. In addition, the appointment of an investment manager in this role may create challenges with other investment managers managing the assets of the Welsh Funds in that they would need to provide their stock holdings and undertake fee negotiations (typically confidential information) with a competitor.

Notwithstanding this, Option 2 would be a viable option where the Welsh Funds would like to establish an internal team (significantly less than would be required under Option 1) to co-ordinate their investment arrangements.

### ***Option 3 – Access the Management Company of third party provider to tailor a Welsh solution (a further “rent” option)***

The third option is for a third party provider to tailor a solution for Wales using their existing infrastructure and **in addition, to support the operational co-ordination of the new framework on a day to day basis.**

Ideally a provider would be found who has experience of this role with other UK pension schemes and has established a number of different umbrella fund structures. This means that the Welsh Funds would not need to go through the full legal process of establishing a fund - the provider could simply launch a bespoke fund via an umbrella structure.

In addition, Option 3 would not require the development of internal Wales' resources as the appointed provider would provide the expertise, project management and operational governance to set up and operate the new arrangement on behalf of the Welsh Fund.

### **Some thoughts on the differences between Options 2 and 3**

The difference between Option 2 and Option 3 is that the latter allows for an integrated investment advisory support to the Welsh Investment Committee decision-making process, along with implementation in terms of set up, execution of manager appointments / replacements, transitions and rebalancing etc. **These services would need to be contracted separately under Option 2.**

It is also unlikely that Option 2 would provide support in terms of co-ordinating and execution between managers, transition managers, custodians, pension advisors, legal advisors. It is therefore likely to require specialist / specific Officer support; perhaps in the form of a dedicated project manager or internal team or delegated to external consultants.

Specifically, Option 2 would also not allow for any potential manager fee reductions above and beyond the scale of the Welsh assets (no access to global buying power, which may be important if take up amongst the Welsh Funds is low to begin with).

Because the set up costs of option 3 are likely to be absorbed by the provider (and probably recouped by way of a minimum ongoing fee once assets are invested) there are no cost implications for Funds who decide not to participate from the outset. This does however assume that a minimum scale is achieved via those Funds who do invest.

It is also worth raising the issue of ongoing advice in terms of manager selection and implementation, and monitoring. Under Option 3, all these items are covered and there would be no requirement for individual Funds who are committed to engage these services at a Fund level. Of course, it may be the case that existing Fund consultants and advisors are engaged to provide advice on the recommendations of the Investment Committee to the collective structure, but that would be an individual Fund choice.

Nonetheless, we understand that, in order to fully assess the differences between Options 2 and 3, the Welsh Funds may wish to seek proposals from interested parties along with associated cost estimates.

### **Costs of rental (Options 2 and 3) versus current approach**

Officers have considered in detail the indicative costs associated with the existing approach compared with either of the two rental options.

As a starting point, and for simplicity, we looked at the eight Funds' **active UK and global equity** allocation and assessed the potential costs of a collaborative approach according to various levels of take up.

There were several reasons for starting with one asset class only:

- It is more tangible in the sense that the simpler we make it, the fewer assumptions that are needed;
- We believe that by starting with one asset class and getting a structure in place, it is more likely that any collaboration project will actually get off the ground;

- Equity is arguably far less controversial (and easier for a collective to agree on) than a wider ranging project such as “alternatives”;
- Once a robust governance structure is in place, more complex decisions such as the structure of an alternatives portfolio have a proper forum for discussion.

The potential estimated cost savings for options 2 and 3 are outlined below:

<b>Cost saving (p.a.)</b>	<b>100% take up</b>	<b>50% take up</b>	<b>25% take up</b>
Option 2	£1.6m	-£0.3m	-£0.5m
Option 3	£2.7m	£1.0m	£0.1m

The calculations above relate only to the tangible expected cost savings relating to investing UK and global equities collaboratively. Further savings would be achieved as more assets (in particular alternative assets) were introduced to the structure. In addition, the performance impact of an improved governance structure has not been incorporated.

There are several notes to the estimated and these can be found in the appendix.

### **Recommendation**

We would discount the build option (option 1) on the grounds of initial cost, timings and resource constraints and would recommend that consideration is given to Option 2 or 3. The differences between Option 2 and 3 relate to the desire for the Welsh Funds to establish an internal team to co-ordinate and manage day to day the various components of the new collaborative arrangements. This is the key question that should be considered (along with the cost) between Option 2 and 3.

We would **further recommend** that the Welsh Funds consider the following question:

Is there a need for a “big bang” solution (i.e. having a collaborative approach that covers all asset classes from day 1) or should a solution be phased or incremental?

We would strongly recommend that consideration is given to the latter, on the following grounds:

- Although the costs savings associated with a single asset class are clearly lower than the entire asset allocation, starting singularly means that a platform and governance structure can be built that will allow more complex decisions to be given proper consideration.
- We would predict that by starting with an asset class such as equity and allowing others to follow, the project will have a much shorter timescale to fruition.



## Summary:

- In order to establish a Welsh fund / vehicle, a Management Company will be required – this can be **“built”** or the structure could be **“rented”** from an existing provider.
- The estimated costs of build would be c£3-4million and it would take at least 12-18 months to establish, plus any procurement time in addition. The internal resource required to build would also be significant. On this basis, **we have discounted “build” as a viable option for Wales.**
- There are two main ways in which the Funds could “rent” a Management Company – either solely purchasing the infrastructure (option 2) or by using a tailored third party approach, which would also incorporate governance and operational oversight (option 3). **The upfront costs, internal team requirements, and timescales are significantly reduced under the rental option and is therefore our favoured approach.**
- There are **expected to be cost savings associated with collaboration** and we have provided information using active UK and global equities as a starting point. The costs do however vary depending upon take up and the solution sought (from an increase in fees of £0.5m p.a. to a reduction of fees of £2.7m p.a.). **The savings would increase as more asset classes are incorporated; significantly in the case of alternatives.** In addition, the additional benefits in terms of long term investment philosophy and the governance premium should also be considered.
- The **key question to decide between Options 2 and 3 relates to the desire to develop internal resources and priority for cost-efficiency** across the Welsh Funds. **Costs savings are expected to be increased further if other asset classes are adopted over time** – most notably from alternatives, albeit noting that this is likely to be a longer term project first in terms of running off existing commitments and second building a long term collective strategy.
- In setting up an appropriate course of action, we would **strongly advocate a phased / incremental approach to collaboration** (e.g. using global equities as a starting point); as opposed to a “big bang” solution (which might cover all asset classes from day 1). This would reduce the timescales for implementation and the level of complexity in the shorter term.
- We would suggest that the **next step for the Welsh Funds would be to invite non-binding proposals from potential “rental” providers** in order that a comparison of services and costs can be made.

## Legal Issues

Advice has been sought from Sacker and Partners who looked at the following principal questions:

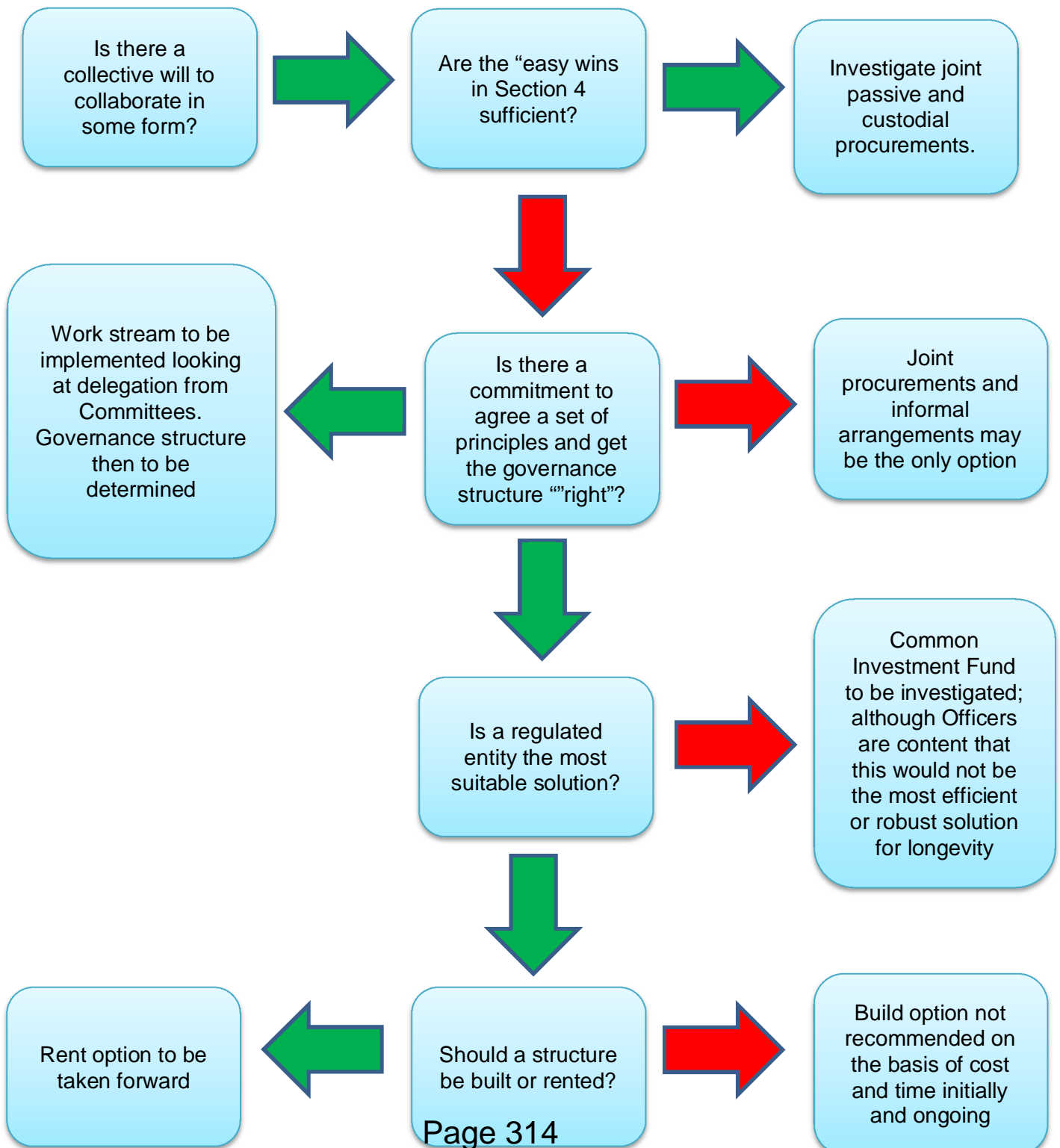
- do the Councils have power to implement the Proposals being considered;
- how do the proposals interact with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (“Investment Regulations”); and
- what procurement obligations apply?

Sackers have not identified any legal show stoppers which would prevent the Councils proceeding. However, they do identify a number of points in relation to governance, delegation and procurement that Officers will take into account as the project progresses.

## Decision Making – An Overview

The project undertaken by Officers has been all encompassing, and a summary has been provided within this report.

By way of a summary, the following diagram may help the reader work through the decisions that Officers are minded to make:



## Summary and Recommendations

There are significant savings to be made; both direct and indirect, some more quantifiable than others, through pooling assets and investing collectively.

### Governance and delegation

For the Welsh Funds to use a collective structure there must be a shared vision and we would suggest that a set of principles are established at outset.

We believe that there is a premium to be achieved through good governance and sufficient time should be spent in establishing the correct construct of an investment committee of a collective investment structure.

We further believe that there is a real opportunity here to establish a collective with long term principles of investment at its heart; a philosophy that in itself has been shown to add real value.

### Steps that could be taken without the need for a collective structure

In the particular circumstances that the Welsh Funds find themselves (most notably little cross-over of existing mandates), we conclude that there are few “easy wins” in terms of leveraging existing mandates. We do however recommend that a joint procurement is effected for passive management and possibly custodial arrangements (once decisions have been made on a collective structure).

We would suggest that a single passive manager for Wales would not need to operate under a collective structure and that savings of around £800,000 p.a. could be made if all Funds participated at current levels of assets under passive management. It is likely that this would need to be procured under OJEU due to the additional services deployed by passive managers, such as swing management / rebalancing roles. We have not allowed for transition costs in this instance, on the grounds that passive mandates ought to be transferred between managers on an in-specie basis.

In addition, we note that a joint custodian procurement, presumably utilising the National LGPS Custodian Framework, could harvest further savings. **However, this is not a step we would suggest considering until decisions are made on collective investing.**

### A collective structure

We have recommended, for reasons of future proofing and efficiency, that **a regulated vehicle is the optimal solution** for any collective vehicle.

We would further recommend that **a structure is “rented”** (i.e. leveraging the existing infrastructure of a third party) **as opposed to “built”** (on the grounds of cost, resource and time). An increasing number of sophisticated institutional investors across Europe are moving in this direction.

The attraction of a rental model lies in its **flexibility**; there will be minimum asset sizes that need to be committed in order to make it a viable proposition for the provider, but by no means do all eight Funds need to commit all of their assets to make it work. We suggest that a rental model using active equity as a starting point will offer tangible savings. This feels like an “easy win”; a starting

point to try out a collective arrangement whilst a longer term plan on more complex assets is determined.

There are reduced or no set up costs to be incurred under Options 2 and 3, other than procuring the provider, by the Funds. These are borne by the provider who will likely charge a minimum ongoing fee for an initial period in order to cover this; just an ongoing operating cost, which means that Funds need only commit (and pay) when they are ready to invest. Of course the cost savings would be greater the more Funds that invest, but we would suggest that the idea of a platform being available to rent / use when needed may be more attractive than compulsion to use a model that has been expensive to build independently.

Under the right model / provider, there would be no “give up” in innovation; the Funds would be free to consider a range of options and perhaps these are more plentiful in the alternative assets space.

The next step will be to assess the options that are available from the various providers under this model and we can help formulate a template for discussion if required.

### **Critical Mass**

Under the rental model, critical mass will be determined by the minimum fee set down by the chosen provider, but it will also depend on the time period over which savings need to be demonstrated.

For example, if half of the Funds (by asset value) commit to looking at global equities first under a rental model, then the immediate fee savings may be net neutral and a commitment would be needed towards a longer term aim of adding additional asset classes.

### **Legal Issues**

Sackers’ high level advice confirms that the use of a contractual vehicle should not, in their view, be subject to any limits under the LGPS Investment Regulations. They have not identified any show-stopper legal issues with the use of a manager, either rented or built.

Sackers have also confirmed their view that there is no legal obligation to go through a formal Procurement Regulations 2015 (or “OJEU”) procedure in respect of the initial investment into a bespoke pooled vehicle or in respect of the appointment of a “rented” manager. However, they note that some Councils choose to go through a procurement obligation for policy and/or reputational reasons even where the Regulations do not require this.

### **Recommendations**

- To consider the appointment of a single passive manager across the eight Welsh Funds (regardless of any decision to proceed with a collective structure; although noting that this could just as easily fall under the collective structure for ease).

For actively managed assets:

- To avoid compulsion; a collection of the willing with a shared set of principles is likely to result in a more robust, focused arrangement;
- To be clear on guiding principles;
- To consider the governance structure;
- To consider the set-up of a regulated vehicle;

- To consider leveraging the infrastructure of a third party provider to tailor a Welsh solution.
- To start with a single asset class, with a view to adding more complex propositions once the structure and its governance arrangements are up and running. Given our analysis, both UK and global equity would offer a strong starting point to fit into the new collaborative framework given the allocation and consistency of these mandates across the schemes and the potential to leverage material cost savings.
- We would suggest a training workshop to discuss the details and workings of the new framework to be set up for the summer period.
- After the workshops, the next step for the Welsh Funds would be to invite non-binding proposals from potential providers in order that a comparison of services and costs can be made.

### Next steps

We would see the next steps of the project being as follows:

Stage	Time scale
Development of guiding principles	Summer 2015
Training for Key Stakeholders on principles and options	Summer 2015
Workshop / training for Officers on the operational aspects of the “rent” option.	Summer 2015
Draft of specification for providers	Q3 2015
Draft Terms of Reference for All Wales Investment Committee	Q3 2015
Each Fund to work through constitutional issues in terms of delegation to All Wales Investment Committee	Q3 2015
Initial due diligence meetings with providers	Q4 2015
OJEU Process to begin (if required)	Q4 2015

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**Jo Holden**  
**Mercer**  
**July 2015**



# APPENDIX

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## Notes to cost savings calculations

The savings quoted are in relation to manager fees only and for one asset class (UK and global equity) only. It should also be noted that recent fees for UK equity have been higher than has historically been the case due to strong performance and the addition of performance related fees. Therefore, rather than use more recent fees, we have taken a longer term historic average.

Alternative assets are the area where anecdotally the largest savings could be made but this would be a longer term project first in terms of running off existing commitments and second building a long term collective strategy.

Over time, for a Fund committing a significant proportion of assets, there would be associated reductions in fees for:

- Custody
- Reporting
- Procurement / manager selections

Based on each Fund committing to the collective arrangement, we estimate an additional £0.1m of savings per annum per Fund (or £0.8m collectively).

In addition, the additional premia discussed earlier in terms of **long term investment philosophy** and the **governance premium** should also be considered.

### **Additional costs**

There would also be transaction costs in migrating to the new arrangement. However, in practice, we would expect the fund to be built around existing high quality managers where appropriate.

There would also be the costs of procurement and internal resource to be incorporated.

### **Implementation fee**

Options 2 and 3 may have an “implementation fee”, be that implicit or direct.

All services will be included within Option 3 and the provider may well waive the fee.

Option 2 however will require the Welsh Funds to undertake, or outsource, the following tasks and therefore there will be a set up or implementation cost:

- Advice in relation to manager selection and portfolio construction
- Procurement of managers
- Transition services

### **Assumptions**

The key assumptions outlined in the analysis are as follows:

- Current approach:

We have assumed the current manager fees (including performance fees) represent the cost of the typical manager fees under the existing arrangements. Where take up is reduced, we have assumed the basis points fee remains the same.

- Option 2 – Custodian approach:

We have assumed that, based on the size of assets in place should manager appointments be made as a collective the costs could reduce should all global equities be moved into this structure. The fees secured under the 50% and 25% take up options are higher to reflect the discounts being secured with managers reducing.

The structural fee in adopting this approach with a custodian increases (in basis point terms) as take up rates fall.

- Option 3 – Tailored approach:

We have assumed that using a third party provider, the fees secured with managers would be the same regardless of the take up. This is owing to the buying power already being in place from a global organisation with extensive assets under management

In line with Option 2, the structural fee in adopting this approach with a custodian increases (in basis point terms) as take up rates fall.

The numbers outlined here are indicative and would be dependent upon the managers and structural platform used.

Clearly the above relates solely to actual monetary cost savings and does not allow for any potential for improved decision making and the extent to which this translates to improved investment returns.



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Submission by the Wales Pool to the Department for Communities and Local Government (DCLG)

In response to the publication in November 2015:

LGPS: Investment Reform Criteria and Guidance

# Introduction

As Chairs of the pension committees for the eight Welsh local government pension funds, we are delighted to submit this proposal comprising details of the establishment of the Wales Pool.

Within Wales, our work on identifying the opportunity for achieving efficiencies through the pooling of investments predates the announcement of the LGPS wide agenda last year. Prior to the publication of the guidance to the LGPS in November 2015, we had already developed and agreed a detailed business plan which included joint procurement of a single provider for passive management and establishment of a pooling vehicle for collective investment. We have recently implemented the appointment of a single passive manager and are benefiting as a result from significant cost savings effective from April 2016.

In this document, we have confirmed our commitment to appoint a regulated third party operator to provide a series of collective vehicles in order to benefit from economies of scale from the management of Welsh pension fund assets. The arrangements will be provided through a robust governance structure providing clear accountability back to individual funds.

Discussions are continuing on the precise arrangements to be put in place for the different types of investments held by the funds but we are estimating that annual savings – net of all running costs – in the region of £ ..... p.a. could be achieved.

We are a cohesive group of funds with a long experience of collaborating across a number of policy areas, reflecting the specific economic, social, regulatory and political context within Wales. There is a strong desire within Wales to continue the direction of travel we have adopted to date and to capture fully the benefits which we outline in this proposal.

Cllr. Graham Hinchey, Chair, Investment Advisory Panel, Cardiff and Vale of Glamorgan Pension Fund

Cllr. Rob Stewart, Chair, Pension Fund Committee, City and County of Swansea Pension Fund

Cllr. Alan Diskin, Chair, Pension Fund Committee, Clwyd Pension Fund

Cllr. Wyn Evans, Chair, Pension Fund Panel, Dyfed Pension Fund

Cllr. Mary Barnett, Chair, Pensions Committee, Greater Gwent (Torfaen) Pension Fund

Cllr. Stephen Churchman, Chair, Pensions Committee, Gwynedd Pension Fund

Cllr. A G Thomas, Chair, Powys Pension Fund

Cllr. Mark Norris, Chair, Pension Fund Committee, Rhondda Cynon Taff Pension Fund

## Proposal for asset pooling in the LGPS – 15 July 2016

Name of pool	<b>Wales Pool</b>
Participating funds	<p>Cardiff and Vale of Glamorgan Pension Fund</p> <p>City and County of Swansea Pension Fund</p> <p>Clwyd Pension Fund</p> <p>Dyfed Pension Fund</p> <p>Greater Gwent (Torfaen) Pension Fund</p> <p>Gwynedd Pension Fund</p> <p>Powys Pension Fund</p> <p>Rhondda Cynon Taff Pension Fund</p>

Any enquiries in relation to this submission should be addressed to:-

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## Criterion A: Asset pools that achieve the benefits of scale

### 1. The size of the pool once fully operational.

(a) Please state the total value of assets (£b) to be invested via the pool once transition is complete (based on asset values as at 31.3.2015).

The total assets of the eight funds participating in the Wales Pool are shown in the table below.

Fund	Assets (£m)
Cardiff and Vale of Glamorgan Pension Fund	1,653
City and County of Swansea Pension Fund	1,528
Clwyd Pension Fund	1,377
Dyfed Pension Fund	1,908
Greater Gwent (Torfaen) Pension Fund	2,184
Gwynedd Pension Fund	1,408
Powys Pension Fund	512
Rhondda Cynon Taff Pension Fund	2,228
<b>Total</b>	<b>12,798</b>

Asset values are shown as at March 2015.

Our ambition for the Pool is to create appropriate vehicles for collective investment for all participating funds across all asset classes in time.

Assets which are currently held as life policies will be regarded as being within the Pool's governance arrangements but it will be necessary for them to be held outside of the pooled investment vehicles managed by the appointed operator such that the individual funds remain beneficiaries of the relevant policies. However, the investments are regarded as being an integral component of the Pool on the basis that a single manager has been appointed through a collective procurement exercise, and the ongoing monitoring and reporting of the investments will be incorporated into the Pool and fall within the responsibility of the Pool's Joint Governance Committee.

Where funds hold illiquid investments with fixed term lives, it could be very costly to exit from such investments before the realisation of the underlying assets. For that reason, it is proposed that holdings in such funds are retained outside of the Pool until expiry. However, new investments in such assets will be made within the Pool.

Depending on the precise nature of the services available from the appointed operator, it may be possible that one of the participating funds may wish to hold a proportion of their assets outside of the pool. More details are provided in the section below.

<b>2. Assets which are proposed to be held outside the pool and the rationale for doing so.</b>	
(a) Please provide a summary of the total amount and type of assets which are proposed to be held outside of the pool (once transition is complete, based on asset values at 31.3.2015).	The funds will aim to include all of their assets within the pooling arrangements unless there are technical barriers preventing them from doing so for specific investments.
(b) Please attach an ANNEX for each authority that proposes to hold assets outside of the pool detailing the amount, type, how long they will be held outside the pool, reason and how it demonstrates value for money.	See Annex 1.

The funds will aim to include all of their assets within the pooling arrangements unless there are technical barriers preventing them from doing so. Annex 1 supplied by Clwyd Pension Fund highlights a couple of mandates where there are some uncertainties on this point.

Funds will hold a small level of operational cash outside of the Pool to help with the efficient management of the fund. Such balances are expected to be modest and will be reviewed on a regular basis.

Funds may also wish to have the flexibility to make limited local investments within their own investment strategy should an appropriate opportunity arise, subject to discussions with the other funds within the Pool.

### 3. The type of pool including the legal structure.

(a) Please set out the type of pool, including legal structure, and confirm that it has been formally signed off by all participating authorities:

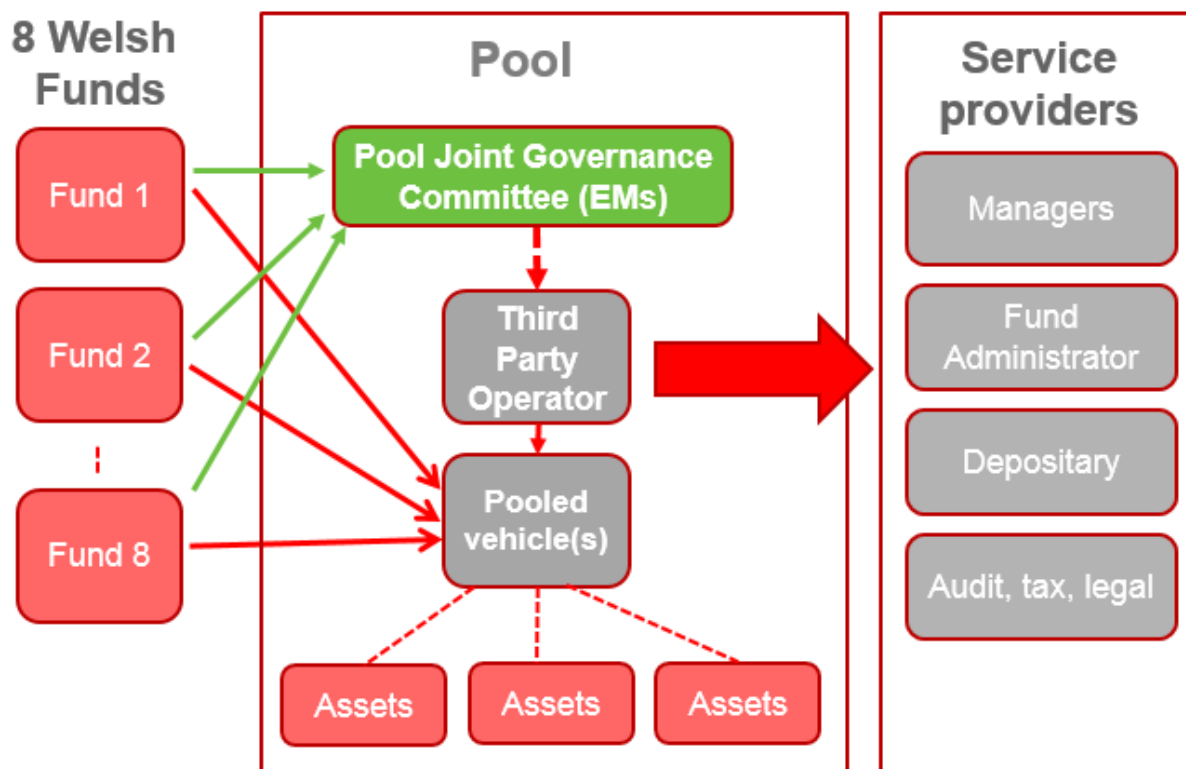
- Details of the FCA authorised structure that will be put in place, and has been signed off by the participating authorities.
- Outline of tax treatment and legal position, including legal and beneficial ownership of assets.
- The composition of the supervisory body.

Please confirm that all participating authorities in the pool have signed up to the above. If not, please provide in an Annex the timeline when sign-off is expected and the reason for this to have occurred post July submission date.

All administering authorities for the participating funds have formally agreed to the nature of the pooling arrangements as described in this section.

We believe that clear and robust governance arrangements are critical in terms of ensuring that the desired objectives of the Pool are achieved.

It is proposed that the Pool appoints a third party operator authorised by the FCA to provide a series of investment sub-funds in which the assets of the participating funds will be invested.



The formal decision to appoint a third party operator of collective vehicles was taken originally by all of the Welsh funds in September 2015 following a detailed report and business plan commissioned from external advisers. In light of the publication of the criteria for LGPS pooling published in November 2015 - and the formation of a number of other LGPS pools within England since that date - that decision has been revisited and re-confirmed by the Wales Pool earlier this year. This does not preclude consideration in future of the option of designing and building our own regulated operator.

A Joint Governance Committee (JGC) will be established to oversee the operator. The Committee will comprise elected members – one from each of the eight participating funds. It is anticipated that this is likely to be the Chairs of the respective Pensions Committees though administering authorities may choose to nominate alternative members if appropriate. This arrangement will provide accountability for the operator back to individual administering authorities.

The remit of the JGC is discussed in more detail in section B3.

The operator will be responsible for selecting and contracting with investment managers for each of the sub-funds as well as appointing other service providers such as depositary asset servicer, and (possibly) an external valuer administrators as necessary.

We anticipate at this stage that listed bonds and equities are likely to be invested through a UK based Authorised Contractual Scheme (ACS) in order to benefit from the tax transparent nature of the vehicle, though we will discuss this issue with the appointed operator. It may be that alternative vehicles are more appropriate for some other asset classes. As well as considering the options with the operator, we will also take external advice on the final proposed approach from a tax efficiency and legal compliance basis.

Under the proposed structure, the depositary will hold legal title to the assets of the Pool. The operator will be responsible for managing and operating the Pool, including entering into the legal contracts with the investment managers.

**4. How the pool will operate, the work to be carried out internally and services to be hired from outside.**

Please provide a brief description of each service the pool intends to provide and the anticipated timing of provision.

(a) To operate in-house :

(a) To procure externally :

The Pool proposes to appoint a third party operator through a detailed procurement process in the second half of 2016. The funds have already discussed the range of services which are likely to be available from different service providers and the differing levels of service provision which might be considered. The detail of those services to be carried out internally and those which will be sourced through the operator will be discussed further and decided finally as part of the selection process.

To operate in-house

- The Pool will be responsible for the design of the initial structure of the ACS and its sub-funds in close cooperation with its chosen operator. The Pool anticipates that it and its chosen operator would work closely together on subsequent changes to existing sub-funds and on the launch of additional sub-funds. The pool recognises that this is subject to the operator having ultimate responsibility for operating and managing the ACS. Decisions on asset allocation will continue to be taken by the individual administering authorities.
- The Pool will be responsible for providing public reporting on the investment performance of the Pool assets and also on the wider area of achieved cost savings.

To procure externally

- The appointed operator will provide and operate a range of investment vehicles to allow collective investment by the participating funds.
- The operator will be responsible for selecting and contracting with investment managers for the management of the underlying assets. They will also be responsible for administration in relation to the vehicles in terms of unit pricing, valuation, handling cash flows in and out of the various sub-funds, trade processing and reporting on performance.
- They will be responsible for due diligence from an audit, legal and tax perspective for the respective sub-funds and also for electing a depositary to the Pool.
- The Pool will also procure independent external legal and tax advice as necessary to support them in their relationship with the operator.

**5. The timetable for establishing the pool and moving assets into the pool. Authorities should explain how they will transparently report progress against that timetable and demonstrate that this will enable progress to be monitored.**

(a) Please provide assurance that the structure summarised in 3 above will be in place by 01.04.2018 assuming: x, y and z (add caveats).

YES - We expect the pooling structure to be in place ahead of April 2018 assuming that there are no delays encountered with the procurement process and that the appropriate regulated vehicles can be established by the operator within the expected timescales.

(b) Please provide as an ANNEX a high level timetable for the establishment of the structure and transition of assets as well as the proposed methodology for reporting progress against this timetable.

[Attached as ANNEX number 2](#)

(c) Please provide as an ANNEX an outline of how you will approach transition over the years and where possible by asset class (any values given should be as at 31.3.2015.)

[Attached as ANNEX number 3](#)

(d) Based on the asset transition plan, please provide a summary of the estimated value of assets (in £bn and based on values as at 31.3.2015 and assuming no change in asset mix) to be held within the pool at the end of each 3 year period starting from 01.4.2018.

Total value of assets estimated to be held in pool as at

[31.3.2021: £12.2bn](#)

[31.3.2024: £12.4bn](#)

[31.3.2027: £12.6bn](#)

[31.3.2030: £12.8bn](#)

[31.3.2033: £12.8bn](#)

[We anticipate that 95% of assets will be within the Pool by April 2021.](#)

**Criterion B: Strong governance and decision making**

<b>1. The governance structure for their pool, including the accountability between the pool and elected councillors and how external scrutiny will be used.</b>
a) Please briefly describe the mechanisms within the pool structure for ensuring that individual authorities' views can be expressed and taken account of, including voting rights.
b) Please list and briefly describe the role of those bodies and/or suppliers that will be used to provide external scrutiny of the pool (including the Pensions Committee and local Pension Board).

The Joint Governance Committee (JGC) will be set up formally as a Joint Committee between the participating administering authorities. Each fund will have one elected member on the Committee. It will operate on the basis of 'One Fund, One Vote', though the intention is that any decisions are reached by consensus wherever possible. A formal Terms of Reference for the Committee will be drawn up.

The Committee will be responsible for ensuring where practical that there are an appropriate range of sub-funds available to allow administering authorities to implement their own desired asset allocation. The JGC will be in regular discussions with the operator as to the specific sub-funds which should be set up within the Pool, both at the outset and on an ongoing basis.

Officers from each administering authority will attend JGC meetings (in a non-voting capacity). The officers already work together as the Pensions Sub Group of the SWT (Society of Welsh Treasurers). The formal terms of reference of this officer group will be revised in light of the new pooling arrangements. The officers will advise the JGC on the establishment and monitoring of the various sub-funds as well as liaise directly with the operator on any day-to-day investment matters.

In the first instance, it is anticipated that the fund representatives on the JGC will report back to their respective individual funds' Pensions committees who will be responsible for satisfying themselves as to the effectiveness of the pooling arrangements overall and the operation of the JGC. However, the local Pensions Boards may also seek reassurance on aspects of the management of the funds' investments.

External scrutiny and formal due diligence of the operator and depositary will also be carried out by the FCA in their role as regulator.



**2. The mechanisms by which authorities can hold the pool to account and secure assurance that their investment strategy is being implemented effectively and that their investments are being well managed in the long term interests of their members.**

(a) Please describe briefly the type, purpose and extent of any formal agreement that is intended to be put in place between the authorities, pool and any supervisory body.

(b) If available please include a draft of the agreement between any supervisory body and the pool as an ANNEX.

(c) Please describe briefly how that agreement will ensure that the supervisory body can hold the pool to account and in particular the provisions for reporting back to authorities on the implementation and performance of their investment strategy.

(a) A contractual sponsor agreement will be drawn up between the appointed third party operator and the eight administering authorities. External legal advice will be taken by the Pool on the content and format of the contract.

A formal Terms of Reference will be drawn up for the Joint Governance Committee. This will form the basis for the relationship between the Committee and the individual administering authorities.

(b) The draft will be finalised as part of the procurement process. NOTE: Advice on the procurement process to be used will need to be considered further.

(c) The operator will be appointed on a fixed term contract – with an ability for the JGC to terminate the service early in the event of unacceptable performance by the operator. The work involved in changing operator has been discussed already by the Pool and will be considered in more detail as part of the selection exercise.

Comprehensive reporting requirements for the operator will be agreed as part of the service definition.

**3. Decision making procedures at all stages of investment, and the rationale underpinning this. Confirm that manager selection and the implementation of investment strategy will be carried out at the pool level.**

(a) Please list the decisions that will be made by the authorities and the rationale underpinning this.

(b) Please list the decisions to be made at the pool level and the rationale underpinning this.

(c) Please list the decisions to be made by the supervisory body and the rationale underpinning this.

#### Administering authorities

Individual administering authorities will be responsible for:-

- Setting their fund's investment strategy and asset allocation, as each fund will have a different pattern of liabilities, a different mix of participating employers and varying attitudes to risk. The investment strategy is a core component of each individual fund's overall funding strategy.
- Any issues relating to the setting of employer contribution rates and the overall administration of the fund's benefits.
- Nominating an elected member to sit on the JGC.

#### Joint Governance Committee (JGC)

The Committee will be responsible for:

- Recommending the appointment of and monitoring the performance of, the third party operator.
- Interacting with the operator on the design and structure of the investment sub-funds which should be made available by the operator. The objective will be to make available a sufficient range of funds to allow funds to implement their respective investment strategies whilst also being mindful of the benefits of aggregating assets.
- Reporting on the activities of the Pool as required – to administering authorities and Government as well as public reporting.
- Ensuring compliance of the operator with the terms of the sponsor agreement.

#### Third Party Operator

The Operator will:

- Establish investment sub-funds in cooperation with the JGC, recognising that the operator has ultimate legal and regulatory responsibility for this function.
- Select and contract with the investment managers for each of the sub-funds, as is required in their role as the regulated investment decision-making body.
- Carry out appropriate due diligence on those investment managers, as well as other service providers.
- Provide an appropriate level of detailed reporting on the performance of the investment sub-funds.
- Provide administration in relation to the underlying sub-funds.
- Meet all relevant regulatory requirements.

#### **4. The shared objectives for the pool and any policies that are to be agreed between participants.**

(a) Please set out below the shared objectives for the pool.

(b) Please list and briefly describe any policies that will or have been agreed between the participating authorities.

(c) If available please attach as an ANNEX any draft or agreed policies already in place.	
---	--

(a) The objectives of the Pool have been agreed as follows:

- To provide pooling arrangements which allow individual funds to implement their own investment strategies (where practical).
- To achieve material cost savings for participating funds while improving or maintaining investment performance after fees.
- To put in place robust governance arrangements to oversee the Pool’s activities.
- To work closely with other pools in order to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments.

(b) The participating authorities will agree specific policies as required. These will include, but not be restricted to, the following:-

- The allocation of implementation and ongoing costs between participants.
- The allocation of transition costs incurred from transferring fund assets into aggregated Pool vehicles.
- The criteria applied and agreed with the operator, to establishing new sub-funds for specific asset classes or investment types.
- The approach to Environmental, Social and Governance (ESG) factors within investment and wider issues relating to Responsible Investment.

**5. The resources allocated to the running of the pool, including the governance budget, the number of staff needed and the skills and expertise required.**

(a) Please provide an estimate of the operating costs of the pool (including governance and regulatory capital), split between implementation and ongoing. Please list any assumptions made to arrive at that estimate. <u>Please include details of where new costs are offset by reduced existing costs.</u>	
(b) Please provide an estimate of the staff numbers and the skills/expertise required, split between implementation and ongoing. Please state any assumptions made to arrive at that estimate.	

(a) Estimates at this stage are difficult as the precise scope of services to be provided by the third party operator has not been defined.

However, we have provisionally estimated the following:-

- Implementation costs – circa [REDACTED]
- Ongoing costs - circa [REDACTED]

#### Implementation costs

The estimate of Implementation Costs excludes transaction costs in relation to transferring investment assets.

Regulatory capital will be provided by the operator (and therefore reflected in operator’s charges.)

The estimate comprises the costs of carrying out a procurement exercise for a third party operator and subsequent liaison with the operator regarding the setting up of investment sub-funds. It includes an estimate of the input of internal officer resources across the funds as well as external advice in relation to taxation and legal issues, project management and investment advice on potential fund options, etc.

#### Ongoing costs

We assume that the running costs of the Pool will predominantly comprise the fees payable to the operator, though there will be additional governance costs relating to officer and Committee time.

The fees payable to the operator will depend on the level of services agreed though we have assumed at this stage a broad range of [REDACTED]

Fund officers will also be spending time on additional areas such as managing the operator contract (SLAs etc.), monitoring operator performance (KPIs), overseeing reporting, and providing support and advice to the Pool’s Joint Governance Committee.

We expect there to be limited scope to offset current costs though some explicit costs will reduce including work in relation to selecting and contracting with managers and day to day queries on individual mandates. We have estimated that additional officer and governance costs should be less than [REDACTED] per annum.

Depository and custody costs will transfer from being a direct fund expense to being incurred by the ACS. Other costs and expenses will be incurred at the level of the ACS, including those assets services, investment managers, lawyers, auditor and (possibly) valuer. Efficiencies are likely given the larger scale of assets.

(b) The funds have discussed the potential use of internal fund officers to assist with Pool business.

Estimates of the likely workload at this stage are difficult as the precise scope of services to be provided by the operator has not been defined.

The funds are open to the formal allocation of officer time to the Pool should that be seen as advantageous.

**6. How any environmental, social and corporate governance policies will be handled by the pool. How the authorities will act as responsible, long term investors through the pool, including how the pool will determine and enact stewardship responsibilities.**

(a) Please confirm there will be a written responsible investment policy at the pool level in place by 01.4.2018.

YES - the Pool will have an agreed policy in place by April 2018.

**7. How the net performance of each asset class will be reported publicly by the pool, to encourage the sharing of data and best practice.**

(a) Please confirm that the pool will publish annual net performance in each asset class on a publicly accessible website, and that all participating authorities will publish net performance of their assets on their own websites, including fees and net performance in each listed asset class compared to a passive index.

YES – the Pool is committed to publishing the above information. We feel there is benefit in there being collaboration between pools in agreeing on the best format for reporting such information as this will allow for greater consistency of overall data.

**8. The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool.**

(a) Please list the benchmarking indicators and analysis that the participating authorities intend to implement to assess their own governance and performance and that of the pool.

The funds have requested and received detailed analysis on their investment costs from independent benchmarking company, CEM Benchmarking.

Once formally established, the Joint Governance Committee will explore the potential for using third party evaluation services to provide independent assessment of different aspects of the Pool's governance and performance.

## Criterion C: Reduced costs and excellent value for money

1. A fully transparent assessment of investment costs and fees as at 31 March 2013.	
(a) Please state the total investment costs and fees for each of the authorities in the pool as reported in the Annual Report and Accounts for that year ending 31.03.2013.	
(b) Please state the total investment costs and fees for each of the authorities in the pool as at 31.03.2013 on a fully transparent basis.	
(c) Please list below the assumptions made for the purposes of calculating the transparent costs quoted.	

Total investment costs and fees reported by the eight funds in their Annual Reports and Accounts for March 2013 were £34.385m.

In order to calculate costs on a fully transparent and consistent basis, the funds supplied data to a third party company, CEM Benchmarking. Reports have been produced at an individual fund level and at an aggregate pool level.

The cost information supplied by CEM is as follows:

	March 2013 (bps)	March 2013 (£)
Investment management costs	44.6	£47.6m
Oversight, custody and other costs	2.7	£2.9m
Total costs	47.3	£50.5m

The calculated investment costs include performance related fees for the public market asset classes but exclude carry/performance fees for infrastructure, property and private equity. They exclude non-investment costs, such as pension administration.

Where there have been underlying fees paid within fund-of-funds arrangements and specific data has not been available, CEM have estimated the costs incurred based on their global database of similar arrangements.



**2. A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison, and how these will be reduced over time.**

(a) Please state the total investment costs and fees for each of the authorities in the pool as reported in the Annual Report and Accounts for that year ending 31.03.2015.	£m
(b) Please state the total investment costs and fees for each of the authorities in the pool as at 31.03.2015 on a fully transparent basis.	£m
(c) Please list below any assumptions made for the purposes of calculating the transparent costs quoted that differ from those listed in 1(c) above.	

Total investment costs and fees reported by the eight funds in their Annual Reports and Accounts for March 2015 were £56.489m.

In order to calculate costs on a fully transparent and consistent basis, the funds supplied data to a third party company, CEM Benchmarking. Reports have been produced at an individual fund level and at an aggregate pool level.

The cost information supplied by CEM is as follows:

	March 2015 (bps)	March 2015 (£)
Investment management costs	45.6	£58.3m
Oversight, custody and other costs	2.9	£3.7m
Total costs	48.5	£62.0m

Costs have been calculated on the same basis as those in section C1.

**3. A detailed estimate of savings over the next 15 years.**

(a) Please provide a summary of the estimated savings (per annum) to be achieved by each of the authorities in the pool at the end of each 3 year period starting from 01.04.2018.

Total value of savings (per annum) estimated to be achieved by each of the authorities in the pool as at

31.3.2021: £

31.3.2024: £

31.3.2027: £

31.3.2030: £

31.3.2033: £

(b) Please list below the assumptions made in estimating the savings stated above (for example if you have used a standard assumption for fee savings in asset class please state the assumption and the rationale behind it).

(c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the savings shown.

[Attached as ANNEX number 4.](#)

**4. A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool, and an explanation of how these costs will be met.**

(a) Please provide a summary of estimated implementation costs, including but not limited to legal, project management, financial advice, structure set-up and transition costs. Please represent these costs in a table, showing when these costs will be incurred, with each type of cost shown separately. Please estimate (using information in Criteria C Section 3) the year in which the pool will break even (i.e. the benefits will exceed additional costs of pooling).

(b) Please list below the assumptions made in estimating the implementation costs stated above (for example if you have assumed a standard cost for each asset class please state the assumption and the rationale behind it).	
(c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the implementation costs shown.	
(d) Please explain how the implementation costs will be met by the participating authorities.	

Attached as ANNEX number 5.

<b>5. A proposal for reporting transparently against forecast transition costs and savings, as well as for reporting fees and net performance.</b>	
(a) Please explain the format and forum in which the pool and participating authorities will transparently report actual implementation (including transition) costs compared to the forecasts above.	
(b) Please explain the format and forum in which the pool and participating authorities will transparently report actual investment costs and fees as well as net performance.	
(c) Please explain the format and forum in which the pool and participating authorities will transparently report actual savings compared to the forecasts above.	

The Pool is committed to publishing the above information. We anticipate there being collaboration between pools in agreeing on the best format for reporting such data as this will allow for greater consistency overall.

The main cost of implementing pooling will arise from the cost of asset transitions. The Pool is likely to use specialist transition managers for this purpose and will receive detailed reports both before and after each transition providing a breakdown of expected costs and then the actual costs incurred. These will be monitored against the original estimates made in this document of the likely level of costs incurred from asset transfers.

Detailed cost analysis by asset class will also be carried out by participating funds in order to measure the actual level of cost savings achieved against the provisional estimates included at this point.

**Criterion D: An improved capacity to invest in infrastructure**

<b>1. The proportion of the total pool asset allocation currently allocated to / committed to infrastructure, both directly and through funds, or “funds of funds”</b>	
(a) Please state the pool’s committed allocation to infrastructure, both directly and indirectly, as at 31.3.2015.	
(b) Please state the pool’s target asset allocation to infrastructure, both directly and indirectly, as at 31.3.2015.	
Please use the definition of infrastructure agreed by the Cross Pool Collaboration Group Infrastructure Sub-Group.	

- (a) Current investments in infrastructure account for 0.3% of Pool assets.
- (b) The aggregate target allocation to infrastructure across funds within the Pool is 1% of assets.

<b>2. How the pool might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments through the combined pool, rather than existing fund, or “fund of funds” arrangements.</b>	
(a) Please confirm that the pool is committed to developing a collaborative infrastructure platform that offers opportunities through the utilisation of combined scale, to build capability and capacity in order to offer authorities (through their Pools) the ability to access infrastructure opportunities appropriate to their risk appetite and return requirements more efficiently and effectively.	
(b) Please confirm that the pool is committed to continuing to work with all the other Pools (through the Cross Pool Collaboration Infrastructure Group) to progress the development of a collaborative infrastructure initiative that will be available to all Pools and include a timescale for implementation of the initiative.	

The Pool has a representative on the Cross Pool Collaboration Infrastructure Group. The officers representing the Pools have agreed that they are committed to working together, to determine current capacity and capability, share and develop experience and skills in infrastructure development, and explore options for a more formal National Initiative on Infrastructure Investing.

In common with most other funds, the infrastructure investments of the Wales funds are managed by external investment managers and are varied across geographies, managers and most significantly risk / return budgets.

The funds within the Pool acknowledge that they currently have less invested in infrastructure than a number of the other pools and are very supportive of the interim conclusions of the Cross Pool Group, namely that:-

- All Pools would at the very least benefit from sharing knowledge and would explicitly seek not to compete against each other.
- Collaboration will be greatly facilitated through working as a small number of Pools rather than 89 funds.
- There will be considerable scope to achieve significant cost savings through collaboration, and this should be an early priority for the National Initiative.
- There will be considerable opportunity to improve governance rights, negotiate better/more appropriate structures (e.g. longer term vehicles, greater UK investments) and gain priority access to co-investment opportunities.
- Given the level of interest in infrastructure, adding to the number of primary market participants and increasing competition would not be advantageous. Thus, working actively with other investors and investing directly as a co investor, is regarded as the appropriate mechanism for the LGPS to make direct infrastructure investments.
- Overall we expect a “hybrid” model to emerge across the Pools, with some investment in funds and some direct investment through co-investments and other bespoke structures, with widespread collaboration to reduce costs and increase capacity.
- It is important that appropriate delegations are in place to ensure decisions can be made quickly when opportunities arise. Individual funds may have specific investment criteria but typically will be managed by the Pools in association with the National Initiative.
- It is anticipated that the National initiative will need to procure the services of a number of market participants rather than just one in order to access all relevant areas of the asset class to satisfy the risk/return requirements of individual funds and Pools.

The Wales Pool is very supportive of the work of the Cross Pool group and looks forward to the group continuing to develop collaboration and work towards a national initiative in the next stage.

3. The proportion the pool could invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at this position.	
(a) Please state the estimated total target allocation to infrastructure, or provide a statement of potential strategic investment, once the capacity and capability referred to in 2 above is in full operation and mature.	
(b) Please describe the conditions in which this allocation could be realised.	

- (a) Our ambition in the short to medium term is to have at least 5% of assets (up from the current 0.3%) invested in infrastructure investments with a longer term aspiration set at 10% - subject to satisfactory investments being available.

However, it is recognised by the Pool that allocations to infrastructure represent asset allocation decisions and are therefore the responsibility of individual funds.

- (b) We acknowledge that infrastructure in principle is an attractive investment given the nature of the funds' liabilities.

We anticipate that larger scale will allow the asset class to be accessed at lower cost than at present. Other things being equal, this improves the risk / return characteristics of the asset class to participating funds. National vehicles will also allow for easier access from a governance perspective.

Investments need to be available offering an appropriate level of diversification – global infrastructure rather than purely UK - and suitable access to preferred stages of development (green-field / brown-field etc.). However, the Pool is encouraged by the focus of the Cross Pool group in identifying ways of accessing a wide range of potential investments.

Prospective returns also need to be satisfactory. It is claimed that there is currently a lot of capital chasing opportunities to purchase infrastructure assets in many regions and overpaying for such long term assets would seriously impinge on long term returns to investors.

## **Annex 1 – section A2**

Please attach an ANNEX for each authority that proposes to hold assets outside of the pool detailing the amount, type, how long they will be held outside the pool, reason and how it demonstrates value for money.

### **Submitted by Clwyd Pension Fund**

The Fund will aim to include all of its assets within the pooling arrangements unless there are technical barriers preventing them from doing so. The ability to transfer the assets detailed below will depend on the capabilities of the appointed operator.

### **Liability Matching Mandate- Flight-path- £329m as at March 2015 – Clwyd Fund**

This is a specific strategy to manage the Clwyd Fund's individual liability risks using liability driven investment (LDI). It is a fundamental part of the Clwyd Fund's investment and funding strategy and its implementation is key to the Actuary when determining financial assumptions during the Actuarial Valuation process.

The Clwyd Fund has put in place a strategy based upon long-term management of asset and liability risk, namely volatility on interest rates and inflation. This "flight-path" approach aims to add interest rate and inflation protection on an incremental basis to manage more effectively the move back to 100% funding via a trigger based implementation mechanism

Given the investment and governance complexities involved in implementing a Fund specific LDI portfolio and 'flight-path', this may not be viable under the Wales pooling arrangement. However, the Clwyd Fund remains open-minded to consider a different vehicle or structure provided by the Wales Pool, or a cross pool solution, should a more cost-effective approach become available in the future.

The costs of 'undoing' the arrangements in place would be significant. As a broad rule of thumb, this is likely to be in the order of £2-3m (or 1% of assets in the mandate) and would also require significant officer time and involvement from advisors.

### **Managed Account Platform – £139m as at March 2016 – Clwyd Fund**

The Clwyd Fund's managed futures and hedge fund allocations are managed tactically by a specialist fund manager through a vehicle that has been specifically created for the LGPS and allows individual LGPS Funds or Pools to design and build their own bespoke strategic allocations.

This replaced the previous (traditional) hedge fund of fund approach **from August 2015**, which had higher fees and less transparency, and did not allow the Clwyd Fund to manage specific investment risks on a bespoke and tactical basis.

Although there are only two LGPS funds currently invested, this new vehicle is being actively marketed across other LGPS funds and pools (with significant engagement to date) and it is anticipated that others will adopt this approach which will trigger further fee breaks for all LGPS investors.

Dependent of the operator and model selected by the Wales Pool this vehicle could be added as a sub-fund to a Wales ACS (or other vehicles established for other asset classes). The provider of the Managed Account Platform has promised the LGPS significant flexibility to enable those LGPS funds that have allocated assets to the vehicle the flexibility to retain their exposure post the creation and implementation of the various Asset Pools. Therefore, we will be asking for engagement from the All Wales Pool with the provider to



further understand this flexibility and how it can be used for the benefit of the Clwyd Fund (and other LGPS funds within the vehicle) within the Pooling environment.

However, the Clwyd Fund would also consider any solutions from the Wales Pool which provided the same exposures, transparency and flexibility at a similar cost.

## **Annex 2 – section A5**

Please provide as an ANNEX a high level timetable for the establishment of the structure and transition of assets as well as the proposed methodology for reporting progress against this timetable.

The participating funds will initiate a procurement exercise in the second half of 2016 in order to appoint a third party operator. An Information Day has already been held to consider the range of services which could be available from providers – and wider discussions have been held between the funds on the relative merits of taking particular services. NOTE: Advice on the procurement process to be used will need to be considered further.

The Joint Governance Committee for the Pool will be formally constituted in time to make the formal recommendation in relation to appointment of the operator.

Discussions will then be held with the appointed operator in order to agree the investment sub-funds and the proposed timescale for transferring assets.

The proposed timetable is summarised below.

Establish Shadow Joint Governance Committee	By 30 Sep. 2016
Complete procurement exercise for third party operator Establish formal Governance Committee	By 31 Dec. 2016
Detailed specification of requirements agreed with operator including phasing of asset transition	By 30 June 2017
First transitions of listed assets	By 31 Dec. 2017

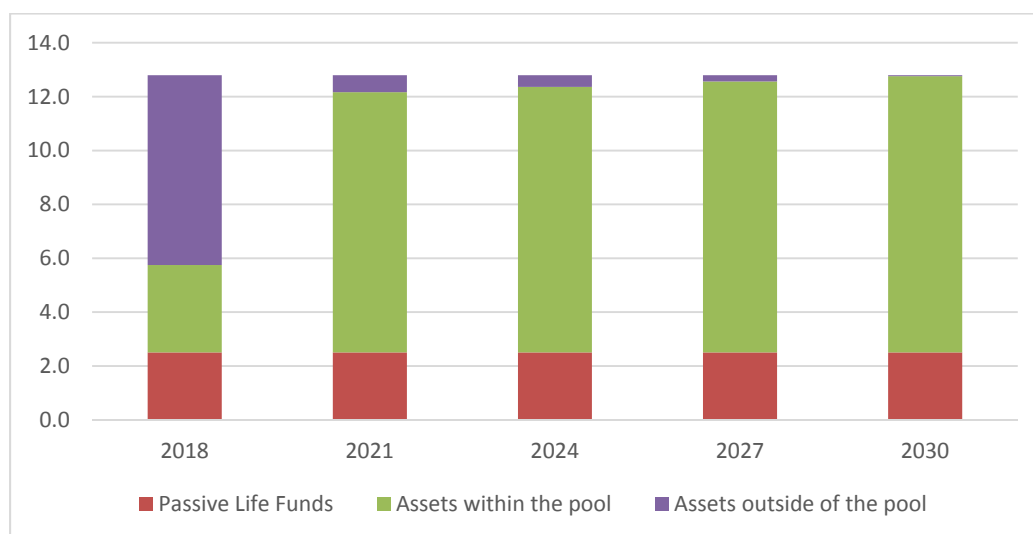
### **Annex 3 – section A5**

Please provide as an ANNEX an outline of how you will approach transition over the years and where possible by asset class (any values given should be as at 31.3.2015.)

The intention is that the implementation of asset pooling will be addressed by the Pool on a phased basis, considering the detailed approach to each of the major asset classes in turn.

However, we anticipate that over 95% of assets will form part of the Pool by April 2021.

We have shown below the estimated movement of assets in aggregate between now and April 2030. This timetable is indicative and will be subject to confirmation following discussions with the appointed operator.



The assumptions underlying the chart above are set out in the table below.

<b>Assets</b>	<b>Rate of transition into Pool</b>
Passive assets	100% by April 2018
Active equities	50% by April 2018 Remainder by April 2021
Active Fixed Income	100% within period April 2018-21
Property	70% by April 2021 (units in liquid funds) Remainder to transfer gradually to 2030 (maturing of fixed life funds)
Liquid alternatives	100% within period 2018-21
Illiquid Alternatives	Gradual transfer over period 2018-2030 as fixed life funds mature

**Annex 4 – section C3**

Please provide a summary of the estimated savings (per annum) to be achieved by each of the authorities in the pool at the end of each 3 year period starting from 01.04.2018.

[Information provided to DCLG as part of submission but not available for public disclosure at this stage.](#)

#### **Annex 5 – section C4**

Please provide a summary of estimated implementation costs, including but not limited to legal, project management, financial advice, structure set-up and transition costs. Please represent these costs in a table, showing when these costs will be incurred, with each type of cost shown separately. Please estimate (using information in Criteria C Section 3) the year in which the pool will break even (i.e. the benefits will exceed additional costs of pooling).

[Information provided to DCLG as part of submission but not available for public disclosure at this stage.](#)

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**WELSH LOCAL GOVERNMENT PENSION FUNDS**

**WORKING TOGETHER**  
**(INTERIM REPORT)**

**MARCH 2013**  
(Version 6.1.1)

**Society of Welsh Treasurers Pension Sub Group**



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# EXECUTIVE SUMMARY

## Background

The Local Government Pension Scheme in Wales has over 280,000 members and has assets valued in excess of £9bn. In March 2010, the Pensions Sub Group of the Society of Welsh Treasurers representing the 8 LGPS funds in Wales commissioned a study by Price Waterhouse Coopers (PwC). The aim was to build on the existing collaboration already undertaken in Wales and identify the potential for collaboration/partnership working across the Welsh Local Government Pension Schemes.

The PwC study provided a base upon which some broad assumptions could be made i.e. that the whole issue was worthy of further consideration. The work has been taken forward by the SWT Pensions Sub Group with appropriate support. They believed **the PwC report was important in that it established a "prima facie" case to look further at the organisational structure of the Welsh LGPS with the potential to improve efficiency and service standards.** It was recognised and important from the outset that any further work was objective and positive in working toward the production of an evidence backed outline business case. Due regard would be given to work undertaken elsewhere, which could helpfully assist in this process, but conclusions drawn elsewhere would not drive the conclusions of this report.

## Objectives and Methodology

The purpose of this report is to set out the findings of the outline business case which has considered the optimal number of LGPS funds in Wales and the most appropriate organisational structure. This should also include proposals for enhanced collaboration, including, joint procurement opportunities and other efficiency measures.

In undertaking the work, and in order to keep the task to manageable proportions, the Project Board determined that analysis should be focussed around four options;

1. An "as is" option based on the current structure with 8 Funds which provides a benchmark position.
2. An "as is" but with enhanced collaboration (Joint procurement, shared working efficiencies etc.)
3. A mid range option based on a number of grouped Funds. The requirement is to provide the solution that works best and so at the outset, the project was not prescriptive regarding numbers and groupings which could be seen as limiting the options for consideration.
4. An option based on one all Wales LGPS Fund.

**There was no presumption that the optimum solution for one work stream (e.g. administration) would also be the best for another (e.g. investments).** The approach was therefore to be totally objective and open minded and ensure analysis was objective and robust to withstand scrutiny and challenge.

The Board adopted a collaborative approach utilising the resources across all 8 Funds and the expertise of the in-house teams. Work stream groups were established covering Administration, Investments and Funding, and Financial Modelling. The latter also covered the subject of governance. Research was undertaken in all areas commissioning a number of external reports in respect of investment performance,

legal issues, funding and investments and transition costs. There was a need to co-ordinate the research work produced by the work streams. To this end, it was considered appropriate to provide a non prescriptive outline of what could be included within each work stream's plans. The research work of each work stream therefore included but was not be restricted to:

- A review of the PWC Report and use of that report as the starting point, subject to appropriate validation if, and where required;
- Updating and validation of core data
- Consideration of the 4 options, including implications relating to governance and transition, and objective justification for those discarded and those worthy of consideration.
- Consideration of the service delivery options
- Consideration of key components -e.g. service delivery and standards, people, IT, accommodation etc...
- Pros and Cons of different options
- Barriers to change or implementation
- Assessment of options against agreed design principles
- Conclusions
- Recommendations

Although originally included, the following have been held back in this interim report but will be incorporated in the final version.

- Views of wider stakeholders
- Views on timing of any proposed changes

The design principles adopted below were generic rather than specific to Pensions but the principles were sound and formed a backcloth to the work to be undertaken by each work stream. These principles also acted as a "litmus test" of the appropriateness of the proposals put forward.

- Reducing costs and sustaining service
- Improving front line service delivery
- Delivering a timely and responsive service
- Improving back office administrative consistency and efficiency of process
- Achieving the most by appropriate collaboration
- Improving the employee/pensioner experience
- Comply with sound governance arrangements and stewardship controls.
- Better information for better decisions

## **Findings of Investment Work**

1. **There is evidence that there are potentially significant financial benefits of scale to be found** from either merger or working collectively through a common investment approach. The results of analysis demonstrate a general statistical trend of higher investment returns when a larger amount of investment assets is grouped together and invested. There are however no

guarantees of improved returns and **it does not appear to require organisational change to benefit since enhanced collaboration would achieve the same goal in a quicker and less disruptive way.**

2. **The potential benefits are not a direct relationship with the size of a fund but rather the result of economies of scale that together with size allow improved governance and the potential for increased return with a combination of attributes that larger funds tend to have** such as
  - More internal / specialist resources;
  - More internal / hands on management;
  - Better diversification – asset classes, managers;
  - More bargaining power on fees;
  - Better, more responsive governance structures and processes in place enabling speedy decision making.
3. Changes introduced as a result of the findings of this paper would not impact on employer contribution rates until the Actuarial Valuation after any changes were implemented (i.e. **earliest impact could be 2017/18**).
4. It is impossible to predict future investment returns with any degree of certainty.
5. The variety of valid funding assumptions and approaches adopted across Welsh LGPS funds makes comparison difficult and has the potential to significantly cloud the interpretation of a Funds funding position.
6. Given other influencing factors at this time such as changing (increasing) liabilities, changing membership profile, improving longevity and benefit design changes, **the impact of any investment benefits are more likely to be a dampening effect on future upward contribution pressures resulting in slower growth in the employer contribution rates rather than a reduction.**
7. There are inherent difficulties in adopting a common investment/funding strategy across all Funds whilst they remain independent legal entities. **The more appropriate option would be a common approach to the implementation of a Funds strategy rather than the Strategy itself being common.**
8. Funding changes are the most complex and lengthy areas for change but also have the greatest potential for cost saving.
9. Investment manager fees amount to some £22.3m per year across LGPS funds in Wales. A common investment approach could provide some modest savings which even if a low level of only 10% saving were achieved would amount to a £2m saving across Wales; equivalent to 0.1% on employer contribution levels. It is important to note however that to deliver such savings would potentially incur significant transition costs at the outset.
10. On the basis of the evidence, there is, from an investment standpoint, **a prima facie case for change and an appropriate programme of works should be put in place** to maximise the benefit which can be realised through greater collaboration, including specifically managing Pension Fund Investment assets on a collective basis.

## **Findings of Governance Work**

11. **There is much that can be done using a collaborative approach within existing legal, organisational and governance arrangements.**

12. Merger cannot be undertaken without a change in secondary legislation at UK level. This would be the most challenging option with the longest lead in time, requiring engagement with both Wales Government and the DCLG.
13. Merger would distance Funds from local accountability and control unless additional layers of governance were introduced.
14. A common investment proposition is feasible within the existing investment regulation framework but clarification on aspects of the Regulations from DCLG would be helpful.
15. A Governance structure to develop and control future collaboration across Wales needs to be established with agreed standards.

### **Findings of Administration Work**

16. **Building on existing collaboration and the additional impetus provided by this Collaboration project, can achieve improvements in front line pensions service delivery**, consistency and efficiency whilst ensuring compliance with sound governance arrangements and stewardship controls and regulations.
17. A local presence is important for responsive service delivery.
18. The absence of agreed service standards within the LGPS does not help meaningful comparison either within Wales or across UK funds.
19. Administration costs across the LGPS Funds in Wales amount to some £8m per year. **Financial benefits identified through the administration work are thus far more modest than those identified elsewhere but should nevertheless be pursued.**

### **Findings of Costs and Transition Work**

20. **Both fund management fees and transition costs are significant factors** but not the fundamental drivers when considering investment strategy.
21. Merger to one Fund or the mechanism of a collective investment vehicle would facilitate potentially lower management fees, but the overall reduction in fees (if indeed achieved) as a percentage of market value across Wales would be dependent on the new investment strategy and the method of implementation.
22. **There would be very significant 'one off' costs of transitioning the assets to a new organisational structure.**
23. An attempt has been made to quantify the fee reduction and cost of transition but these should be used for illustrative purposes only as the assumptions are many. In isolation, and prior to factoring in any improved investment return due to size and associated attributes, it is reasonable to conclude that transition costs will be significantly higher than any potential reduction in management fees and thus it could several years to 'pay back' the cost of transition before any lower fund management fee benefits accrued.

## Conclusions

It is clear that there is no simple and quick solution that answers the question; what is the optimal number of LGPS funds in Wales and the most appropriate organisational structure. Given the existing organisational picture, and the funding complexities, any change will require careful planning and will take time to implement/achieve. The work undertaken however clearly indicates that despite collaboration already being part of the Welsh fabric for pensions, the “no change” option is not supported since a more pro-active approach to consistency and service efficiency is required.

Enhanced collaboration is seen as the area where medium term savings can be optimised. This is the option where the balance of service delivery and efficiency, cost of change, time and resource can be blended in the most effective way and should be pursued further. This should include proposals for enhanced collaboration, including, joint procurement opportunities and other efficiency measures.

Analysis demonstrates that the potential financial benefit through any change varies considerably with the smallest benefit in the administration area and increasing in size through joint procurement, combining investments to benefit the level of fund manager fees and larger investment mandates (via merger or a collective investment vehicle) potentially achieving better investment returns. This latter option could however be achieved in a less disruptive manner through a collective investment vehicle across existing structures as opposed to new and larger structures.

The prospect of merger to regional funds or a single Welsh Fund is both complex and the transition would be costly with a long lead in time and a loss of local autonomy. Changing funding strategies could also have a destabilizing effect with a loss of local accountability. Following any merger of funds a common set of actuarial assumptions would also be needed for future valuations of the merged fund. This would have an impact on employer contributions. Whilst this may merit additional investigation in the right environment, it is not recommended for further work at this time.

## Key Recommendations

1. **The “as is” or no change option is not supported.** The pension's environment requires a more pro-active approach to managing service standards and costs within the LGPS within Wales.
2. **Enhanced collaboration is seen as the area where medium term savings can be optimised. This is the option where the balance of service delivery and efficiency, cost of change, time and resource can be blended in the most effective way and should be pursued further.**
3. **To create a Full Business Case for a common investment approach** to encompass the common attributes that appear to benefit larger funds with the aim of implementation thereafter.
4. **To create an appropriate and responsive governance structure to drive and manage future collaboration initiatives within Wales** which will:
  - a. explore the potential in the longer term for consistent Valuation and funding assumptions and standards.
  - b. develop minimum administrative service standards for Wales and an agreed measurement framework.
  - c. take advantage of joint procurement initiatives to help consistency and efficiencies
5. The prospect of **merger to regional funds or a single Welsh Fund is both complex and the transition would be costly with a long lead- in time and a**

**loss of local autonomy.** Changing funding strategies could also have a destabilizing effect with a loss of local accountability. Whilst **this may merit additional investigation in the future, it is not recommended for further work at this time, especially where it is believed that the most significant gains can be realised through greater collaboration and, specifically a common investment approach.**



## Background and Context

### Background

In March 2010, the Pensions Sub Group of the Society of Welsh Treasurers representing the 8 LGPS funds in Wales commissioned a study by Price Waterhouse Coopers (PwC)<sup>1</sup>. The aim was to build on the existing collaboration already undertaken in Wales and identify the potential for collaboration/partnership working across the Welsh Local Government Pension Schemes.

The initial study concluded that there was scope to generate further efficiency savings along with achieving greater consistency in service standards across both the administration and investment arms of fund management, suggesting that such benefits would be optimised through either further collaboration or a reduction in the number of funds. The savings provisionally identified could well be seen as small in the context of the combined assets of the 8 pensions funds (£8.5bn plus at that time) but they were considered large enough to merit further investigative work. The study also recognised that all Funds had very different approaches and changes, whether at an organisational level or restricted to either Investments or Administration would be complex and would take time to achieve. Transition would also be complex and would incur costs with payback periods varying according to the degree of change. In addition, because contribution costs for employers in the respective funds are generally only amended every three years (at the triennial valuation), the earliest financial year when such savings might be identified, from even very prompt actions, would be linked to the actuarial valuation cycle.

Governance arrangements were also identified as a significant issue in the context of any further work to be carried out.

The PwC study however provided a base upon which some broad assumptions could be made i.e. that the whole issue was worthy of further consideration. The Pensions Sub Group of the Society of Welsh Treasurers acting as a Project Board agreed for more detailed work to be undertaken to produce an outline business case around proposals for a possible reduction in the number of Welsh Pension Funds, and/or the possibility of further collaboration including joint procurement opportunities and other efficiency measures. The Project Board commitment was evidenced by the fact that the Project pre-dated but was then endorsed by its inclusion in the Compact between the Welsh Government and Local Government (signed off at Partnership Council on 5 December 2011).

The work has been taken forward by the SWT Pensions Sub Group with appropriate support. They believed the PwC report was important in that it established a "prima facie" case to look further at the organisational structure of the Welsh LGPS with the potential to improve efficiency and service standards. It was recognised and important from the outset that any further work would be objective and positive in working toward the production of an evidence backed outline business case. Due regard would be given to work undertaken elsewhere, which could helpfully assist in this process, but conclusions drawn elsewhere would not drive the conclusions drawn here.

The purpose of this report is to determine via an outline business case, the optimal

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<sup>1</sup> [Price Waterhouse Coopers; Consultancy review of Welsh Local Government Pension Funds October 2010](#)

number of LGPS funds in Wales and the most appropriate organisational structure. This should also include proposals for enhanced collaboration, including: joint procurement opportunities and other efficiency measures.

## Scope

The initial study by PwC provided a level of confidence that proceeding to an outline business case was appropriate. Some concerns had been raised about the results produced and there had been some feedback that the initial work had not been sufficiently clear on the impact of any possible change on each pension fund. There were also reservations expressed with regard to the validity of some of the data comparisons. The ability to address these concerns and ensure a high level of engagement during the next stage was therefore of key importance.

In undertaking the next stage of work, and in order to keep the task to manageable proportions, the Project Board determined that analysis should be focussed around four options; two polar views and two mid range options with one based on enhanced collaboration and one based on a reduced number of funds. These options are:

1. An "as is" option based on the current structure with 8 Funds which provides a benchmark position
2. An "as is" but with enhanced collaboration (Joint procurement, shared working efficiencies etc.)
3. A mid range option based on a number of grouped Funds. The requirement is to provide the solution that works best and so the Project Initiation Document (PID) was not prescriptive regarding numbers and groupings which could be seen as limiting the options for consideration.
4. An option based on one all Wales LGPS Fund.

There was no presumption that what was optimum for one work stream (e.g. administration) would also be the best solution for another (e.g. investments). The approach was therefore a "blank piece of paper" approach aiming to be totally objective and open minded and ensure analysis was objective and robust to withstand scrutiny and challenge. The PwC report was used as an aid in formulating ideas and options. Whilst the PwC report suggested that a reduction in the number of funds would optimise the benefits, this project stage required consideration of all possible outcomes including the status quo.

The Project Board at its meeting on 2nd December 2011 also set out additional factors regarding the scope of the project. It was agreed that the project should be contained within a Wales public sector model only (no outsourcing and third party options) and that the potential for collaboration with English Pensions Funds should be noted but is not considered part of this particular "Welsh" project.

## Anticipated Benefits

A key deliverable for the project was the development of a clear vision for the future. Although the underlying requirement to consider service standards, efficiency and improvement, together with cost reduction was already clear, it was important to consider whether any new approach was required and if so, the key outcomes that would be delivered by any new approach. The establishment of a clear set of design principles was therefore seen as important in ensuring a focus on an optimum service solution.

It is accepted that the design principles adopted below are generic rather than specific to Pensions but the principles remain sound and formed an important backcloth to the work undertaken. These principles also helped test the appropriateness of the proposals:

- Reducing costs and sustaining service
- Improving front line service delivery
- Delivering a timely and responsive service
- Improving back office administrative consistency and efficiency of process
- Achieving the most by appropriate collaboration
- Improving the employee/pensioner experience
- Complying with sound governance arrangements and stewardship controls.
- Better information for better decisions.

It is important to note that this review is not just about reducing cost, although that is an important component but it is very much about improving value. Pension Scheme member requirements should drive service standards and delivery, and the way Funds collectively and consistently meet those requirements is at the heart of this report. The goal was therefore to optimise the current arrangements blending both cost and service requirements in the best way. There was also recognition at the outset that cost benefits could take the form of either an absolute reduction in cost or a dampening of future cost growth that may prove less easy to quantify.

## Objectives and Methodology

The objective of this report was to set out the findings of the outline business case which has considered the optimal number of LGPS funds in Wales and the most appropriate organisational structure. This should also include proposals for enhanced collaboration, including, joint procurement opportunities and other efficiency measures.

In order to progress the work, three work stream groups with representation from each LGPS Fund in Wales were established to undertake the following areas of work:

- Investments and Funding
- Financial Modelling (to include Governance and Transition)
- Pension Administration

A project team acted as a co-ordination point across the three groups and provided the conduit through to the Project Board. Within this context, it was considered appropriate to provide a non prescriptive outline of what could be included within each work stream's plans. Knowledge of this is helpful in providing readers with appropriate context. The outline included but was not restricted to:

1. Review of the PWC Report and use of that report as a possible starting point, subject to appropriate validation if, and where required.
2. Updating and validation of core data.
3. Consideration of the 4 options, including implications relating to governance and transition, and objective justification for those discarded and those worthy of further consideration.
4. Consideration of the service delivery issues:
  - Service components such as standards of service, people, IT, accommodation etc...
  - Pros and Cons of different options

- Barriers to implementation/change
  - Assessment of options against the design principles
5. Views of wider stakeholders or research undertaken.
  6. Views on timing of any agreed change proposed.
  7. Conclusions and Recommendations.

## Overview of Current Position

The governance and management arrangements for the LGPS in Wales are a legacy of the Local Government Superannuation Regulations 1974 made under the Superannuation Act 1972. This prescribed that there should be separate LGPS funds for each of the 8 newly created County Councils covering all local authority employees and other eligible employees in Wales. The 8 Funds and their administering authorities are as follows:

- Cardiff and Vale of Glamorgan Pension Fund(Cardiff)
- Clwyd Pension Fund (Flintshire)
- Dyfed Pension Fund (Carmarthenshire)
- Greater Gwent Pension Fund (Torfaen)
- Gwynedd Pension Fund
- Powys Pension Fund
- Rhondda Cynon Taff Pension Fund
- Swansea Pension Fund

Following the further re-organisation of local government in Wales in 1996, this situation remained with the designation of administering authorities set out in the Local Government Re-organisation in Wales Regulations 1995.

At the last Valuation in 2010 there were approximately 280 participating employers across the 8 funds with 160 scheduled bodies (councils, police and fire authorities, universities and colleges ) and 120 'other smaller employers' such as Community Admission bodies (local charities, community councils) and Transferee Admission Bodies (typically short term contractors). In addition there are also nominal assets and liabilities from previous employers such as the pre 1996 County Councils and District Councils.

There is no single model of governance in operation across the 8 funds and in some cases delegation has been made to a Pensions Committee, an Investment Panel or directly to the Chief Financial Officer. In addition, representation also varies within each structure. Some funds have other employers and member representation on their main committee/panel. Others have established consultative panels/representative forums comprising elected members from the administering authority, representatives from other unitary authorities and participating employers, fund members and Trade unions. The 8 funds also have different independent advisors, investment consultants and actuaries.

The LGPS in Wales as at 31<sup>st</sup> March 2011 had 288,882 members (**282,615** as at 31<sup>st</sup> March 2012) (source: DCLG SF3<sup>2</sup>) as follows:

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<sup>2</sup> [Department of Communities and Local Government SF3 Pension Fund Returns](#)

**125,596 ( 43.5%)** Active contributors  
**75,758 ( 26.2%)** Pensioners  
**87,528 ( 30.3%)** Deferred members

The Funds have assets of **£9.289 bn** as at 31<sup>st</sup> March 2011 (SF3) with Fund size ranging from £0.348bn to £1.661bn. Asset allocations and funding strategies vary considerably. Investment management costs amounted to £29.158m in 2010/11 with a further £8.880m spent on administration. Total staff numbers amount to over 140 including 131 administration staff. The full time equivalent is 128.

## Investments and Funding

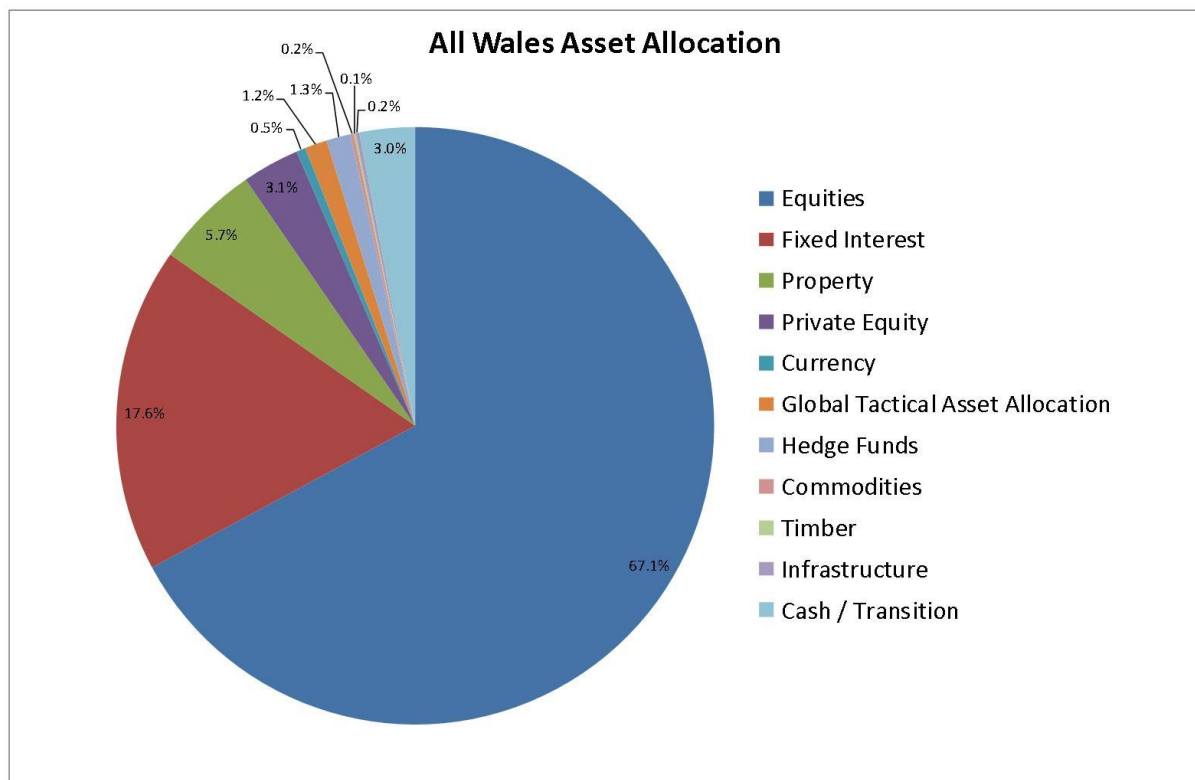
### Background

The current 8 individual funds in Wales have Assets amounting to £9.289bn (value as at 31<sup>st</sup> March 2011), which if combined would place it in the top 5 by market value amongst LGPS funds. The respective total market value by fund and the Investment Valuations (excluding year end adjustments such as creditors/debtors etc...) are shown in the following tables.

FUND	Value By Fund	
	£M 2011	£M 2012
Cardiff	1,111	1,166
Clwyd	1,052	1,061
Dyfed	1,348	1,401
Gwynedd	1,024	1,050
Powys	348	372
RCT	1,639	1,712
Swansea	1,106	1,120
Torfaen	1,661	1,666
<b>Total</b>	<b>9,289</b>	<b>9,548</b>

Investment Valuations (by Asset Class)	2011 £M	%
Equities	6,182	67.1
Fixed Interest	1,617	17.6
Property	520	5.7
Private Equity	285	3.1
Currency	45	0.5
Global Tactical Asset Allocation	106	1.2
Hedge Funds	116	1.3
Commodities	19	0.2
Timber	12	0.1
Infrastructure	21	0.2
Cash / Transition	277	3.0
<b>Total</b>	<b>9,199</b>	

Investments within each fund include different asset classes. The combined asset class analysis of the 8 Welsh funds is shown in the following table.



Each fund has its own Funding Strategy currently based on the 2010 Actuarial Valuation results as shown in the following table. These funding rates are based on each fund's individual actuarial assumptions agreed by each fund and its actuary but which differ across the 8 Welsh funds.

	Funding level %	Employer Rate %	Actuary	Deficit recovery years
<b>Cardiff</b>	71	23.2	Aon	25
<b>Clwyd</b>	72	20.7	Mercer	20
<b>Dyfed</b>	91	15.2	Mercer	17
<b>Gwynedd</b>	84	22.1	Hymans	20
<b>Powys</b>	71	21.8	Aon	25
<b>RCT</b>	70	20.4	Aon	25
<b>Swansea</b>	71	20.5	Aon	25
<b>Torfaen</b>	74	19.0	Mercer	20

Practitioner discussion, knowledge sharing and joint research in this area examined the four options and concluded the following:

### 1. “As Is”

- Existing arrangements provide a localised solution, which facilitates effective communication and stakeholder engagement.
- Risk is inherently diversified by the very nature of having 8 separate funds.
- Maintaining the status quo provides consistency and continuity, for example all funds are currently in the process of implementing and seeking to deliver their own investment strategies which have been duly and professionally considered.
- The do nothing option should not be viewed as such insofar as **increasingly greater collaboration is already happening**, albeit mainly in the administration area. **There thus remain further opportunities to expand the existing collaboration** which might for example include fully exploiting procurement opportunities through joint arrangements, particularly through those areas such as fund management arrangements which are less well developed
- There are no change management issues to deal with, such as staffing, relocation, impact upon employment opportunities across Wales.
- Corporate Impact – Pension Funds are already currently benefiting from economies (and efficiencies) of scale, for example from Administering Authority existing / embedded facilities, IT systems and services.

### 2. **Enhanced Collaboration**

- There is a lack of collaborative examples in the Investment and related areas (advisors) and there is thus the opportunity for increased and more specialised procurement and development of Framework Agreements, with
  - Potential savings in staff time
  - Facilitation of change options in aspects such as training, legal support and actuarial advice



- The potential to consider beyond Wales
  - More suitable for legal, custodial, actuarial services
  - Enhanced Fund Management arrangements
  - Longer term partnership working with third party service providers
- An oversight model where the 8 funds were retained but managed centrally appears to have the disadvantages of one fund without any of the potential advantages from mandate consolidation etc.
  - There is undoubtedly an opportunity to enhance (more formally) the sharing of existing expertise and resources across the 8 Funds. This could be developed specifically around systems, procurement and an expansion of the communications work already undertaken
  - **A Common Investment vehicle or Fund would provide an opportunity to achieve the benefits referred to** above. Such a mechanism could be applied to specific assets types ranging from mainstream equities to alternatives such as infrastructure. A development in this direction might increase the ability of LGPS Funds to consider investments in a range of investments that have wider economic benefits within Wales, or beyond.
  - The potential to enable the movement of investments between Funds to maximise the utilisation of existing mandates does provide an opportunity to reduce appointment costs, timescales and maximise existing arrangements.
  - All of the advantages of the “do nothing”/“as is” option.
  - Greater collaboration could also be viewed as part of a route-map toward more formal merger at a future stage (if it is deemed viable to do so and upon the satisfying of stipulated criteria – aka “state of readiness”). The counterweight to this is that collaboration requires increased co-ordination and administration and hence any gain must be justifiable and worth the additional effort.

### 3. Grouped Funds

- The basis of determining the optimal number of funds needs to be clearly set out, for example, is it based on:
  - Asset Allocation
  - Geographical
  - Funding Strategies (recovery rate)
  - Funding Level
  - Contribution Rates
  - Different employer type
- If Funding Level, Employer Rate and Recovery Period are accepted as key drivers, then there are clearly well correlated Funds where merger could be considered viable. Further work is needed however, to understand whether there are other significant differences in factors such as life expectancy, age profiles, risk profiles etc.
- Many of the issues of merger which need to be considered will apply equally for a regionalised model as for the one fund model. The cost benefit of a number of mergers needs to be carefully examined against the cost benefit of a merger to one fund for Wales.

- **Subject to the extent of change, transition costs (investment related) are most likely to be significant.** The extent to which these would be the same for any merger (be it regionalised or one Wales) would clearly be dependent upon the basis of the “from” and “to”.
- **Existing arrangements have a variety of different risk appetites.**
- The extent to which closure valuations may be triggered needs to be carefully considered.
- Investment expertise is currently attached to each of the 8 Funds, any regionalised merger would need to consider retention / recruitment issues and in particular continuity. Physical location is clearly a factor to consider in this regard.

#### 4. Merger to One Fund

- Notwithstanding the complexity of change – legislative etc., one Fund for Wales would have a “status” which could be helpful in attracting staff (such as “specialists”) and in having a voice at a national level. The Fund size would make it one of the largest LGPS funds in the country.
- There could be a removal of some small scale duplication, and increased conformity and consistency.
- While equities form the majority of assets for 6 out of the 8 Funds, a range of asset allocations and investment strategies has been adopted. Organisational change would mean a reduction of diversification of risk at a manager level which is inherent in the current arrangements.
- Organisational change would also incur some significant transition costs – investment, change management (staff etc.), together with a potential corporate impact upon current administering authorities back office structures. These aspects are dealt with in more detail within the Costs and Transition chapter of this report.
- Perhaps the key questions in order to justify this proposal Is whether there is evidence to support larger mandates having lower level of fees and whether there is evidence to support improved investment performance of bigger funds? These matters are dealt with later in the report.
- From a purely Investment standpoint, issues of localism are not considered to be a barrier and are less of an issue that what the group perceive might be the case for fund administration.

The results of this practitioner discussion, knowledge sharing and joint research identified the importance of a number of key funding and investment questions encapsulated within the requirement to provide a high level estimate of the impact on contribution rates and funding levels of using revised or common assumptions under the various collaboration options. A piece of work was thus commissioned to address via specialist actuarial advice the questions (Appendix 1) which were deemed as critical to the assessment of the optimum way forward. Hymans Robertson produced a report in response to this brief which rebased comparisons

between the 8 Welsh funds using a common set of financial assumptions. In response to the questions raised, they concluded that:

- **A common funding and investment strategy could, but need not be applied across all of the Welsh funds since it is not seen as a necessity to gain financial benefits.** There are other options referred to in this report that achieve the benefits in a less disruptive way without having to reach a common funding or investment strategy. A move to such a strategy would be a long term target and the transition to a common strategy could take place over a period of time with different paces of funding and different levels of risk for any Fund making a change.
- If the number of Funds were to be reduced, then the two most likely criteria for grouping funds to minimise impact on long-term funding arrangements would be grouping to optimise operational capabilities or grouping by funding level.
- **Differences in approach to setting financial assumptions are likely to have the most impact on the funding level but it is understood why there are local differences** (e.g. attitude to risk and historical local differences). Thus standardisation of actuarial assumptions and funding strategies would have an impact on employer's contributions.
- **To reduce employer contributions by 0.1% of pay would require savings of circa £2m per annum.**
- **Ten year historic investment returns for LGPS funds in England and Wales show evidence of some correlation between size of investment funds under management and net of fees performance. Research suggests however that larger funds have better governance and alignment with objectives and it is not merely to do with scale.**

This latter aspect was endorsed via statistical analysis and commentary that was obtained from State Street Investment Analytics (WM Company) which corroborated the trend that larger funds tend to produce higher investment returns (net of fees) over the longer term.

The evidence collected appears to show that from an investment management standpoint; there are no insurmountable barriers to merger, although a collective investment vehicle could provide most of the same benefits over a shorter period with less risk than full merger. Key considerations include:

- impact on contribution rates for employers
- cross subsidy issues arising from pre merger positions

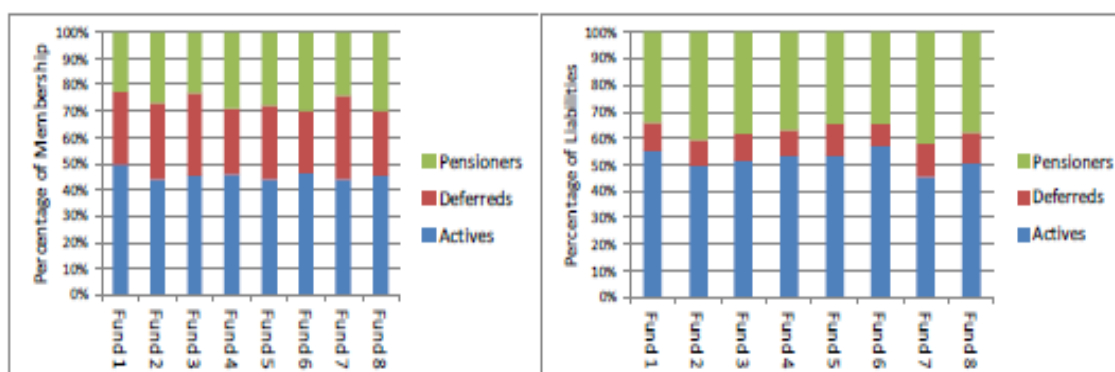
Closer examination of the results, together with the external advice provided, enabled further comment to be made on the funding and investment issues. These are outlined in the following paragraphs grouped around the areas of strategy(S), investment return (IR) and cost(C).

## **Investment Strategy(S)**

In order to undertake the modelling within this report it is necessary to note that an indicative investment strategy was used which seeks to achieve a required level of return at an appropriate level of risk. This is illustrative only but is set out as in the Costs and transition section of the report.

## Standardising Actuarial Assumptions(S)

There are no significant differences in the membership or liability profiles of the individual Welsh Funds.



All eight funds have broadly similar profiles, whether measured by numbers of members in each category, or liabilities. In terms of numbers, around 45% of members are active, with the remaining 55% split broadly equally between deferred and pensioners.

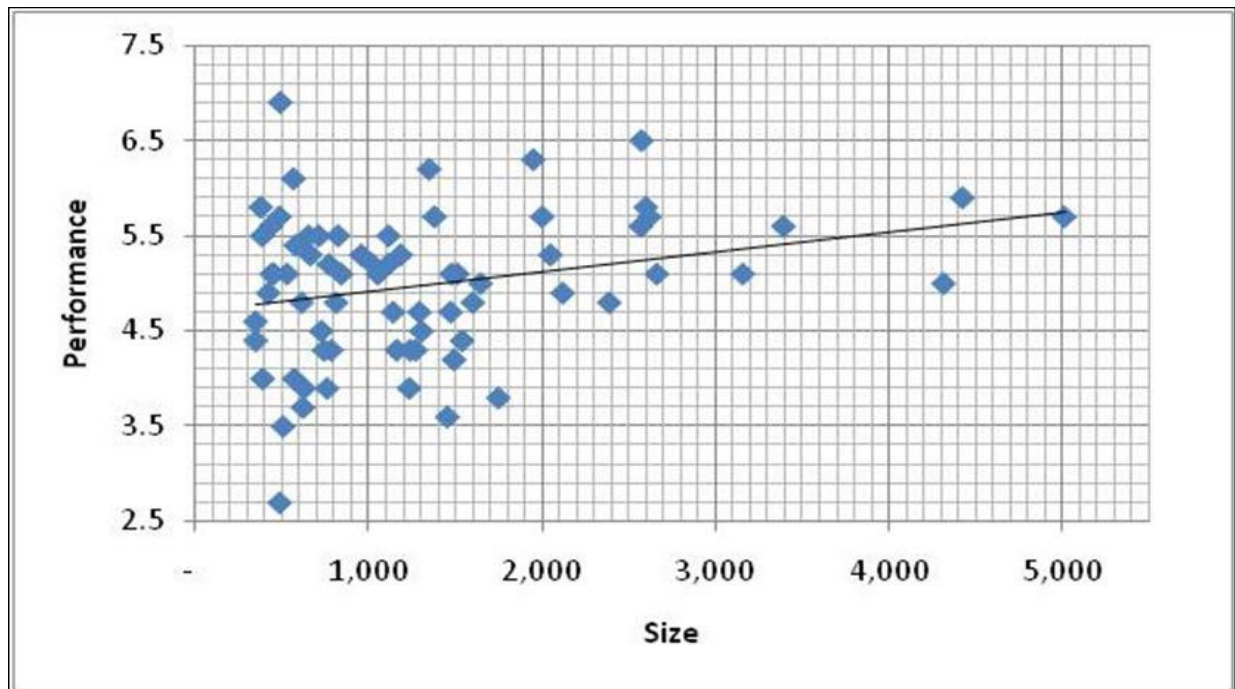
However, there are a range of different sets of actuarial assumptions used which reflect local circumstances such as appetite for risk. Re-basing to a common set of actuarial assumptions shows a greater disparity between funds, in relative terms, albeit this does not mean that merger would prompt an immediate increase in contribution rates.

In practice, a move to a single funding strategy, using a common funding target on the same assumptions, could still permit retention of the current contribution rate strategies in the short term.

Following any merger of funds a common set of actuarial assumptions would be needed for future valuations of the merged fund. This would have an impact on employer contributions.

## Benefits of Size (IR)

From the advice commissioned, it is apparent that there are benefits of size in large funds, although better returns cannot be guaranteed. Hymans' analysis over the 10 years to 31<sup>st</sup> March 2011 suggests that benefits of size accrue incrementally in funds greater than £5 billion in value. These **benefits come from wider characteristics rather than simply the quantum of funds invested.**



The table shown excludes the 3 largest funds, partly because the x-axis scale would be dragged to the right and partly to ensure that the chart was not overly influenced by these three Funds. Including the three funds would not however have changed the picture. There is significant dispersion of returns around the line of best fit. **It is believed that it is the economies of scale that can result, together with size which can lead to improved investment return.** Any improved return is likely to be a function of improved governance, as larger Funds are likely to have greater resource applied to aligning the interest of managers with the Fund objectives.

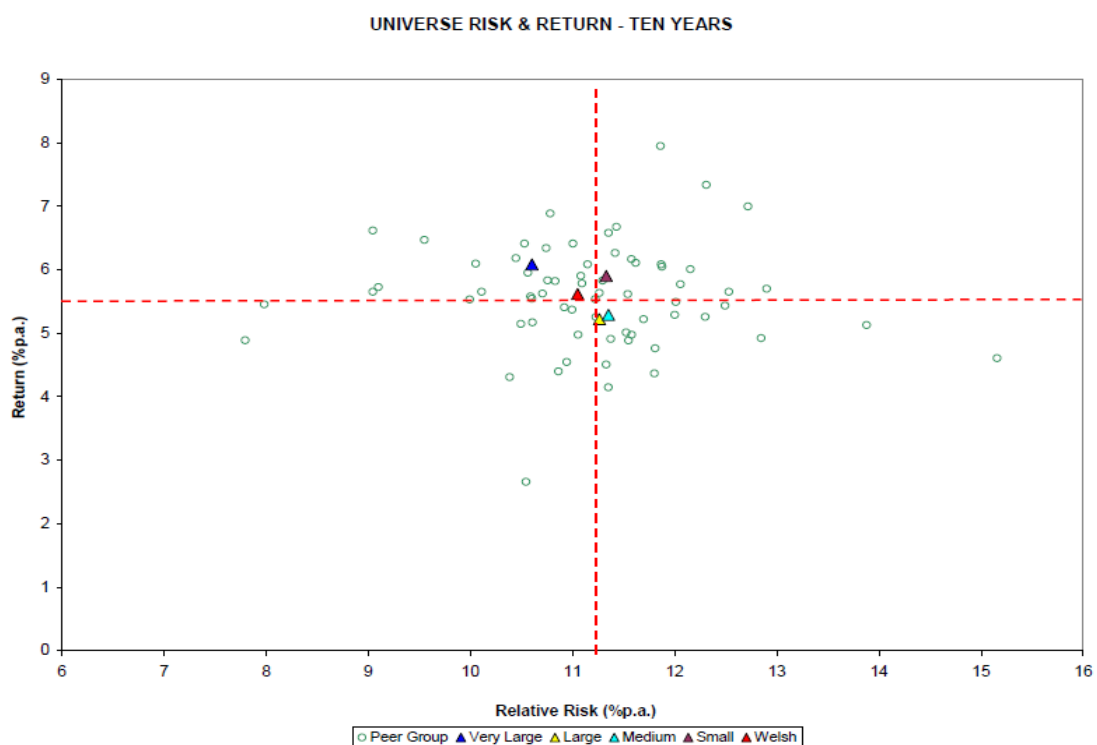
The wider characteristics include governance structures which enable more timely decision making, more internal specialist resources, hands-on management and in-house management of investments.

It is also important however to understand the extent to which benefits of size and scale can be achieved through greater collaboration more quickly than might be the case through a full merger. It is possible to achieve some of these benefits through pooling investment resources and managing investment funds collectively across Wales as an alternative to a full merger into one fund.

### Maximising Investment Returns at Lower Risk (IR)

There are clearly significant risks associated with forecasting future Investment return. However there is a statistical correlation between size of fund and investment return, whereby larger funds appear to be able to achieve higher returns at lower risk. This has been analysed over a 10 year period (see above) and appears likely to be the result of economies of scale that together with size allow improved governance and the potential for increased return.

Further analysis and comparison of the average of a group of “very large” funds against the “all Wales” average undertaken by State Street (WM) (see chart below) showed outperformance in the region of 0.6% with lower levels of relative risk for very large funds as illustrated in the chart below. If simply replicated in practice, a theoretical outperformance of 0.6% on £9 billion would amount to an additional £54 million of investment assets being generated.



*This chart shows the ten year risk and return for the peer group this time overlaying the median outcomes by size band. What this shows is that the very largest funds have delivered the best return at considerably lower risk. (Source WM Company)*

Hymans also analysed all fund performance and size and plotted the linear, again demonstrating a general statistical trend of higher investment returns when a larger amount of investment assets is grouped together and invested.

**Whilst additional investment return cannot be guaranteed, any improved performance, however marginal, is likely to result in significant benefits in monetary terms given the aggregate value of Welsh Funds.** For example, improved investment performance of around 0.22% - about one third of the outperformance observed above equates to 1% of employer contribution rates across Wales and given the uncertainty of investment returns and organisational change requirements, it is not unreasonable to moderate expectation. This is particularly true given the lead in time to progress any changes, the wider changes in the pensions industry and the fact that some of the benefits of size might not be realised in the short term if there is a need to create a new investment organisation. The result via enhanced collaboration or a merger could be gradual improvement over a number of years but this would only be reflected from perhaps 2017 (after the next Actuarial valuation). It is also important to emphasise that the **evidence supports higher investment returns when a larger amount of investment assets is grouped together and invested. This does not require organisational change and can be achieved with existing organisational structures through enhanced collaboration.** This is an important area that requires a more in depth examination in order to produce a detailed business case.

## Transition (C)

Transition costs will be incurred when funds move from one investments allocation to another. These costs should not be underestimated and can form a significant cost component affecting any change proposals. The illustrative costs of moving from different types of current investment structures to the above model are shown in the Financial (Costs and Transition) section of this report. This illustrates the short term impact of merging current investments into one investment strategy.

In practice the transition could be undertaken over a short period or extended over a longer period to spread the impact of these costs. Details of potential transition costs are included in the Costs and Transitions section of this report.

## Fund Management Cost (C)

Fund manager fees are inherently complex with some performance related drag and some elements of fees not being transparent (e.g. pooled funds). They are also not the key determinant in fund manager and asset allocation decisions, typically attracting a small weighting (20-30%) in manager appointment processes.

Details of the potential savings on Fund Management Costs are included in the Costs and Transitions section of this report.

## In House Investment Management Costs (C)

These are currently minimal at around £0.6 million.

One of the characteristics of larger funds appears to be the extent to which investments are managed in-house. Larger fund size appears to attract increased levels of in-house management, with appropriately skilled and experienced in house staff. Welsh funds do not generally invest in this way and do not have the necessary skills currently in place to do so.

## Realising Cost Savings at an Employer Level (C)

The prospect of employers being able to realise the impact of any "savings" (from say increased investment return or from cost savings) is one step removed due to the funded nature of the LGPS which involves the triennial valuation process and the associated setting of contribution rates. The issue of materiality of savings relative to £9 billion of investments and the many other continuously moving assumptions and asset valuations is also of relevance.

In order to be able to get a measure of impact, the question was addressed with Hymans that assuming everything else stayed the same what level of savings within funds would be required to achieve a 0.1% reduction in employer contribution rates. It is recognised that this is wholly hypothetical in terms of many things having changed significantly since the 2010 valuation and indeed any savings within pension funds might actually be more about cost avoidance than cost savings – but for the purpose of the report it is helpful in terms of any positive impact upon employers, and their pension contributions.

The pensionable pay bill for those in the LGPS across Wales amounts to circa £2 billion, and to achieve a 0.1% saving on contribution rates (which would save employers £2 million) would require a corresponding saving in pension funds, either



through reduced cost or increased income. Thus, for every £1 improvement in the finances of pension funds, this can be seen to pass through into contribution rates, so employers will see the benefit of reductions in pension fund costs / improved investment returns.

It needs to be stressed that the current outlook and reality is a potential worsening funding position across all funds (not just Welsh funds) and that any cost benefit which might be achieved is likely to be more about future cost avoidance or dampening future cost increases

At this juncture it is important to recognise that for any merger proposition, the lead time to benefit realisation is protracted and a number of steps removed. The legislative framework would require changes to legislation which are within Central Government control (not Welsh Government) and may well be complex and involve lobbying of central government. This aspect is covered in more detail in the Governance section of the report.

## Conclusion

Each pension fund is seeking to achieve a return on its investments in line with its own investment strategy (funding strategy statement). It does not necessarily follow that each fund is attempting to solely maximise return, since any investment return achieved must be within appropriate levels of risk.

At its basic level however, if large funds are able to deliver increased returns at the same or lower levels of risk than the existing 8 Welsh Funds then this is something which needs further consideration.

Fund manager fees, whilst relatively minor in comparison with assets under management (£22.3 million fees on AUM of £9.2 billion), are nonetheless a significant monetary value. The results of analysis demonstrate a general statistical trend of higher investment returns when a larger amount of investment assets is grouped together and invested. This is in part due to the potential for larger funds to be able to access lower fund manager fees which whilst not material to the value of assets under management are nonetheless significant in monetary terms and the potential cannot be discounted.

Whilst additional investment return cannot be guaranteed from combining funds any improved performance, however marginal, is likely to result in significant benefits in monetary terms given the aggregate value of Welsh Funds. Improved investment performance of only around 0.22% equates to 1% of employer contribution rates across Wales and appears a more realistic target or aspiration. This is because of the uncertainty of investment returns and organisational change requirements, the lead in time to progress any changes, the wider changes in the pensions industry and the fact that some of the benefits of size might not be realised in the short term if there is a need to create a new investment organisation.

The results brought about by any enhanced collaboration or merger would only be reflected from perhaps 2017 (after the next Actuarial valuation). It is also important to emphasise that the evidence supports higher investment returns when a larger amount of investment assets is grouped together and invested. This does not require organisational change and can be achieved within existing organisational structures through enhanced collaboration. This is an important area that requires a more in depth examination in order to produce a detailed business case.

It does not necessarily follow that full merger is the way forward. Enhanced collaboration is a vehicle through which many of the benefits of scale might be achieved, whilst retaining an element of local control within existing governance structures, and with realisation of benefit being possible over a shorter timeframe. This would also allow individual funds to continue with their existing actuarial assumptions based on local decision making removing the risk of adverse impact on employers' contributions following change of assumptions on a merger.

On the basis of the evidence we have seen however, there is, from an investment standpoint, a prima facie case for change and an appropriate programme of works should be put in place to maximise the benefit which can be realised through greater collaboration, including specifically managing Pension Fund Investment assets on a collective basis.

# Governance

## Background to LGPS Governance

The LGPS is a common scheme throughout England and Wales. As a statutory public service scheme, the LGPS has a different legal status compared with trust based schemes in the private sector. Matters of governance in the LGPS therefore need to be considered with proper regard to the legal status of the scheme. This includes how and where it fits in the local democratic process through local government law and locally elected councillors who have final responsibility for its stewardship and management and have a clear fiduciary duty in the performance of their functions.

Eighty nine local authorities have been given statutory powers by UK Government to administer the scheme. Under legislation a local authority can delegate their functions through their own constitution to the council, committees, sub-committees or officers. However, the statutory decisions are not the responsibility of the Executive arrangements of the council.

The appointing council decides upon the number of members of a committee and their terms of office. They may include committee members who are not members of the appointing council. The formal committee structures operated by individual pension fund authorities reflect local circumstances and priorities and it has not been the aim of Government to prescribe a 'one size fits all' approach. The evidence collected by the CLG in 2006, and included as part of CLG's Statutory Guidance on Governance Compliance Statements issued on 3rd December 2008 indicated that the overwhelming majority of these committees operate efficiently and effectively despite their variations in constitution, composition and working practices.

Over recent years, CLG, Lord Hutton and CIPFA have published guidance on governance; CLG's being statutory guidance on Governance, where each authority is required to publish a Governance Compliance Statement on a 'comply or explain' basis. The intention as explained by the CLG was not to 'level out these differences' but instead to ensure that different structures reflect best practice principles. More detail on these publications is set out in Appendix 1.

The Public Service Pension Bill will also include consideration of LGPS Governance and overall scheme cost management, which is known as work stream 2 of LGPS 2014. The LGA and trade unions alongside Government have released a joint statement with 12 proposals and those relevant to governance are set out in Appendix 2a.

It appears that changes to Regulation will be forthcoming which will reduce the level of discretion in local governance structures, retaining local democracy but with greater scrutiny. This will question different approaches, working practices and the knowledge and skills of those making and advising on the decisions. These proposals on the whole simply underline and possibly impose earlier best practice from the CLG.

There are specific governance issues to consider within the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Throughout these Regulations reference is made to the requirement for an administering authority to take 'proper advice' when considering investment policy, investment manager appointments and monitoring. It is usual practice for an administering authority to appoint an investment consultant to provide this 'proper advice' and an independent advisor to consider the quality of this advice.

Officers of the administering authority should as a minimum have sufficient knowledge to advise on any conflict of interests with advice received. Some larger LGPS funds employ investment specialists who manage some of the fund internally (instead of through external fund managers) and hence they should have the knowledge and skills to provide 'proper advice', but these funds are in the minority.

As required by the above Regulation an administering authority must publish a Statement of Investment Principles (SIP) which must include the extent to which it complies with guidance given by the Government. This guidance includes CIPFAs Investment Decision Making and Disclosure, which is a guide on the application of the six Myner's Principles (Appendix 2b).

To complete the governance picture as well as the Governance Compliance Statement and SIP discussed above, LGPS Regulations require an administering authority to publish a funding strategy (after taking advice from an Actuary) and a Communication Policy. In addition Regulations allow administering authorities to establish a Pensions Administration Strategy which includes the power to introduce local performance targets and to measure performance against them. All these measures are designed to make the administration and stewardship of the scheme transparent and accountable to its stakeholders. The best practice guidance assists administering authorities with managing LGPS risk areas (Appendix 2c)

## LGPS Governance in Wales

In Wales, as with England, **there is no single model in operation across the 8 funds** and in some cases delegation has been made to a Pensions Committee, an Investment Panel or directly to the Chief Financial Officer. In addition, representation also varies within each structure. Some funds have other employers and member representation on their main committee/panel. Others have established consultative panels/representative forums comprising elected members from the administering authority, representatives from other unitary authorities and participating employers, fund members and Trade unions.

The 8 funds have different independent advisors, investment consultants and actuaries. In addition the roles and responsibilities of the officer support for pension fund finance varies across the funds and most officers also have none pension fund duties and responsibilities. Working practices vary but none of the funds employ investment specialists to manage investments in house. The funds have a range of 3 to 5 individuals involved with accounting, investment and governance but this equates to only 1 to 3 FTE's (about 18 FTE across Wales) which reflects the differing working practices and fund size.

Each Administering Authority has a section which administers LGPS benefits. These vary in size from 8 to 26 individuals dependent in the main on fund size. However, organisation structures, operational models and working practices vary across these sections.

Hence in Wales, as across the whole LGPS, local decision making, based on advice from different advisors, has lead to different outcomes especially in terms of investment structures, funding positions, employer contributions and consistency of the administration (benefit) service provided to members. This should not alarm or surprise stakeholders as the governance structure explained above is designed to provide for local decision making and accountability and differences are an inevitable and acceptable consequence. As noted earlier it appears that the LGPS will still be managed locally in England but with more collaboration between Funds and greater scrutiny on the need for differing approaches to the risks outlined above.

The various governance options for the management of the Scheme in Wales are now considered.

## As Is

The current governance arrangements in Wales have been in place since 1996 and there are differences in strategy, organisation, working practices and outcomes across the funds. If there is a desire to have a more consistent approach, as the benefit of these local differences comes under closer scrutiny, those charged with current governance must be satisfied that the benefits from collaboration can be implemented on a piecemeal basis without a change in the governance structure.

CIPFA has led on initiatives and advice for practitioners through the CIPFA Pensions Panel and CIPFA Pensions Network and there are many opportunities available for elected members and officers to network and share ideas. The CIPFA Knowledge and Skills Framework and Code of Practice should also improve governance. A number of framework agreements for efficient procurement of third party services are also now available.

There are already good examples of collaboration within the current structures especially joint initiatives in pension administration and on responsible investing through the Local Authority Pension Fund Forum. These tend to come about as a result of external drivers providing opportunities for change and collaboration rather than through a programme of collectively planned collaboration.

It should be noted that in terms of governance it is unlikely that 'as is' will be an option because of changes driven from LGPS 2014 as detailed in the Background section. It could be argued that this change alone will be a driver for improvement in the governance of the Scheme.

## Enhanced Collaboration

In this scenario each of the 8 Council's would maintain their administering authority status and each would have a Committee (or Board) which satisfies the requirements of LGPS 2014 in terms of structure and representation. These 'Boards' would continue to determine and implement strategy locally.

The key question is **what sort of governance mechanism would drive such collaboration**, especially if it were for example focussed on investment related matters. One approach is a Joint Sub Committee (JSC) that could be formed with the principle aim of driving and implementing collaboration

There is more than one option within this approach that could be considered, together with various issues for discussion and resolution:

- i. A Joint Sub Committee could either be elected members advised by officers or a more autonomous group of elected members who appoint a third party or specific officer(s) who would report and be accountable to them. In effect, it could be a specialist unit advising and delivering investment related procurement solutions on behalf of any of the 8 pension Funds who wished to participate.
- ii. A further option might be create a JSC of the current Chief Finance officers of the 8 administering authorities (with other senior pension officers as substitute members). This JSC and its delegated powers would be recorded in each of the administering authorities' constitutions.

- iii. Another model could simply be that each pensions committee has to agree to a proposed investment and that decision is actioned by the collaborative body.

Whichever option was favoured, much detail would need to be worked through. Regardless of the option, these would include matters such as:

- **The level of delegation from the 8 main committees (it would need to be decided and documented)**
- the level of consistency across the whole of the eight funds.(or is it simply a Fund chooses to be in the collaboration or not)
- Given that Strategic decisions would remain with the main committees, does the JSC only have the power to recommend, depending on how it was set up and constituted.
- Other, operational decisions would need to be determined. Dependent on the structure, this could be perceived as a loss of control by the administering authority and there will be some debate on what is strategic and what is operational but the concept requires more detailed examination through the production of a detailed business case.
- The JSC may also wish to consider the use of a single investment consultant and/or independent adviser. As stated earlier these organisations or individuals are key in the decision making process and if all eight administering authorities (via the JSC) receive consistent advice then over time logic would suggest that strategy should become more consistent, where appropriate. This could be extended with the joint procurement over time of other third parties such as actuaries, fund managers, custodians, legal advisors, tax advisors etc. As well as the advantages of consistency, joint procurement may result in lower overall cost and a reduction of the operational burden on finance sections.
- In addition there could be two pension practitioner groups' who would research and recommend collaborative opportunities to the JSC, overcome barriers and implement. Groups might include an Administration Group (current Pension Officer Group) and a Finance Group (covering governance, investments, funding and accounting), both with practitioners from the eight administering authorities.

For this governance structure to work the principle of collaboration must be agreed across the 8 funds. Those Funds which choose not to participate in certain collaborative projects will be accountable locally to their stakeholders for this. In simple terms the starting point when considering a collaborative project would be 'why are we not collaborating' rather than 'why should we change current practices'.

The legal advice received considered collaboration and concluded that **'existing legislation provides the Authorities with broad powers to discharge their functions through joint committees for procurement, administration and investment'**. This provides some flexibility in terms of how these governance arrangements could be structured.

The legal advice received did however express **a note of caution in any merging of investments**. Under the Local Government Pension Scheme (Administration) Regulations 2008 there is a requirement to 'maintain' the fund and it must be possible to identify the individual funds investment assets. This can be achieved by creating a separate section for each Authority within a 'common investment fund' or by unitising the assets. However due to the perceived "vagueness" of the wording, there is a concern that such an approach could be interpreted as an over-allocation to a

particular asset class within the Investment Regulations. Consultation with CLG would be recommended here to clarify the intent and interpretation within the existing Investment Regulations. For the implementation of a common investment fund there may be a need to amend secondary legislation. In the current spirit of collaboration across the LGPS it appears unlikely that barriers would be put in place by the CLG, but if change is required, it may not be a quick change due to the existing LGPS legislative workload.

For completeness, although the scope of the above was to consider governance as a whole a JSC could be set up just for specific areas of work such a JSC for passive equity investment or JSC for administration. The options are wide ranging and require further investigation.

### **Merger – (2 - 7 Funds)**

Independent, external legal<sup>3</sup> advice was received on the merger of the 8 pension funds. This concluded that only the UK Government (Secretary of State) has the power to amalgamate funds as a change to secondary legislation is required. The Secretary of State would consider whether it is in the interests of members' and ratepayers'. The legal advice suggests that the Secretary of State may consider a full merger may not be in members' and ratepayers' best interest if the eight Funds funding levels are different. The logic used to support this contention is that such a move may not be seen as being in the interests of the better funded schemes to merge with a less well funded scheme, which could effectively dilute their fund.

Separately, actuarial advice considered the funding levels of the eight Funds using common assumptions identified that there are differences; hence, there is a risk that the Secretary of State could reject a full merger on these grounds.

The legal advice recommended that if the merger option was to be pursued the 8 Councils with responsibility for administering the Pension Funds would need to lobby the Secretary of State. Although they do not have a direct responsibility for the administration of the Scheme, it would be sensible to approach DCLG with the support of Welsh Government but given the heavy legislative workload of the DCLG at present, it may add considerably to the timing of any proposed change in order to implement the required changes in secondary legislation.

Although legal and actuarial advice from one source can always be challenged this approach to change does seem consistent with the democratic governance arrangements for the LGPS explained earlier in the Background section.

The legal advice above applies equally to a merger involving two Pensions Funds as all eight. In essence however, the message here in a legal sense is clear. Collaboration is achievable in a timely manner within the existing legislative framework whereas any proposal for merger will take considerably more time to achieve due to the secondary legislative requirements.

There would be a number of options for structuring the governance arrangements for merged funds including:

- A new corporate body (The Northern Ireland Model)
- One Lead Authority (a current Council would take responsibility for the LGPS for the whole of Wales)



- A Mutual Model (The civil service pension scheme model)

These are equally applicable to a single merged fund, but logic suggests that in the interests of time and cost the larger the number of remaining funds the more likely the lead authority option would be the most appropriate.

In terms of governance specific issues of compliance with statutory guidance etc. logic also suggests that complexity and size will be more easily managed and the risks and costs of change lower than with a full merger to a single fund.

This option does raise a new dynamic in terms of how these funds could be grouped, other than the obvious various geographical splits. Hymans Robertson considered two options 'worthy of further consideration':

- Grouping funds with similar funding levels
- Operational capabilities (identify strengths of individual authorities)

However, they do then comment that whichever option is chosen the governance challenges of retaining local accountability and input into decision making should not be under-estimated. Another consideration of non-geographical options is that this may result in an anomaly in the future if there was another re-organisation of local government in Wales. The other dynamic to consider within this aspect is the perceived or real loss of local accountability from any reduction of Funds and how this could be managed across the 280 or so employers if any change process was initiated.

## **Full Merger – One Local Government Pension Fund in Wales**

As stated above, the legal advice received applies equally to a merger of two funds as to all eight

Similarly, the options for structuring the governance arrangements remain the same as with any merged funds.

The Administration and Investment sections of this report consider to what extent the advantages of merging organisations applies to LGPS funds but there are some specific governance issues to be considered.

However any new structure would need to satisfy the principles of good governance, the current statutory guidance and/or the changes under consideration through LGPS 2014. There is a clear challenge here to develop a governance structure that allows for the representation of stakeholders across the whole of Wales (with the potential to be a structure of great complexity and size) which still allows for effective and timely decision making.

In addition, there will be a period of transition which will incur costs (especially asset transfer costs) and risks. A full assessment would be required on the impact on all the risks which were listed earlier from the lead in period post the formal decision of merger, the transitional period and post the merger.

The whole process from gaining agreement of the 8 Councils, Secretary of State approval and the setting up of the new governance arrangements will take time and cost which are both difficult to estimate. The timing of such a major change, given the implementation of a new scheme from April 2014, the 2013 Actuarial Valuation and current financial market risks needs due care and attention by those currently charged with governance.

## Governance Conclusion

Although any changed governance arrangements in Wales will be largely dictated by the results of detailed consideration of change across administration, investments and broader financial considerations, there remain some specific governance considerations which should not be underestimated.

**In terms of merger, following legal advice this can only be achieved with the agreement of the Secretary of State and a change in secondary legislation.** There are also other risks and costs to consider. Specifically, determining a governance structure to satisfy statutory guidance or the future LGPS 2014 principles (or regulation) would be challenging, but not impossible. The timing of any change given LGPS 2014 and the impact on other risks must not be overlooked by those currently charged with governance.

Due to both the development of LGPS 2014 and the current focus on collaboration it seems unlikely that the 'as is' will be a viable option. However setting this aside, those currently charged with governance, would need to be satisfied that, if there are benefits from collaboration, then this could be managed in a transparent way, and indeed that the end results will justify the change process.

A governance structure to develop and enable enhanced collaboration was considered which included a joint sub committee. There are few legal barriers with this option and there are advantages of relative speed of implementation, simplicity and low cost. This governance structure would drive collaborative projects in a collectively strategic and planned manner over time. In the short to medium term this could enable a more consistent and cost effective approach to managing the scheme across Wales, without losing the local accountability which underpins the statutory governance guidance. In the longer term the increased consistency may allow for more logical mergers, either from choice or driven by any future re-organisation of the 22 unitary authorities in Wales.

## Administration

### Background to LGPS Administration

With 4.6 million members, the Local Government Pension Scheme is one of the largest public sector pension schemes in the UK. The LGPS is a nationwide scheme and is a valuable part of the pay and reward package for employees working in local government or working for other employers participating in the Scheme and for councillors. The scheme regulations are made under the Superannuation Act 1972. Changes to the Scheme are discussed at national level by employee (trade union) and employer (LGA) representatives but can only be amended with the approval of Parliament.

The LGPS has a diverse workforce contributing to the scheme, which requires varying degrees of support and communication.

Benefits Administration teams provide a range of services for current and former employees of local government and other employers participating in the scheme. Their core activities are calculating and paying pension benefits to scheme members but their role extends far beyond this, providing support and guidance to scheme members, often at times of personal change or upset for the member, keeping them informed of the latest developments in the scheme and also ensuring that payments are correct, which means working closely with scheme employers to ensure that information is accurate.

In order to ensure that the scheme is reactive to the extending longevity trends and the subsequent cost implications, the LGPS was subject to regulatory change in April 2008. These changes afforded members specific protections, the result of which increased scheme complexity. Future challenges for the Funds in Wales will, in conjunction with Employers, ensure the implementation of auto enrolment and following consultation and regulation being laid before Parliament (intended to be by 31st March 2013) the 'New LGPS 2014'. The 2014 New Scheme is designed to help address the immediate affordability concerns; however, it will introduce yet another layer of complexity to the existing LGPS administration and as a direct consequence increased membership contact.

### LGPS Administration in Wales

The 8 regional Welsh pension funds are responsible for administering the Pensions for the 22 local authorities in addition to the town, community and other bodies admitted under separate admission agreements. 131 staff are employed across 8 local authority areas providing services for a total of 296 Employers and some 289,000 scheme members. All funds hold local surgeries with their Employers and the availability of face to face support for scheme members.

In terms of the financial context, the existing Funds' Administration charges within Wales compares favourably with Private Sector Administration charges i.e. less than 0.12% of total Funds' assets (Source: Mercer HR).

As part of this review, an Administration Workstream, represented by each of the 8 Funds was identified, with the objective of establishing the current baseline data and level of service delivery at each Fund. The Administration Workstream would use this information to objectively challenge the 'status quo', and identify opportunities to improve efficiency and service to the Welsh LGPS membership, in context of the four service models defined by the Project Board.

All options were tested as part of the work stream's analysis and **the Administration work stream concluded the most beneficial option to the delivery of the LGPS Pensions Administration throughout Wales would be through expansion and development of collaborative work.** In this context it was felt that the alignment of Pensions Administration and Pension Funds should continue; as a single or grouped Administration Service operating a multiple number of Funds would present significant inherent risks. The work of the team is presented in tabular format at Appendix 4 but in essence the conclusion drawn was due to the following key points:

- Whilst the Collaborative model is unlikely to generate significant financial savings, there are tangible improvements to service delivery that can be achieved with minimal risk and disruption to stakeholders, within existing organisational structures.
- The Welsh Pensions Officer Group has been in place for several years, and has proactively sought to collaborate on a number of initiatives. This has successfully delivered and ensured a consistent interpretation and application of Regulations across Wales, whilst also enabling all participants to benefit from cost efficiencies.
- The Pensions Officer Group has already identified that the development of a set of All Wales Service Standards along with the implementation of the 2014 LGPS Scheme is a key juncture for future collaboration and anticipates joint communication, presentations and training for the latter.
- This option would ensure that risks such as provision of varying support and 'face to face' communication needs to the diverse membership is maintained and also continues to address the necessity to provide the service in the medium of Welsh locally.
- There is no real evidence to support groupings or a single entity to be more cost effective or efficient than the current operational arrangements

Comparison with other LGPS Funds was possible utilising data from the DCLG's "SF3" return (below) although there was no data that allowed the workstream to identify in a justifiable way an optimum size of fund.

**Table: Fund Membership Size 2010/11<sup>4</sup>**

Bandings of Member numbers	Less than 12.5k	12.5k - 16k	16k - 18k	18k - 20k	20k - 40k	40k - 50k	50k - 65k	65k - 90k	More than 90k
Total Funds in Banding	10	9	9	9	9	11	9	11	12
Wales Fund Banding Profile		1			5	1	1		

<sup>4</sup> Source: SF3 return data for 2010-11

## As Is

While there are some broad similarities between the funds, the current administration arrangements have developed since local government reorganisation in 1996. For a number of years, the implementation of significant changes to scheme administration have been discussed and developed collaboratively through the Pension Officers Group enabling the sharing of experience and skills.

The current arrangements allow service delivery to be alert to scheme member and employer requirements based on agreed local measures; however number, variation in, and consistency of local measures hinder wider benchmarking and setting of service standards. This appears a current weakness that could be addressed via merger or more efficiently and quicker via enhanced collaboration

Comparison with CIPFA benchmarking data for ratios of administration staff to scheme members showed that there were only marginal opportunities to reduce the number of staff currently employed in administration (maximum of 6.82 FTEs). In total, this might generate savings of up to £120,000 per year but this may not materialise as Regulatory complexity increases with the introduction of auto enrolment in 2013 and the new LGPS in 2014. The sum is also small in the context of the 8 Funds (£15,000 per Fund) and secondary to anything that could be achieved around investments.

The ability to provide a local face-to-face service appears to be appreciated by scheme members where available. Whilst difficult to quantify, letters of appreciation from scheme members are not uncommon.

Each fund use the same base IT system but there are some significant differences in the versions used and the way in which the system is configured and utilised that have resulted from local system development.

While there is some scope for further collaboration and potentially some cost avoidance, this can be limited by local resource availability and experience.

## Enhanced Collaboration

**The option of Enhanced Collaboration would build on existing collaborative networks but with the addition of greater governance allowing collaboration to be driven in a planned and strategic way.** This would allow greater cost avoidance and improved consistency of service while minimising transition costs and the risk to current service delivery. It would allow local face to face service delivery to continue and maintain the local responsiveness of the existing arrangements.

The implementation of the LGPS 2014 scheme would be delivered collaboratively and greater consistency in the use of IT would be possible. Sharing experiences of system development and implementation would allow for the maximisation of technological advances. Other collaborative changes may be possible during the implementation of LGPS 2014.

One of the greatest limitations found in the undertaking of this project was the inherent difficulties in collating any meaningful comparable Service Standards and subsequently the inability to identify a potential 'Best in Class' Fund for LGPS Administration across the UK. The following observations were drawn from the project review:

- There are no nationally agreed Pension Administration Service Standards that can be used for performance measurement
- Individual funds set a range of locally determined targets and measures

- IT capabilities to record and report on measures are not fully implemented across all funds in Wales
- Calculation of measures varies considerably (for example: some funds publish percentage completed on target, others the actual number completed, or the average number of days taken to complete; different start and end points are used to capture performance measures making comparison meaningless)
- Publication of targets and measures varies considerably (for example: some publish their target standards but no results)
- CIPFA Pensions Benchmarking Club does not compare Service Standards (in order for this to be successful and a meaningful comparison Service Standards need to be set the same. The current omission by CIPFA is a reflection of the existing inconsistency)

This issue would be addressed through enhanced collaboration and the development of common service standards.

### Merger (2-7 funds)

As discussed above, there are marginal opportunities for reducing costs based on staff-member ratios, but there may be the opportunity to develop specialist roles (e.g. systems or communications officers).

**The scope for making savings through merging the use of a single IT system are limited, in part because all the Funds already use the same IT provider and as costs are based on the number of scheme members which would not change on merger.**

There is a risk that the current levels of local access may no longer be possible, with a further risk that the service may become less responsive to local issues and be seen as increasingly remote.

There is also a timing issue since the implementation of LGPS 2014 would through necessity have to take precedence over the implementation of fund merger. The current level of resources would mean that it would not be possible to implement both concurrently.

Greater consistency and some cost avoidance would be possible through the merger of funds, although this would not necessarily be across the whole of Wales and would depend on the groupings to be merged. Savings, if realised would be extremely small in the context of the service and it is questionable whether the costs of change would justify the level of savings potential.

Common service standards would be developed within the newly merged funds and potentially across Wales.

Existing service delivery is considered to be at greatest risk given the degree of complexity involved in merging and local accountability would be diluted.

### Full Merger

Many of the conclusions reached under the consideration of grouped mergers also apply to a full All Wales merger.

Common service standards, procedures and documentation would apply across Wales but local responsiveness and accountability would be severely diluted.

Again, the implementation of LGPS 2014 would need to take precedence over the implementation of fund merger, and it is questionable whether the quantum of any possible saving would be justified through the upheaval of change. The other important facet here is the legislative and governance issues to be addressed which is dealt with elsewhere in this report.

## Administration Conclusions

The following overall conclusion has been drawn together by the Administration Workstream based on the evidence gathered for each of the four options.

Whilst the Collaborative model is unlikely to generate significant financial savings, there are tangible improvements to service delivery that can be achieved with minimal risk and disruption to stakeholders, within existing organisational structures. This is therefore the option that is recommended.

There is **no real and supported evidence that demonstrates that groupings or a single merged fund would be significantly more cost effective or efficient than the current operational arrangements**. The overall quantum of cost in respect of administration also results in this area being less attractive as an area to achieve meaningful financial benefit.

There is a serious risk that **any major relocation or change from the current Fund deployment would result in a loss of key personnel and ensuing recruitment difficulties, due to the geographical nature and infrastructure within Wales**.

All eight Funds use the same software supplier (who is the market leader in LGPS Pension Software). Evaluation of the systems costs identified that reduction in the number of Funds would not generate material savings. Whilst it is conceivable that some non-direct central recharges may be reduced through economies of scale, any such contrast between the support service requirements of a much larger entity would need to be determined.

Furthermore, the review identified that whilst all Funds use the same administration software, utilisation of the system and processes are configured differently to meet funds individual service requirements. This has created difficulties, particularly in respect of data records in the past where organisations previously regionalised in Wales have been merged into a single body.

## Recommendations

Having given due consideration to the four options and associated risks, the Administration Workstream concluded that the most beneficial option to the delivery of the LGPS Pensions Administration throughout Wales would be through expansion and development of collaborative work, as further identified during this project.

This option would ensure that risks such as provision of varying support and 'face to face' communication needs to the diverse membership is maintained and also continues to address the necessity to provide the service in the medium of Welsh locally.

The Pensions Officer Group has already identified that the development of a set of All Wales Service Standards along with the implementation of the 2014 LGPS Scheme is a key juncture for future collaboration and anticipates joint communication, presentations and training for the latter.



# Costs and Transition

## Background

The costs incurred by pension funds include investment management fees, custodian fees, specialist advisors fees and in-house administration, investment management, accounting and management. The **investment management fees are the single largest regular costs incurred by each fund** and are therefore most relevant for consideration when looking for improvements and efficiencies.

In addition to these annual costs, **any decisions which involve the fund moving from one investment allocation to another, or from one investment manager to another, will result in transition costs. These costs can be significant and therefore need to be considered as part of the assessment of a move to collaboration on investment management.** The potential gain however within this context is a possible improvement in investment returns.

## Investment Strategy

In order to undertake the modelling within this report, an indicative investment strategy was used which sought to achieve a required level of return at an appropriate level of risk. This is purely illustrative only but is set out as follows:

Asset Category	Weight	Approach to Management
UK Equities	18	Largely Passive
Regional Equities	20	Largely Passive
Global Equities	25	Themed active (e.g. income or value)
Private Equity	5	Existing fund of funds for now
Property	7	Pooled UK Property funds
Credit	10	Emerging market passive and high yield active – no UK investment grade
Nominal gilt	15	Short duration (less than 5 years)
Index linked gilts		Long dated I-L (over 15 years)

In practice it would be difficult to agree a common investment strategy due to the diverse investment strategies in the Welsh funds which provide different starting points, and the local circumstances for each fund both currently and brought about over time and the appetite for risk of each Fund which is influenced by these various factors.

## Fund Managers Fees

Each Fund sets its own investment strategy relative to its own liabilities. Fee levels will therefore differ for Fund specific reasons. For example, a more mature fund aiming to minimise volatility will have a different asset allocation to one targeting higher returns; hence each Fund will invest in different asset classes, with different amounts in active versus passive approaches.

Investment strategies consider returns net of fees, and also the additional return which may be possible from performance fees. All large investors pay the same low fee within most tracker funds and then consider the relative value of paying additional fees for some active management with the aim of increasing returns. However, fees are usually of limited importance when deciding whether to adopt active management compared to the excess returns and risk-return characteristics of the active strategy. Many investment manager

contracts have performance related fees which can vary significantly according to the returns achieved against the relevant benchmark.

Thus it is difficult to make comparisons between the fees in different funds when there are many variables affecting their calculation.

At an all Wales level, Fund Manager Costs (excluding custodians, specialist advice etc...) amount to over £22 million. **A study carried out by WM of their LGPS Funds over a 10 year period identified fund manager fee ranges that did appear dependent upon size of fund.** This concluded that funds over £5 billion do have lower levels of fees than funds of between £1 billion and £2 billion. The differential within those funds which are externally managed is circa 0.07%. On assets under management of £9 billion, this statistical trend, if actually realised, amounts to a potential financial differential of £6.3 million.

Many larger funds also undertake more investment activity in-house which further reduces their costs. The differential in fees at an all fund level increased to circa 0.20%. On assets under management of £9 billion, this amounts to a potential financial differential of £18 million.

Hymans have similarly commented on fund manager fees and imply a potential cost saving being achievable from having bigger mandates. Part of these savings could be realised due to the higher bargaining power of larger investors **but larger funds do appear to have certain economies of scale that may influence investment returns in a positive way.**

The extent to which lower fee levels might be associated with older mandates is a key observation here, and one which through greater collaboration might be exploited within existing fund structures. This is due to some mandates being in place over many years and negotiated at times of historically low management fees.

To further explore possible fee savings, the investment strategy provided by Hyman's was used as a base case and independent third party advice was sought on the range of fees currently in the market for these larger mandates. Many assumptions as to the number of fund managers and types of mandates have been made to enable any such comparison to take place so results should be interpreted with care. The market value used for the eight Funds was the mid point of the March 2010 and March 2011 market value to enable some comparison with the £22.3m (total fees for 2010/11). The results are summarised in the table below:

	<b>Assumed Fund Value</b>	<b>Low Fee Range</b>	<b>Mid Fee Range</b>	<b>High Fee Range</b>
Fund Management Fee	£8.9bn	£17.2m	£19.4m	£24.8m

Therefore, these results broadly further support the hypothesis and some survey findings that larger pension funds can achieve lower fees, of between £3-7m per annum in this example. Albeit should be noted that using all the higher range of assumptions, current fee levels in total are lower. This may reflect current low fees paid for some older mandates or simply the range of assumptions made to enable the comparison.

### **Asset Transition Cost**

Theoretically, if the current assets of the individual eight funds were being employed using the same investment strategy and implemented through the same fund managers then a merger or some kind of pooling or grouping of these assets would result in no change or cost.

However, in practice, for reasons outlined in the Governance section of this report the eight fund have different investment strategies implemented through many different fund managers. Hence, to achieve any potential benefits from merger or collaboration there will inevitably be some transitional cost and risk.

Transition management (i.e. the moving of monies from one asset class to another or from one manager to another) is a specialist area and it is usual for any institutional investor to employ a transition manager to manage costs and risks where a major change in investment strategy is to be implemented. As part of this report, three Transition Managers were approached both to provide some further understanding on the components of the costs and quantify these costs.

The costs are briefly outlined below:

- Commission fee charged by a broker to execute a buy or sell.
- Taxes and fees levies charged by some countries for equity trades e.g. UK stamp duty.
- The 'spread' which is the difference between the purchase and sell price of an investment.
- The market reaction to a buy or sell order and the resulting impact on the price.
- Specific high asset costs in some fixed income securities due to the limited number of counterparties.
- Alternative assets where transactions may be difficult to achieve or at a high cost or discount to market value.

In addition there is also the 'Opportunity Cost or Risk' which is the market movement during the transaction while the investor is 'out of the market'. This can be a positive impact on performance if the market falls during the transaction or negative if the market rises. In times of volatile markets, this can be a significant positive or negative effect.

As referred to earlier in this section, Hymans provided an indicative optimum investment asset allocation structure for a consolidated investment structure at an all Wales level.

Whilst for the reasons provided above, transition costs can vary considerably due to timing decisions, it is nonetheless important to understand the scale of costs which might arise. This is shown in the table below and suggests transition costs of £11m.

Transition from	Transition to	Amount to be traded £'000	Estimated cost £'000	Estimated cost Basis points
Existing	Hymans Report Allocation	5,815,030	10,979	12

A number of other "transition to" scenarios were also modelled, in order to further understand the range of potential costs. These additional scenarios were identified as representing the two ends of the current spectrum of investment strategies currently used by the Welsh funds. **The transition cost estimates** for these movements were £21M and £46M, as compared to the £11M cost of moving to the Hymans indicative allocation. These costs **are substantial and would have to be factored into any proposals for organisational change.**

The transition managers stress the large number of assumptions made in arriving at the indicative costs and that in reality costs may be significantly different from those above but the important conclusion is that under all scenarios, transition costs are significant monetary sums.

Clearly it is difficult to be precise about the cost of a transition but it is important to recognise there is a 'one off' cost and risk, the quantum of which need to be considered relative to potential cost savings.

## Investment Returns

The Investment and Funding Chapter of this report has already dealt with the issue of size of Fund and the attributes of larger funds that may help improve investment returns. Whilst additional investment return cannot be guaranteed from combining funds through merger or enhanced collaboration, any improved performance, however marginal, is, as previously stated, likely to result in significant benefits in monetary terms given the aggregate value of Welsh Funds. **Improved investment performance of only around 0.22% equates to 1% of employer contribution rates across Wales and this is a goal worth pursuing.**

## Conclusion

Whilst fund management fees and transition costs are significant in terms of value they are not the fundamental drivers of an investment strategy or of changing a strategy.

If the eight Welsh Funds were to merge, the buying power of one new Fund would enable the Fund to purchase mandates at a lower management fee, but the overall reduction in fees (if indeed achieved) as a percentage of market value across Wales will be determined by the new investment strategy and the method of implementation. Equally the evidence would suggest that it is the grouping of assets which is important, not necessarily changing organisational structures. A collective investment approach by Funds would appear to have the same potential to achieve improved investment returns

There would be a significant 'one off cost' of transitioning the assets to these larger mandates under any of the scenarios modelled within the report.

An attempt has been made to quantify the fee reduction and cost of transition but these should be used for illustrative purposes only due to the extent of assumptions made. However, it is not unreasonable to conclude that it could take several years to 'pay back' the cost of transition before any lower fund management fee benefits may accrue.

Whilst additional investment return cannot be guaranteed from combining funds through merger or enhanced collaboration, any improved performance, however marginal, is, as previously stated, likely to result in significant benefits in monetary terms given the aggregate value of Welsh Funds. It is therefore a goal worth pursuing, particularly if it is attainable without significant organisational upheaval.

# Overall Conclusions and Recommendations

## Findings of Investment Work

1. There is evidence that there are potentially significant financial benefits of scale to be found from either merger or working collectively through a common investment approach. The results of analysis demonstrate a general statistical trend of higher investment returns when a larger amount of investment assets is grouped together and invested. There are however no guarantees of improved returns and it does not appear to require organisational change to benefit since enhanced collaboration would achieve the same goal in a quicker and less disruptive way.
2. The potential benefits are not a direct relationship with the size of a fund but **rather the** result of economies of scale that together with size allow improved governance and the potential for increased return **with** a combination of attributes that larger funds tend to have such as
  - More internal / specialist resources;
  - More internal / hands on management;
  - Better diversification – asset classes, managers;
  - More bargaining power on fees;
  - Better, more responsive governance structures and processes in place enabling speedy decision making.
3. Changes introduced as a result of the findings of this paper would not impact on employer contribution rates until the Actuarial Valuation after any changes were implemented (i.e. earliest impact could be 2017/18).
4. It is impossible to predict future investment returns with any degree of certainty.
5. The variety of valid funding assumptions and approaches adopted across Welsh LGPS funds makes comparison difficult and has the potential to significantly cloud the interpretation of a Funds funding position.
6. Given other influencing factors at this time such as changing (increasing) liabilities, changing membership profile, improving longevity and benefit design changes, the impact of any investment benefits are more likely to be a dampening effect on future upward contribution pressures resulting in slower growth in the employer contribution rates rather than a reduction.
7. There are inherent difficulties in adopting a common investment/funding strategy across all Funds whilst they remain independent legal entities. The more appropriate option would be a common approach to the implementation of a Funds strategy rather than the Strategy itself being common.
8. Funding changes are the most complex and lengthy areas for change but also have the greatest potential for cost saving.
9. Investment manager fees amount to some £22.3m per year across LGPS funds in Wales. A common investment approach could provide some modest savings which even if a low level of only 10% saving were achieved would amount to a £2m saving across Wales; equivalent to 0.1% on employer contribution levels. It is important to note however that to deliver such savings would potentially incur significant transition costs at the outset.
10. On the basis of the evidence, there is, from an investment standpoint, a prima facie case for change and an appropriate programme of works should be put in place to

maximise the benefit which can be realised through greater collaboration, including specifically managing Pension Fund Investment assets on a collective basis.

### **Findings of Governance Work**

11. There is much that can be done using a collaborative approach within existing legal, organisational and governance arrangements.
12. Merger cannot be undertaken without a change in secondary legislation at UK level. This would be the most challenging option with the longest lead in time, requiring engagement with both Wales Government and the DCLG.
13. Merger would distance Funds from local accountability and control unless additional layers of governance were introduced.
14. A common investment proposition is feasible within the existing investment regulation framework but clarification on aspects of the Regulations from DCLG would be helpful.
15. A Governance structure to develop and control future collaboration across Wales needs to be established with agreed standards.

### **Findings of Administration Work**

16. Building on existing collaboration and the additional impetus provided by this Collaboration project, can achieve improvements in front line pensions service delivery, consistency and efficiency whilst ensuring compliance with sound governance arrangements and stewardship controls and regulations.
17. A local presence is important for responsive service delivery.
18. The absence of agreed service standards within the LGPS does not help meaningful comparison either within Wales or across UK funds.
19. Administration costs across the LGPS Funds in Wales amount to some £8m per year. Financial benefits identified through the administration work are thus far more modest than those identified elsewhere but should nevertheless be pursued.

### **Findings of Costs and Transition Work**

20. Both fund management fees and transition costs are significant factors but not the fundamental drivers when considering investment strategy.
21. Merger to one Fund or the mechanism of a collective investment vehicle would facilitate potentially lower management fees, but the overall reduction in fees (if indeed achieved) as a percentage of market value across Wales would be dependent on the new investment strategy and the method of implementation.
22. There would be very significant 'one off' costs of transitioning the assets.
23. An attempt has been made to quantify the fee reduction and cost of transition but these should be used for illustrative purposes only as the assumptions are many. In isolation, and prior to factoring in any improved investment return due to size and associated attributes, it is reasonable to conclude that transition costs will be significantly higher than any potential reduction in management fees and thus it could several years to 'pay back'

## Key Recommendations

1. The “as is” or no change option is not supported. The pension’s environment requires a more pro-active approach to managing service standards and costs within the LGPS within Wales.
2. Enhanced collaboration is seen as the area where medium term savings can be optimised. This is the option where the balance of service delivery and efficiency, cost of change, time and resource can be blended in the most effective way and should be pursued further.
3. To create a Full Business Case for a common investment approach to encompass the common attributes that benefit larger funds with the aim of implementation thereafter.
4. To create an appropriate and responsive governance structure to drive and manage future collaboration initiatives within Wales which will:
  - a. explore the potential in the longer term for consistent Valuation and funding assumptions and standards.
  - b. develop minimum administrative service standards for Wales and an agreed measurement framework.
  - c. take advantage of joint procurement initiatives to help consistency and efficiencies
5. The prospect of merger to regional funds or a single Welsh Fund is both complex and the transition would be costly with a long lead- in time and a loss of local autonomy. Changing funding strategies could also have a destabilizing effect with a loss of local accountability. Whilst this may merit additional investigation in the future, it is not recommended for further work at this time, especially where it is believed that the most significant gains can be realised through greater collaboration and, specifically a common investment approach.



## Acknowledgements

This interim report is in itself a true collaborative effort produced by local government officers from all eight Pensions Fund administering authorities in Wales.

The Project Board established a structure of working groups covering administration, investments and funding and financial modelling and governance. Each group had membership from each Welsh Pension Fund and the work produced represented a collective input from many individuals across all Funds with an interest in shaping the future direction of local government pensions in Wales for the benefit of its current and future stakeholders. A project team acted as a co-ordination body to bring the separate work strands together into a single document.

The Project Board wishes to formally place on record its thanks and appreciation to all those officers involved in the project who have spent considerable time and effort, in addition to their existing roles, to produce this report. The work has been considerable and the challenge of achieving sufficient consensus of views and ideas across 8 organisations has been considerable but rewarding. The Board would also like to record its thanks to those third parties who have contributed in a professional manner to the work undertaken.

The Project Board hope that this report stimulates debate about the future direction of the LGPS in Wales and enables an increased confidence that there is a way that the LGPS in Wales can be provided in an increasingly efficient way and operated in both an affordable and sustainable way for all its stakeholders, now and in the future.

## Appendices

- 1 Key Funding and Investment Questions
- 2 Guidance on Governance
- 3 Extract from Joint Statement relating to Governance
- 4 Summary of key Points re Administration

KEY FUNDING AND INVESTMENT QUESTIONS

1. Based on the current funding strategies and membership structures across existing Funds, is it possible to model, in outline terms, a funding strategy to balance existing funding objectives across a single Wales Pension Fund? Following on from that, is it then possible to suggest a basic investment strategy (asset allocation, risk and return targets) to meet that funding scenario? This is for illustrative purposes only (we are not seeking to undertake a wholesale asset / liability study/review) but could be something which might be used for modelling purposes to demonstrate what a potential strategy might look like, and how we can model the transition costs with our transition managers.
  
2. Are there any basic funding rules, or a template or checklist, which might be appropriate to determine any best fit for a regionalised model across Wales? Based on existing funding assumptions, membership structures etc., have you any views upon which, if any, Funds might be more aligned so as to minimise the impact on long-term funding arrangements? Could we then carry out the same analysis as in point 1 above for the suggested regional groupings?
  
3. For enhanced collaboration as well as the status quo option, are there particular actuarial assumptions or aspects of funding strategies which could usefully be standardised? Is it possible to quantify the impact of this on employer contributions?
  
4. Based upon any cost savings being identified as achievable, is there a calculation which could be carried out to demonstrate the absolute or relative level of administrative cost savings would be required to have a positive impact upon employer contribution rates of 0.10% (ie 10bps). That is, if everything else stayed the same, then at the 2010 valuation what level of long-term cost savings would have been required to have reduced employer contribution rates by 10bps?
  
5. The question of Fund size also needs to be explored if possible. Are there any factors from a funding or investment perspective which you feel are generally linked to Fund size? Is it possible to value any such factors, whether positive or negative, and to provide estimates of the potential impact on employer contributions under different scenarios?

## **Guidance on Governance**

There are nine principles to the CLG statutory guidance but underlying these principles is the democratisation of LGPS committees and governance arrangements. The principles are on structure, representation, selection and role of lay members, voting, training/facility time/expenses, meetings (frequency and quorum), access (to reports), scope (to include investment and administration) and publicity (of governance arrangements).

Although compliance with all the above principles is relevant to any changes proposed in this project the first two principles are shown in more detail as they will require particular attention.

### **1. Structure**

- a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.
- b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.
- c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.

### **2. Representation**

- a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-
  - (i) employing authorities (e.g. admitted bodies)
  - (ii) scheme members (including deferred and pensioner scheme members)
  - (iii) independent professional observers, and
  - (iv) expert advisors (on an ad hoc basis)

More recently **Lord Hutton** considered LGPS governance as part of his report on Public Sector Pensions. His recommendation did not change the local approach to the management of the LGPS when there was an opportunity to do so. However, amongst other recommendations on properly constituted, trained and competent Pension Boards, greater consistency, transparency and scrutiny, there was also mention of central and local government closely monitoring the current co-operative projects within the LGPS, with a view to encouraging the extension of this approach.

In light of this **CIPFA** published a document 'Buying Time' which described a number of co-operative projects which are on-going across the LGPS and published a Code of Practice on Knowledge and Skills in Public Sector Pension Finance for elected members and officers.

### **a. Extract from Joint Statement relating to Governance**

1. Both governance and cost management are equally essential to the future sustainability of the scheme and should not be considered in isolation
2. A national LGPS Board would be set up to include representatives of scheme employers, scheme members, the government and professional bodies. The remit of the board would be to extend best practice, increase transparency, co-ordinate technical and standards issues and provide an effective liaison with the scheme regulator.
3. At a local level we propose that boards provide a greater degree of segregation between funds and administering authorities and that the potential for conflict of interest at both member and officer level is reduced.
4. Membership of local boards is proposed to require a minimum recognised level of skills and knowledge and to include representation for fund employers and trade unions.
5. We also propose that best practice with regard to transparency and accountability is extended across all funds.

### **b. Myner's Principles**

- Effective Decision Making
- Setting Clear Investment Objectives
- Managing liability risks
- Measurement and reporting on investment and governance
- Responsible ownership
- Communication and transparency to stakeholders.

### **c. LGPS Risk Areas**

- Investment risk
- Liability risk
- Employer risk
- Resource and skill risk
- Administrative Risk
- Regulatory and compliance risk
- Reputational risk

**Summary of Key Points re Administration**

**APPENDIX 4**

	<b>Option 1 As is</b>	<b>Option 2 Greater collaboration</b>	<b>Option 3 Merger of grouped funds</b>	<b>Option 4 Single merged all Wales LGPS Fund</b>
<b>Opportunity for reducing costs</b>	None	Minimal	Minimal	Minimal
<b>Risks to sustaining current service</b>	None	None / Minimal	Medium / High	High
<b>Opportunity to improve front line delivery</b>	Limited <ul style="list-style-type: none"> <li>- subject to local resource availability</li> </ul>	Medium / High <ul style="list-style-type: none"> <li>- shared resources</li> <li>- develop minimum standards</li> <li>- some specialisation</li> </ul>	Limited <ul style="list-style-type: none"> <li>- some specialisation</li> <li>- reduced local access</li> <li>- medium risk of loss of experienced staff</li> </ul>	Low / Medium <ul style="list-style-type: none"> <li>- specialisation</li> <li>- reduced local access</li> <li>- high risk of loss of experienced staff</li> </ul>
<b>Delivering a timely and responsive service</b>	Medium / High <ul style="list-style-type: none"> <li>- alert to local member and employer needs</li> <li>- based on agreed local measures</li> </ul>	High <ul style="list-style-type: none"> <li>- alert to local member and employer needs</li> <li>- agree consistent service standards</li> </ul>	Medium <ul style="list-style-type: none"> <li>- less responsive to local member and employer needs</li> <li>- agree consistent service standards within groups</li> </ul>	Medium / High <ul style="list-style-type: none"> <li>- less responsive to local member and employer needs</li> <li>- single set of service standards for Wales</li> </ul>
<b>Improve back office administrative consistency</b>	None <ul style="list-style-type: none"> <li>- currently based on local resource</li> </ul>	Medium / High <ul style="list-style-type: none"> <li>- develop standard processing practices</li> </ul>	Medium <ul style="list-style-type: none"> <li>- develop standard processing practices</li> </ul>	Medium <ul style="list-style-type: none"> <li>- standard processing</li> </ul>

	availability and experience	<ul style="list-style-type: none"> <li>– develop standard documentation</li> </ul>	<ul style="list-style-type: none"> <li>– develop standard documentation</li> <li>– risk of difficulties in data collection due to remoteness from employers</li> </ul>	<ul style="list-style-type: none"> <li>practices</li> <li>– standard documentation</li> <li>– risk of difficulties in data collection due to remoteness from employers</li> </ul>
<b>Achieving the most by appropriate collaboration</b>	<p>Medium</p> <ul style="list-style-type: none"> <li>– some already achieved through Pensions Officer Group (POG) and Pensions communication forums</li> <li>– collaborative opportunities across UK</li> </ul>	<p>High</p> <ul style="list-style-type: none"> <li>– enhanced governance</li> <li>– LGPS 2014 further opportunity to collaborate</li> <li>– maximise utilisation of specialists eg systems officers</li> <li>– maximise utilisation and development of IT systems</li> <li>– collaborative opportunities across UK</li> </ul>	<p>High</p> <ul style="list-style-type: none"> <li>– further collaboration between merged funds</li> <li>– collaborative opportunities across UK</li> </ul>	<p>High</p> <ul style="list-style-type: none"> <li>– collaborative opportunities across UK</li> </ul>
<b>Improve employee / pensioner experience</b>	<p>High</p> <ul style="list-style-type: none"> <li>– local access maintained, including face-to-face service</li> </ul>	<p>High</p> <ul style="list-style-type: none"> <li>– local access maintained, including face-to-face service</li> <li>– shared communications events</li> </ul>	<p>Medium</p> <ul style="list-style-type: none"> <li>– dilution of local access</li> <li>– shared communication events</li> </ul>	<p>Medium</p> <ul style="list-style-type: none"> <li>– dilution of local access</li> <li>shared communication events</li> </ul>



<p><b>Comply with sound governance arrangements and stewardship controls</b></p>	<p>Medium</p> <ul style="list-style-type: none"> <li>- Currently dependent on each Funds interpretation and application of governance arrangements.</li> <li>- Local accountability is maintained</li> </ul>	<p>High</p> <ul style="list-style-type: none"> <li>- Shared resources for governance, interpretation and further opportunity to expand the existing collaboration arrangements in respect of 'Internal Dispute Resolution Procedure' and Discretions Panel.</li> <li>- Local accountability is maintained</li> </ul>	<p>High</p> <ul style="list-style-type: none"> <li>- More consistent approach to Governance</li> <li>- Local accountability diluted</li> </ul>	<p>High</p> <ul style="list-style-type: none"> <li>- More consistent approach to Governance</li> <li>- Local accountability diluted</li> </ul>
<p><b>Better information for better decisions</b></p>	<p>Network of information already available, LGA, CLG, etc. Collaboration with other pension officers through All Wales POG and other user groups</p>	<p>Network of information already available, LGA, CLG, etc. Collaboration with other pension officers through All Wales POG and other user groups</p>	<p>Network of information already available, LGA, CLG, etc. Collaboration may be required with English Funds due to the reduction in the number of Welsh Funds to interpret pension legislation.</p>	<p>Network of information already available, LGA, CLG, etc. A single welsh Fund will be required to collaborate with English Funds to interpret pension legislation.</p>

## Proposed Next Steps

This report is regarded as being “Interim”

One of the most important perspectives still to be factored into the narrative, findings and initial conclusions are the views of our wider stakeholders. This element was always regarded as being essential in any final proposals. It is however easier to provide constructive comment upon a set of definite propositions and so this report in its current guise provides that opportunity. This report is therefore now being circulated for wider consultation and to invite comments on the findings. The following sets out the broad approach.

### Why is information being communicated?

This is critical. The report as drafted provides interim conclusions and recommendations. The consultation invites views on the conclusions reached and includes specific questions based on the direction of the report. We are inviting specific responses, together with the opportunity to make more general comment. This gives more focus for consultation rather than a wide ranging general discussion.

### What is being communicated?

4 separate documents have been prepared:

- i) The Full Report (excluding background research papers and analysis)
- ii) An executive summary
- iii) A short briefing or context note that may be used for wider communication purposes
- iv) An invitation to provide comments and views on the findings of the report together with a set of specific questions on which we are seeking consultation responses.

The production and completion of the draft Report is the end of one phase but also the start of another. This next phase is important in giving the conclusions ultimately reached wider credibility and so it is important that the consultation involves an approach that is clear and consistent and that the mechanisms to be used for wider engagement and consultation are effective in allowing all stakeholders the opportunity to comment.

### How and When?

The consultation process and how to respond

<b>Scope of the consultation Topic of this consultation:</b>	Proposals relating to the optimal number of LGPS funds in Wales and the most appropriate organisational structure
<b>Scope of this consultation:</b>	This consultation seeks responses from interested parties, including officers and councillors and their representative bodies, together with any wider interests
<b>Geographical scope:</b>	Wales
<b>Body responsible for the consultation:</b>	The Society of Welsh Treasurers (Pensions Sub Group) is responsible for the draft report and the consultation exercise.

<b>Duration:</b>	One calendar month. (From 1 <sup>st</sup> March 2013 to 31 <sup>st</sup> March 2013).
<b>Consultation Bodies :</b>	<p>This consultation is seeking views from the following parties with an interest in the Local Government Pension Scheme in Wales:</p> <p>LGPS Administering Authorities in Wales and those charged with Governance of those Funds</p> <p>The Chief Executives of County and County Borough Councils in Wales</p> <p>Fire and Rescue Authorities in Wales</p> <p>Police and Crime Commissioners in Wales</p> <p>National Probation Service in Wales</p> <p>Other scheduled and admitted bodies to the LGPS Funds in Wales</p> <p>GMB</p> <p>UNISON</p> <p>Unite</p> <p>Welsh Government</p> <p>Department of Communities and Local Government</p> <p>Welsh Local Government Association (WLGA)</p> <p>CIPFA in Wales</p> <p>Association of Consulting Actuaries</p>
<b>How to respond</b>	<p>You should respond to this consultation by 31<sup>st</sup> March 2013. You can respond by going to the hyperlink included in the covering correspondence associated with this report.</p> <p>This link will open from 1<sup>st</sup> March 2013.</p> <p>Alternately you can write to:</p> <p>WELSH LOCAL GOVERNMENT PENSION FUNDS- WORKING TOGETHER c/o WLGA Data Unit 3-7 Columbus Walk Cardiff, CF10 4SD</p> <p>When responding, please state whether you are responding as an individual or representing the views of an organisation.</p>

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# CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD



**AUDIT COMMITTEE: 19 September 2016**

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## **RISK MANAGEMENT UPDATE**

### **REPORT OF CORPORATE DIRECTOR RESOURCES      AGENDA ITEM: 6.1**

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#### **Reason for Report**

1. To inform the Audit Committee of the action being taken to improve the risk maturity of the Council in 2016/17.
2. The Terms of Reference of the Audit Committee requires members to 'monitor and scrutinise the effective development and operation of the risk management arrangements within the Council'.

#### **Background**

3. Building on existing arrangements it is vital that the Council now ensures that risk management is embedded in the governance of the Council. The embedding of risk management will assist in creating a culture where:
  - managers at all levels recognise that risk management is part of their job;
  - corporate business processes demonstrate clear consideration of the level of risk that the Council is prepared / not prepared to carry.
4. During the summer, officers from across the Council participated in a review of 'risk maturity'. This review identified that the Council has a number of the characteristics of a 'risk-defined' risk maturity level but also a number of those classified as 'risk aware'. The Risk Maturity Characteristics are recorded in Appendix A.
5. As a result, attention is now being given to ensuring that there are no gaps in risk management processes and systems whilst working towards effectively defining our Corporate Risk Appetite. This logical and structured approach to improving risk management now requires greater assurance over the assessment of risks, and the formal definition of a Corporate Risk Appetite.
6. Having a defined risk appetite will enable officers and members to understand the level of risk that can be accepted in decision making and those areas where further attention is required. This will reduce vulnerabilities and work towards the vision of embedding risk management in decision making and ensuring that it is a key part of organisational thinking.

#### **Issues**

7. In order to take forward the Council's Risk Management approach the following work needs to be delivered:
  - Record and report the Council's Corporate Risks on a 'Risk Map';
  - Validate the risk ratings in the Corporate Risk Register / Map;
  - Identify and define the Council's Corporate Risk Appetite.

### Risk Mapping

8. A Corporate Risk Map (Appendix B) has been produced to present a clear picture of the current management of corporate risks at the quarter one position 2016/17.
9. The Corporate Risk Map was reported to the Senior Management Team (SMT) on 13<sup>th</sup> September 2016, at which time the usefulness of the approach was discussed.
10. The Corporate Risk Map records the position of the Director-assessed residual risks on the council's standard risk matrix template, in consideration of the likelihood and consequence of the risk event.
11. A second dimension has been added to the Corporate Risk Map, to connect the risk score and the risk appetite this represents. The alignment of residual risk to risk appetite is as follows:
  - Red risk represents 'Hungry' risk appetite;
  - Red / Amber risk represents 'Open' risk appetite;
  - Amber Green risk represents 'Cautious' risk appetite;
  - Green risk represents 'Minimalist' risk appetite;
  - Below Green represents 'Averse' risk appetite.

### Validating Risk Ratings

12. In order to have a high degree of confidence over the positioning of residual risks on the Corporate Risk Map a process has been established to provide greater assurance of the residual risks on the Corporate Risk Register.
13. A work instruction and guidance toolkit has been produced by the Information Governance and Risk Team, and this will be issued to each Director prior to the mid-year 2016/17 update. This provides a systematic and methodical approach to reviewing risks, the effectiveness of their assessment and controls.
14. At the end of Quarter 2, Directors will be asked to reconsider their residual risk score using the risk management work instruction and guidance outlined above. This will provide greater assurance on the positioning of each risk on the Corporate Risk Map.

### Risk Appetite

15. In Quarter 3 2016/17 the Information Governance and Risk Team will engage with each Director to help inform the development of a Corporate Risk Appetite for the Council.

16. The approach will involve use of scenario questions, to identify the level of risk that is considered acceptable in decision making, whilst also understanding the position of risks on the Corporate Risk Map and the Council's risk tolerance.

### **Legal Implications**

17. There are no direct legal implications arising from this report. However, one of the benefits of identifying risk is that mitigation measures may be taken, if appropriate, and consequently successful claims against the Council may be avoided altogether, or reduced.

### **Financial Implications**

18. There are no direct financial implications arising from this report. The Corporate Risk register will be used to guide the Internal Audit Plan and the Council's resource planning processes and forms an important part of the governance arrangements for the Council.

### **Recommendation**

19. The Audit Committee should note the Risk Management update, the approach to developing a Corporate Risk Map and defining a Corporate Risk Appetite, and to use the report to inform their future Work Programme.

### **CHRISTINE SALTER CORPORATE DIRECTOR RESOURCES**

The following Appendices are attached:

**Appendix A** - Risk Maturity Characteristics

**Appendix B** – Corporate Risk Map – Quarter One Position (2016/17)



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# RISK MATURITY CHARACTERISTICS

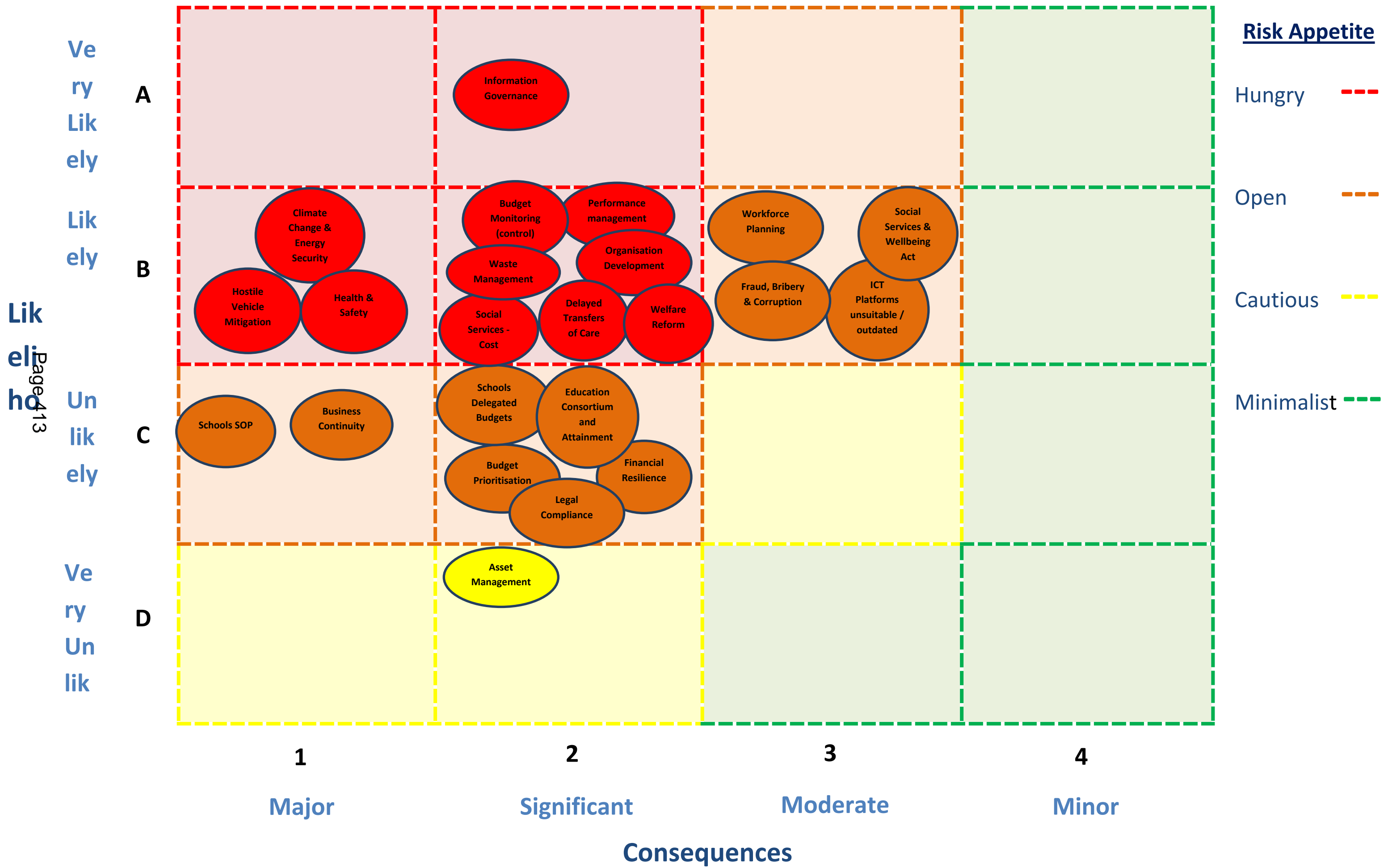
## APPENDIX A

Key characteristics	Risk Naive	Risk Aware	Risk Defined	Risk Managed	Risk Enabled
<b>The organisation's objectives are defined</b>	Possibly	Yes – but may be inconsistent	√	√	√
<b>Management have been trained</b> to understand what risks are, and their responsibility for them	X	Some limited training	√	√	√
<b>A scoring system for assessing risks</b> has been defined	X	No consistent approach	√	√	√
The <b>risk appetite</b> has been defined in terms of a scoring system	X	X	√	√	√
<b>Processes have been defined to determine risks</b> , and these have been followed	X	Unlikely	√ May not be organisation-wide	√	√
<b>All risks have been collected into one list.</b> Risks have been allocated to specific job titles.	X	Incomplete lists	√ May not be organisation-wide	√	√
<b>All risks have been assessed</b> in accordance with the defined scoring system	X	Incomplete lists	√ May not be organisation-wide	√	√
<b>Responses to the risks have been selected and implemented</b>	X	Some responses	√ May not be organisation-wide	√	√
<b>Monitoring controls are in place for key processes, responses and actions.</b>	X	Some	√ May not be organisation-wide	√	√
<b>Regular risk reviews by the organisation</b>	X	Some / infrequent	Regular reviews – probably quarterly	Regular reviews – probably quarterly	Regular reviews – probably quarterly
<b>Management report risks to Directors where responses have not managed the risks to a level acceptable to the board</b>	X	X	√ May be informal	√	√
<b>All significant new projects are routinely assessed for risk</b>	X	X	Most Projects	All projects	All projects
<b>Responsibility for the determination, assessment and management of risks is included in job descriptions</b>	X	X	Limited	Most job descriptions	√
<b>Managers provide assurance on the effectiveness of their risk management</b>	X	X	X	Some Managers	√
<b>Managers are assessed on their risks management performance</b>	X	X	X	Some Managers	√

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# Corporate Risk Register – 2016/17 (Quarter 1 Position)

APPENDIX B



Likelihood  
Page 413

**Consequences**

1 Major      2 Significant      3 Moderate      4 Minor

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WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

# Annual Improvement Report 2015-16

## The City of Cardiff Council

Issued: July 2016

Document reference: 367A2016



This Annual Improvement Report has been prepared on behalf of the Auditor General for Wales by Non Jenkins and Chris Pugh under the direction of Alan Morris.

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The Auditor General is independent of government, and is appointed by Her Majesty the Queen. The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General. The Wales Audit Office is held to account by the National Assembly.

Together with appointed auditors, the Auditor General audits local government bodies in Wales, including unitary authorities, police, probation, fire and rescue authorities, national parks and community councils. He also conducts local government value for money studies and assesses compliance with the requirements of the Local Government (Wales) Measure 2009.

Beyond local government, the Auditor General is the external auditor of the Welsh Government and its sponsored and related public bodies, the Assembly Commission and National Health Service bodies in Wales.

The Auditor General and staff of the Wales Audit Office aim to provide public-focused and proportionate reporting on the stewardship of public resources and in the process provide insight and promote improvement.



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Based on, and limited to, the work carried out by the Wales Audit Office and relevant regulators, the Auditor General believes that the Council is likely to comply with the requirements of the Local Government Measure during 2016-17 providing that it fully embeds arrangements to support improved outcomes and maintains the current pace of improvement	6
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# Summary report

## About this report

- 1 This Annual Improvement Report (AIR) summarises the audit work undertaken at the City of Cardiff Council (the Council) since the last such report was published in August 2015. This report also includes a summary of the key findings from reports issued by 'relevant regulators', namely: the Care and Social Services Inspectorate Wales (CSSIW); and Her Majesty's Inspectorate for Education and Training in Wales (Estyn). Nonetheless, this report does not represent a comprehensive review of all the Council's arrangements or services. The conclusions in this report are based on the work carried out at the Council by relevant external review bodies and, unless stated otherwise, reflect the situation at the point in time that such work was concluded.
- 2 Taking into consideration the work carried out during 2015-16, the Auditor General will state in this report whether he believes that the Council is likely to make arrangements to secure continuous improvement for 2016-17.
- 3 This statement should not be seen as a definitive diagnosis of organisational health or as a prediction of future success. Rather, it should be viewed as providing an opinion on the extent to which the arrangements currently in place are reasonably sound insofar as can be ascertained from the work carried out.
- 4 We want to find out if this report gives you the information you need and whether it is easy to understand. You can let us know your views by e-mailing us at [info@audit.wales](mailto:info@audit.wales) or writing to us at 24 Cathedral Road, Cardiff, CF11 9LJ.

## 2015-16 performance audit work

- 5 The work carried out since the last AIR, including that of the 'relevant regulators', is set out below.

Project name	Brief description
Wales Audit Office: Financial Resilience Assessment	Review of the Council's financial position and how it is budgeting and delivering on required savings, and following up issues highlighted in the 2014-15 financial position work.
Wales Audit Office: Annual 'Improvement Plan' Audit	Review of the Council's published plans for delivering on improvement objectives in line with the requirements of the Measure.
Wales Audit Office: Annual 'Assessment of Performance' Audit	Review of the Council's published performance assessment in line with the requirements of the Measure.
Wales Audit Office: Corporate Assessment Follow On	A follow-on from the Corporate Assessment reported in September 2014 to assess the Council's progress against the Proposal for Improvement made.
Estyn: Evaluation of schools performance	A review of the performance across a range of areas of schools within the Council.
Estyn: Final monitoring visit	An assessment of the Council's progress against recommendations made following a monitoring visit in February 2014.
CSSIW: Annual Review and Evaluation of Performance	An evaluation of the Council's performance in delivering its social services functions.
CSSIW: Inspection of Children's Services	An inspection of Children's Services looking at the access arrangements for children and young people and their families who were either referred for care and support or where information was received about children's well-being.
HM Inspectorate of Probation	A full joint inspection of Youth Offending work in Cardiff.
Wales Audit Office National reports	<ul style="list-style-type: none"> <li>• The financial resilience of councils in Wales</li> <li>• Community safety partnerships</li> <li>• Income generation and charging</li> <li>• Council funding of third sector services</li> </ul>

Based on, and limited to, the work carried out by the Wales Audit Office and relevant regulators, the Auditor General believes that the Council is likely to comply with the requirements of the Local Government Measure during 2016-17 providing that it fully embeds arrangements to support improved outcomes and maintains the current pace of improvement

- 6 The Auditor General has reached this conclusion because:
- a Our Corporate Assessment Follow On report published in February 2016 concluded that the Council had put in place better arrangements to support improvement and to address longstanding issues, but it was now at a critical point in embedding them if it is to achieve a step change in delivering improved outcomes.
  - b The Council did not meet the requirements of the Measure in respect of its assessment of its 2014-15 performance. Its Improvement Report published in October 2015 did not assess how progress had contributed to the success of achieving its 2014-15 improvement objectives. Our certificate is contained in [Appendix 3](#).
  - c Our Financial Resilience Assessment reported that the Council had improved its arrangements for financial planning and has sound financial control and governance arrangements, but now needs to develop robust plans to support the timely delivery of its savings proposals.
  - d The CSSIW published in its October 2015 Annual Review and Evaluation of Performance that the Council continued to face significant challenges in social services as some key areas of performance still require improvement, although it is moving in the right direction.
  - e Estyn reported in March 2016 that the Council had made sufficient progress in relation to the recommendations arising from its monitoring visit in 2014, and it was no longer in need of significant improvement. Estyn removed the Council from follow up activity.
  - f The CSSIW's inspection of Children's Services reported in March 2016 that the Council was committed to prioritising services that support the most vulnerable, but had to deliver this against a backdrop of declining budgets and increasing demand.
  - g The Council met the requirements of the Measure in publishing its 2016-17 Improvement Plan. Our certificate is contained in [Appendix 2](#).

- 7 The Council is now at a critical point and must ensure that it continues to embed its improved arrangements consistently to secure a step change in improved outcomes by the end of this year.
- 8 In response to our Corporate Assessment Follow On report, the Council prepared an action plan to address our recommendation, and associated proposals for improvement. During 2016-17, we will assess the Council's arrangements for demonstrating its progress in addressing the recommendation and proposals for improvement contained in our Corporate Assessment Follow-on Report.

## Recommendations and proposals for improvement

- 9 Given the wide range of services provided by the Council and the challenges it is facing, it would be unusual if we did not find things that can be improved. The Auditor General is able to:
- a make proposals for improvement – if proposals are made to the Council, we would expect it to do something about them and we will follow up what happens;
  - b make formal recommendations for improvement – if a formal recommendation is made, the Council must prepare a response to that recommendation within 30 working days;
  - c conduct a special inspection and publish a report and make recommendations; and
  - d recommend to Ministers of the Welsh Government that they intervene in some way.
- 10 The formal recommendations made by the Auditor General during the course of the year are set out below. Authorities must prepare a response within 30 working days of receiving them. Lower-priority issues, known as proposals for improvement, are contained in our other reports but may be referred to later on in this report. We will continue to monitor both the Auditor General's recommendations and proposals for improvement during the course of our improvement assessment work.

### **Recommendation – Corporate Assessment Follow-on (published February 2016)**

R1 The Council must ensure that it addresses the proposals for improvement as set out in this report to deliver improved outcomes within the next 12 months.

**The Council responded with an action plan to address this recommendation and the proposals for improvement contained within the report. We will assess the Council's arrangements for demonstrating its progress during our improvement assessment work in 2016-17.**

**Recommendation – Certificate of Compliance for the Audit the City of Cardiff Council’s assessment of 2014-15 performance (issued November 2015)**

R2 The Council must ensure that its annual improvement report contains a summary assessment of the Council’s view of its success in achieving its improvement objectives for the year.

**The Council responded with confirmation that future improvement reports would include a summary assessment of the Council’s view of its success in achieving its improvement objectives. In response, the Council also published a separate self-assessment in respect of its performance in achieving its 2014-15 improvement objectives.**

**We will audit the Council’s 2015-16 Annual Improvement Report in November 2016.**

- 11 Areas for Improvement (AFIs) made by Estyn and recommendations made CSSIW and HM Inspectorate of Probation during the course of the year are set out below.

**CSSIW’s Performance Evaluation Report 2014-15**

**AFI1**

- Timeliness of completing reviews of older people’s care needs.
- Implementation of a quality element in the commission of residential care.
- Increase capacity in the delivery of domiciliary care.
- Improve performance in reducing delayed transfers of care.
- Continue to increase the number of direct payments to the people of Cardiff.

**AFI2**

- Continue to increase the uptake of direct payments.
- Continue to increase the number of permanently appointed social workers.
- Improve performance in completing personal education plans.
- Recruitment of personal advisers.
- Completion of initial and core assessments.

**AFI3**

- To maintain a sustainable management structure.
- Appoint to the posts of assistant director.
- Continue to meet the challenges of the Social Services and Wellbeing Act.

## **CSSIW's Inspection of Children's Services**

### **Providing Direction**

- R1 Strong political and corporate support for children's services should be continued in order to achieve the Council's vision for children and young people in Cardiff, while continuing to manage the consistent high volume of demand on statutory services.
- R2 The council must strengthen the operational plans to support the effective co-ordination of the remodelling of children's services and its interface with the Early Help Strategy.
- R3 The council should assure itself that arrangements for accommodation and 'agile working' which it was planning to implement will support effective social work.

### **Delivering Social Services**

- R4 The workforce strategy should be fully implemented to maximise retention of staff and action taken to promote more timely recruitment of staff.
- R5 The council should consider how it can increase the opportunities for staff to be engaged in the development and transformation of services; and for the voices of children and their families to be included in service planning.
- R6 Staff must have the capacity to complete the training which has been identified to support their professional development.
- R7 The quality assurance framework should be systematically implemented across children's services. This should include management oversight of the quality and frequency of supervision.

### **Shaping Services**

- R8 The council must review its arrangements to ensure services can meet the needs of children and young people, particularly for those being subjected to domestic violence.
- R9 A timely review of the effectiveness and the impact on outcomes for people of the remodelling of children's services and its interface with the Early Help Strategy should be included in the planning arrangements.



**Access Arrangements**

- R10 A range of user-friendly information should be developed and made easily accessible for families, children and young people not only with respect to signposting to preventative services but also how children's services carries out its work.
- R11 The council must develop more effective arrangements to ensure that the needs of children and young people are assessed if contacts and referrals about their well-being are repeated.
- R12 The council must work with partners to agree a shared understanding of the threshold for statutory services.
- R13 Careful consideration should be given to how the current effective interface between 'children's access point and the intake and assessment teams' is maintained when the remodelling of the service is implemented.
- R14 Arrangements for children's services staff to access information held on parents who are users of adult services should be reviewed.
- R15 The 'out of hours' arrangements for the completion of 'welfare checks' on children and young people should be agreed with partner agencies.

**Assessment Care Management**

- R16 The quality of plans should be improved to be more outcome-focused and reflect the needs identified in the assessments.
- R17 Work to agree a model of risk assessment should be completed with a strong focus on consistency in risk management.
- R18 More emphasis should be given to recording the views of children, young people and their families.
- R19 The council should review the use of written agreements with families which should only be used within safeguarding or public law outline arrangements. Guidance for social workers and managers for their use should be developed.

**HM Inspectorate of Probation's Full Joint Inspection of Youth Offending Work**

**The Chair of the Youth Offending Service Management Board should ensure that:**

- R1 Governance arrangements, at all levels, provide appropriate support, scrutiny and challenge to the work of the Youth Offending Service and its outcomes.
- R2 The work of the Youth Offending Service is targeted, meets local need, and is driven by a clear strategy and effective delivery plan.
- R3 There is sufficient access to Child and Adolescent Mental Health Services.
- R4 There is sufficient exchange of information between the Youth Offending Service and the police service.

**The Youth Offending Service Manager should ensure that:**

- R5 The planning and review of work to manage the risk of harm posed to others is of sufficient quality.
- R6 The planning and review of work to manage the safeguarding and vulnerability of children and young people is of sufficient quality.
- R7 There is effective management oversight of the quality of work to manage risk of harm to others, and the safeguarding and vulnerability of children and young people.
- R8 The Youth Offending Service meets fully the needs of Welsh speakers, and promotes the value of Welsh as an employment skill.

# Detailed report





# Corporate Assessment Follow On

**The Council has put in place better arrangements to support improvement and to address longstanding issues, but it is now at a critical point in embedding them if it is to achieve a step change in delivering improved outcomes**

- 12 We reported our Corporate Assessment of the Council in September 2014, and continued to monitor the Council's progress during 2014-15 and 2015-16. In February 2016, we published our Corporate Assessment Follow On report which concluded that; 'The Council has put in place better arrangements to support improvement and to address longstanding issues, but was now at a critical point in embedding them if it is to achieve a step change in delivering improved outcomes'.
- 13 We reached this conclusion because:
  - a overall, the Council had responded positively to the Corporate Assessment findings, and put better arrangements in place to support improvement and address longstanding issues; and
  - b the Council is now at a critical point in ensuring that improved arrangements are embedded and implemented consistently and constructively across the organisation in order to achieve a step change in delivering improved outcomes.
- 14 Our Corporate Assessment Follow On report made one formal recommendation which was that: 'The Council must ensure that it addresses the proposals for improvement as set out in this report to deliver improved outcomes within the next 12 months.' The 14 proposals for improvement in the Corporate Assessment Follow On report related to the following areas
  - a Leadership and Management
  - b Governance
  - c Performance Reporting
  - d Corporate Enablers
- 15 The full **Corporate Assessment Follow On report** can be obtained from the Wales Audit Office website.
- 16 The Council responded constructively to the Corporate Assessment Follow on report and prepared a **statement of action** to address the recommendation made and its associated proposals for improvement. The statement of action was resolved at the Council's Cabinet meeting on 21 March 2016, and can be obtained from the Council's website.
- 17 During 2016-17, we will continue to assess the Council's arrangements for demonstrating its progress in addressing the recommendation and proposals for improvement contained in our Corporate Assessment Follow-on Report.

# Performance

## Audit of the City of Cardiff Council's 2016-17 Improvement Plan

- 18 On 29 April 2016 we issued a certificate confirming that the Council had discharged its duties under section 15(6) to (9) of the Local Government Measure and had acted in accordance with Welsh Government guidance sufficiently to discharge its duties. Our certificate is contained in [Appendix 2](#).

## Certificate of compliance for the Audit of the City Of Cardiff Council's assessment of 2014-15 performance

- 19 On 13 November 2015, we issued a certificate of Compliance for the Audit of the City of Cardiff Council's assessment of 2014-15 performance. The certificate confirmed that the Council had not discharged its duties under sections 15(2), (3), (8) and (9) of the Measure. Our certificate is contained in [Appendix 3](#).
- 20 The Auditor General made the following recommendation when issuing the assessment of 2014-15 performance certificate of compliance: 'The Council must ensure that its annual improvement report contains a summary assessment of the Council's view of its success in achieving its improvement objectives for the previous year.'
- 21 Whilst the Council's Improvement Report 2014-15 published in October 2015 set out its eight improvement objectives, it did not contain an assessment of its success in achieving these. The Council's Improvement Report 2014-15 instead assessed performance against the delivery of actions contained within its Corporate Plan 2014-17.
- 22 The Council responded constructively to our recommendation and in January 2016 published an additional report [The Report on Our Improvement Objectives](#) containing an assessment of the Council's view of its success in achieving its 2014-15 improvement objectives. This can be obtained from the Council's website.
- 23 We will review the Council's 2015-16 performance assessment in November 2016.

## Estyn's evaluation of school performance

- 24 Estyn undertook a review of school performance within the Council for 2015-16 and identified the following:
- a The proportion of pupils eligible for free school meals in Cardiff was higher than the Wales average. This was taken into account when evaluating the performance of the Council.
  - b Performance in the Foundation Phase indicator and key stage 2 core subject indicator had improved steadily over the last four years and was now broadly in line with the Wales average.

- c At key stage 3, performance in the core subject indicator also remained broadly in line with the Wales average.
- d At key stage 4, performance in the level 2 threshold including English or Welsh and mathematics had improved at a faster rate than the Wales average and in 2015, and for this measure, met or slightly exceeded the benchmarks for performance set by the Welsh Government over the last three years. Performance in the capped points score was improving at a slower rate than the Wales average and the authority had not met the Welsh Government benchmarks for this measure for the last three years.
- e The performance of pupils eligible for free school meals had improved and was now broadly in-line with the Wales average across the majority of the main indicators. However, at level 2, level 1 and the capped points score, performance was worse than the Wales average.
- f Attendance at secondary schools remained at the same level in the past two years and is in-line with the Wales average. Primary school attendance is slightly higher than the Wales average.

**Estyn reported that the Council had made sufficient progress in relation to the recommendations arising from its monitoring visit in 2014, and it was no longer in need of significant improvement**

- 25 Following its monitoring visit in February 2014, Estyn made six recommendations to the Council:
- a raise standards, particularly at key stage 4;
  - b reduce exclusions and reduce the proportion of young people who are not in education, employment or training post-16;
  - c make sure that the arrangements for delivering school improvement services challenge and support all schools effectively, in order to improve standards for learners in all key stages;
  - d improve the effectiveness of joint planning across the range of partnership working;
  - e improve performance management processes to ensure a consistent approach in delivering objectives; and
  - f improve the scrutiny of local education services.

- 26 During January 2016 Estyn undertook its final monitoring visit to assess the Council's progress against the six recommendations made in February 2014. Following the final monitoring visit, Estyn concluded that the Council had made satisfactory progress in addressing the all of the recommendations. As a result, Estyn reported that the Council was no longer in need of significant improvement, and removed it from follow-up activity. Estyn's **final outcome letter** published in March 2016 is available on its website.

### **CSSIW reported that the Council continues to face significant challenges in social services as some key areas of performance still require improvement, although the Council is moving in the right direction**

- 27 The CSSIW published its **Annual Review and Evaluation of Performance 2014-15** in October 2015 and this is available on its website.
- 28 The CSSIW reported that the Council continued to face significant challenges in transforming services in light of increasing demand and financial pressures, alongside preparing for the implementation of the Social Services and Well Being (Wales) Act. The reorganisation of the corporate leadership team saw a further planned change at senior management level being implemented. Changes to the role of the director for social services should bring more clarity and cohesion to the delivery of services across the Council.
- 29 The Director's annual report presented a clear picture of the challenges and areas of progress made within the directorate over the past year. Clear aims were set for delivering improvements over the coming year.
- 30 Performance indicators demonstrated some key areas of performance still required improvement, although the Council is moving in the right direction. In adult services improvements were required in reducing the number of people waiting for hospital discharge. In children's services there was an increase in the number of children being looked after by the Council. Performance in the area of intake and assessment needed continued improvement.
- 31 Undertaking a strategic overview of services enabled the Council to begin to plan for changes within the department. Planned appointments for the posts of assistant director children's services and assistant director adult services should enable the directorate to:
- a take up the strategic challenge it faces in responding to the delivery of the Social Services and Wellbeing Act;
  - b promotion of integrated services with health and the Vale of Glamorgan;
  - c management of new models of care; and
  - d the promotion of service users' well-being in ever-increasing financial restraint.



- 32 There remained strong corporate support for the delivery of social services and efforts have been made to protect the social services budget as far as possible. The Council had ensured that elected members were briefed and understood the implications of the Social Services and Wellbeing (Wales) Act 2014.
- 33 There remained good corporate understanding of the challenges facing the department and the difficulties it faced in its efforts to provide services to the most vulnerable.

### **CSSIW undertook an inspection of Children's Services and found that the Council was committed to prioritising services that support the most vulnerable, but had to deliver this against a backdrop of declining budgets and increasing demand**

- 34 In January 2016, the CSSIW undertook an **Inspection of Children's Services** and the report is available on its website. The inspection looked at the access arrangements for children and young people and their families who were either referred for care and support or where information was received about children's well-being. The inspection included reviewing the effectiveness of the interface between preventative and statutory provision, but there was no focus on services for disabled children. The CSSIW considered the quality of outcomes achieved for children and families who received a service.
- 35 The CSSIW inspection reported in March 2016, and concluded that there was a clear strategic direction for children's services and a high level of confidence in leadership arrangements. Staff morale was generally positive and the senior management team were well regarded by staff.
- 36 There was strong corporate support for children's services which had a high profile across the Council. Elected members and the corporate management team demonstrated a common understanding of the direction and drive needed to ensure the service effectively supported improved outcomes for children and young people.
- 37 Corporate and senior officers evidenced good strategic preparation for the impending implementation of the Social Services and Well-being (Wales) Act 2014. Senior managers were able to articulate how the remodelled services and the early help strategy would deliver the intended outcomes for young people.
- 38 The timeliness for managing contacts and referrals had improved in the first two quarters of 2015-16 but remained an area for progress. The recording of previous history of multiple contacts was inconsistent and did not support effective risk assessment.

- 39 The quality of initial assessments seen was good, with appropriate decision-making and records clear and up to date. A good range of information had been used to develop the analysis of need, but it was not always evident that the child had been seen.
- 40 Children and young people who were, or were likely to be, at risk of harm were identified and work was appropriately undertaken to help keep them safe. The arrangements for child protection enquiries and investigations including those which were outside working hours were timely and effective.
- 41 The arrangements for access to children's services were well organised and mainly effective. Timeliness for decision making on referrals in one working day stood at 83 per cent for 2014-15, and the 28,354 contacts screened during the year resulted in 4,195 referrals. The threshold to statutory services was relatively high but there was timely appropriate response to concerns about children or young people who might be at risk. It appeared that the high number of repeat contacts will only be reduced if there are sufficient preventive services to effectively support families sooner.

# Use of resources

## Audit of the Council's accounts

- 42 On 23 November 2015, the Auditor General issued an Annual Audit Letter to the Council. The letter summarises the key messages arising from his statutory responsibilities under the Public Audit (Wales) Act 2004 as the Appointed Auditor and his reporting responsibilities under the Code of Audit Practice. The Auditor General issued an unqualified opinion on the Council's accounting statements confirming that they present a true and fair view of the Council's, Group's and the Pension Fund's financial position and transactions. The Annual Audit Letter can be found in [Appendix 4](#) of this report.

## The Council had improved its arrangements for financial planning and has sound financial control and governance arrangements, but now needs to develop robust plans to support the timely delivery of its savings proposals

- 43 During the period May to October 2015 we undertook a review of the Council's financial resilience, following up issues highlighted in the 2014-15 financial position work. The focus of the work was on the delivery of 2014-15 savings plans, and the 2015-16 financial planning period.
- 44 We reported in March 2016 that the Council had improved its arrangements for financial planning and had sound financial control and governance arrangements, but now needed to develop robust plans to support the timely delivery of its savings proposals.
- 45 In reaching our conclusion, we reported the following findings:
- a the Council had improved its financial planning arrangements, and has a track record of operating within its overall budget, but has not delivered all of its in-year planned savings;
  - b the Council had sound financial control arrangements in place; and
  - c the Council had sound financial governance arrangements in place.
- 46 The Council's Audit Committee received our [Financial Resilience Assessment report](#) in June 2016 and the full report can be found on the Council's website.

# Governance

- 47 During 2015-16, our governance-related work was undertaken as part of the Corporate Assessment Follow On, which is reported separately above. The full [Corporate Assessment Follow On Report](#) is available on our website.

## HM Inspectorate of Probation Cardiff Youth Offending Service had experienced staff, but there was scope for improvement in its work with children and young people and leadership and oversight needed strengthening

- 48 In May 2016, HM Inspectorate of Probation reported on its [Full Joint Inspection of Youth Offending Work](#) at the Council, and the report is available on its website. The Council was inspected primarily because its performance showed the lowest three-month and 12-month reconviction performance in Wales over a sustained period. The reoffending data showed a decrease from the previous year to 41.8 per cent but was still higher than the latest average figure for England and Wales at 37.9 per cent. Reoffending frequency rates and the use of custody were also decreasing but still above the England and Wales average.
- 49 The joint inspection of youth offending work in Cardiff was one of a small number of full joint inspections undertaken by HM Inspectorate of Probation with the criminal justice, social care, education and health inspectorates. Inspectors focused on six key areas: reducing reoffending, protecting the public, protecting children and young people, ensuring the sentence is served, the effectiveness of governance and court work and reports.
- 50 Inspectors were pleased to find that:
- a Work to reduce reoffending was satisfactory. Inspectors found good quality work in custodial sentences and in managing the transfer of cases to adult probation services. There was little evidence of work with victims or restorative justice work.
  - b Work to protect the public and actual or potential victims was satisfactory. Reports to court gave clear explanations of the risk children and young people posed to others. Case managers had a good understanding of policies and procedures to manage risk of harm, but management oversight was insufficient.
  - c Work to protect children and reduce their vulnerability was satisfactory. Initial assessments of safeguarding and vulnerability were good, but the quality of planning to address vulnerability was insufficient. There was good liaison and joint working with Children's Services but limited access to Child and Adolescent Mental Health Services.

- d Work to ensure that the sentence was served was satisfactory. Staff had a good knowledge of, and interest in, the children and young people they worked with. In some cases restrictive requirements in criminal behaviour orders ran the risk of further criminalising the child.
  - e The management and delivery of interventions to reduce reoffending was satisfactory. Staff were delivering and planning services to a high standard. There was a well-established junior attendance centre fully integrated within the Youth Offending Service. There was no overarching strategy or policy to determine the range and content of provision.
- 51 Inspectors were, however, concerned to find that the effectiveness of governance and partnership arrangements was unsatisfactory. A previous lack of effective leadership had weakened the Youth Offending Service Management Board. There was minimal use of performance data and local information to target service delivery and improve outcomes.
- 52 Inspectors made recommendations to assist the Youth Offending Service to make continuing improvements, including ensuring governance arrangements at all levels provide appropriate support, scrutiny and challenge to the work of the Youth Offending Service and its outcomes.

# Appendix 1 – Status of this report

The Local Government (Wales) Measure 2009 (the Measure) requires the Auditor General to undertake an annual improvement assessment, and to publish an annual improvement report, for each improvement authority in Wales. This requirement covers local councils, national parks, and fire and rescue authorities.

This report has been produced by staff of the Wales Audit Office on behalf of the Auditor General to discharge his duties under section 24 of the Measure. The report also discharges his duties under section 19 to issue a report certifying that he has carried out an improvement assessment under section 18 and stating whether, as a result of his improvement plan audit under section 17, he believes that the authority has discharged its improvement planning duties under section 15.

Improvement authorities are under a general duty to ‘make arrangements to secure continuous improvement in the exercise of [their] functions’. Improvement authorities are defined as local councils, national parks, and fire and rescue authorities.

The annual improvement assessment is the main piece of work that enables the Auditor General to fulfil his duties. The improvement assessment is a forward-looking assessment of an authority’s likelihood to comply with its duty to make arrangements to secure continuous improvement. It also includes a retrospective assessment of whether an authority has achieved its planned improvements in order to inform a view as to the authority’s track record of improvement. The Auditor General will summarise his audit and assessment work in a published annual improvement report for each authority (under section 24).

The Auditor General may also, in some circumstances, carry out special inspections (under section 21), which will be reported to the authority and Ministers, and which he may publish (under section 22). An important ancillary activity for the Auditor General is the co-ordination of assessment and regulatory work (required by section 23), which takes into consideration the overall programme of work of all relevant regulators at an improvement authority. The Auditor General may also take account of information shared by relevant regulators (under section 33) in his assessments.

# Appendix 2 – Audit of the City of Cardiff Council’s 2016-17 Improvement Plan

## Certificate

I certify that, following publication on 7 April 2016, I have audited the City of Cardiff Council’s Improvement Plan in accordance with section 17 of the Local Government (Wales) Measure 2009 (the Measure) and my Code of Audit Practice.

As a result of my audit, I believe that the Council has discharged its duties under section 15(6) to (9) of the Measure and has acted in accordance with Welsh Government guidance sufficiently to discharge its duties.

## Respective responsibilities of the Council and the Auditor General

Under the Measure, the Council is required to prepare and publish an Improvement Plan describing its plans to discharge its duties to:

- make arrangements to secure continuous improvement in the exercise of its functions;
- make arrangements to secure achievement of its improvement objectives; and
- make arrangements to exercise its functions so that any performance standard specified by Welsh Ministers is met.

The Measure requires the Council to publish its Improvement Plan as soon as is reasonably practicable after the start of the financial year to which it relates, or after such other date as Welsh Ministers may specify by order.

The Council is responsible for preparing the Improvement Plan and for the information set out within it. The Measure requires that the Council has regard to guidance issued by Welsh Ministers in preparing and publishing its plan.

As the Council’s auditor, I am required under sections 17 and 19 of the Measure to carry out an audit of the Improvement Plan, to certify that I have done so, and to report whether I believe that the Council has discharged its duties to prepare and publish an Improvement Plan in accordance with statutory requirements set out in section 15 and statutory guidance.

## Scope of the Improvement Plan audit

For the purposes of my audit work I will accept that, provided an authority meets its statutory requirements, it will also have complied with Welsh Government statutory guidance sufficiently to discharge its duties.

For this audit I am not required to form a view on the completeness or accuracy of information, or whether the Improvement Plan published by the Council can be achieved. Other assessment work that I will undertake under section 18 of the Measure will examine these issues. My audit of the Council’s Improvement Plan, therefore, comprised a review of the plan to ascertain whether it included elements prescribed in legislation. I also assessed whether the arrangements for publishing the plan complied with the requirements of the legislation, and that the Council had regard to statutory guidance in preparing and publishing its plan.



The work I have carried out in order to report and make recommendations in accordance with sections 17 and 19 of the Measure cannot solely be relied upon to identify all weaknesses or opportunities for improvement.

Huw Vaughan Thomas  
Auditor General for Wales

CC: Non Jenkins, Manager  
Chris Pugh, Performance Audit Lead

# Appendix 3 – Audit of the City of Cardiff Council’s assessment of 2014-15 performance

## Certificate

I certify that, following publication on 20 October 2015 I have audited the City of Cardiff Council’s (the Council’s) assessment of its performance in 2014-15 in accordance with section 17 of the Local Government (Wales) Measure 2009 (the Measure) and my Code of Audit Practice.

As a result of my audit, I believe that the Council has not discharged its duties under sections 15(2), (3), (8) and (9) of the Measure and has not acted in accordance with Welsh Government guidance sufficiently to discharge its duties.

## Respective responsibilities of the Council and the Auditor General

Under the Measure, the Council is required to annually publish an assessment which describes its performance:

- in discharging its duty to make arrangements to secure continuous improvement in the exercise of its functions;
- in meeting the improvement objectives it has set itself;
- by reference to performance indicators specified by Welsh Ministers, and self-imposed performance indicators; and
- in meeting any performance standards specified by Welsh Ministers, and self-imposed performance standards.

The Measure requires the Council to publish its assessment before 31 October in the financial year following that to which the information relates, or by any other such date as Welsh Ministers may specify by order.

The Measure requires that the Council has regard to guidance issued by Welsh Ministers in publishing its assessment.

As the Council’s auditor, I am required under sections 17 and 19 of the Measure to carry out an audit to determine whether the Council has discharged its duty to publish an assessment of performance, to certify that I have done so, and to report whether I believe that the Council has discharged its duties in accordance with statutory requirements set out in section 15 and statutory guidance.

## Scope of the audit

For the purposes of my audit work I will accept that, provided an authority meets its statutory requirements, it will also have complied with Welsh Government statutory guidance sufficiently to discharge its duties.

For this audit I am not required to form a view on the completeness or accuracy of information. Other assessment work that I will undertake under section 18 of the Measure may examine these issues. My audit of the Council’s assessment of performance, therefore, comprised a review of the Council’s publication to ascertain whether it included

elements prescribed in legislation. I also assessed whether the arrangements for publishing the assessment complied with the requirements of the legislation, and that the Council had regard to statutory guidance in preparing and publishing it.

The work I have carried out in order to report and make recommendations in accordance with sections 17 and 19 of the Measure cannot solely be relied upon to identify all weaknesses or opportunities for improvement.

### Recommendations under the Local Government (Wales) Measure 2009

The Council must prepare a statement of action and a timetable for taking action in response to this statutory recommendation within 30 working days of receiving this certificate.

R1 The Council must ensure that its annual improvement report contains a summary assessment of the Council's view of its success in achieving its improvement objectives for the previous year.

Huw Vaughan Thomas  
Auditor General For Wales

CC: Leighton Andrews, Minister for Public Services  
Non Jenkins, Manager  
Chris Pugh, Performance Audit Lead

# Appendix 4 – 2014-15 Annual Audit Letter

Councillor Phil Bale  
Leader Cardiff Council  
County Hall  
Atlantic Wharf  
Cardiff  
CF10 4UQ

Dear Councillor Bale

## **Annual Audit Letter – City of Cardiff Council 2014-15**

This letter summarises the key messages arising from the Auditor General for Wales' statutory responsibilities under the Public Audit (Wales) Act 2004 as the Appointed Auditor and my reporting responsibilities under the Code of Audit Practice.

### **The Council complied with its responsibilities relating to financial reporting and use of resources**

It is the Council's responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the accounting statements;
- review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that I have completed the audit of the accounts.

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This Code is based on International Financial Reporting Standards.

On 29 September 2015 I issued an unqualified audit opinion on the accounting statements confirming that they present a true and fair view of the Council's, Group's and the Pension Fund's financial position and transactions. My report is contained within the Statement of Accounts. The key matters arising from the accounts audit were reported to members of the Audit Committee and Council in my Audit of Financial Statements Report on 16 and 24 September 2015 respectively, and a more detailed report to officers has also been issued.

Overall the statement of accounts and associated working papers provided for audit were of a good standard although the audit process took longer than it has in previous years, with a contributory factor being the number of experienced staff leaving the Council and officers having to take on new roles at a crucial time in the audit process. We will work with officers to improve the closure process from both our and the Council's perspective in 2015-16. One of the more significant issues noted in my Audit of Financial Statements Report related to the incorrect capitalisation of some revenue expenditure on Council Dwellings. Whilst the amounts involved were not material to my audit opinion this is an important issue that needs to be addressed going forward.

**I am satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources but areas for improvement have been identified**

My consideration of the Council's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts as well as placing reliance on the work completed as part of the Improvement Assessment under the Local Government (Wales) Measure 2009.

Overall, I am satisfied there are no issues that would impact on the unqualified audit opinion given on the 2014-15 statement of accounts. However, a number of issues were raised in last year's Annual Improvement Report and Corporate Assessment 2014. The main conclusion of the report was that 'fragmented leadership and management have meant that weak performance in key service areas has not improved'. Given the findings of the report and the work that the Council had already started to address these issues, it was agreed that a follow on review would be undertaken in 2014-15 with progress monitored throughout this period. The findings of this work, due to be reported by the end of the year, will highlight areas where the effectiveness of these arrangements has yet to be demonstrated or where further improvements could be made. It is vital that the Council addresses any issues raised if it is to achieve improved performance.

The extremely challenging financial position faced by all local government bodies in Wales continues, with the Council projecting a £117 million shortfall over the period 2016-17 to 2018-19. The Council has acknowledged that it needs to consider fundamental changes in the way it operates and delivers its services and that difficult decisions will need to be made to meet the funding gap. It is recognised that effective financial

management has a high profile throughout the Council at both officer and member level but the focus now must be on delivering agreed savings proposals to ensure the Council remains financially resilient in the future.

**I issued a certificate confirming that the audit of the accounts has been completed on 29 September 2015**

**My work to date on certification of grant claims and returns has not identified significant issues that would impact on the 2015-16 accounts or key financial systems**

A more detailed report on my grant certification work will follow in 2016 once this year's programme of certification work is complete.

The financial audit fee for 2014-15 was in line with the agreed fee set out in the 2015 Audit Plan.

Yours sincerely

**Ann-Marie Harkin**

For and on behalf of the Auditor General for Wales

23 November 2015

# Appendix 5 – National report recommendations 2015-16

Date of report	Title of review	Recommendation
April 2015	<p><b>The financial resilience of councils in Wales</b></p>	<p>R1 Councils should ensure that their corporate plan:</p> <ul style="list-style-type: none"> <li>• is the core driver for the service plans and other supporting strategies including workforce, information technology and capital expenditure;</li> <li>• maintains at least a three to five year forward view and is aligned with the medium term financial plan and other supporting strategies; and</li> <li>• should clearly articulate the desired role of the council in five years - the model for delivering priority services and the infrastructure and resources needed to deliver future priorities within available finances.</li> </ul> <p>R2 The medium term financial plan should identify the major financial risks and key assumptions and senior officers and councillors should subject them to effective scrutiny and challenge before adopting the plan.</p> <p>R3 Councils need to ensure that funding deficits are accurately projected and fully reconciled to detailed savings plans for each year over the life of the medium term financial plan.</p> <p>R4 Councils should review the adequacy of the financial assurance arrangements that underpin the delivery of annual savings plans, including the level of scrutiny and challenge provided by councillors.</p> <p>R5 Councils should ensure that they have a comprehensive reserves strategy that outlines the specific purpose of accumulated useable reserves as part of their Medium term Financial Plan.</p> <p>R6 Councils should develop corporate wide policies on income generation with a view to increasing revenue streams and relieving financial pressures.</p> <p>R7 Councils should:</p> <ul style="list-style-type: none"> <li>• strengthen budget setting and monitoring arrangements to ensure financial resilience; and</li> <li>• review the coverage and effectiveness of their internal and external assurance financial systems and controls to ensure they are fit for purpose and provide early warning of weaknesses in key systems.</li> </ul>



Date of report	Title of review	Recommendation
April 2015	<p>The financial resilience of councils in Wales</p>	<p>R8 Councils must review their finance teams and ensure that they have sufficient capacity and capability to meet future demands.</p> <p>R9 Council officers need to equip councillors with the knowledge and skills they need to deliver effective governance and challenge by extending training opportunities and producing high quality management information.</p>
June 2015	<p>Achieving improvement in support to schools through regional education consortia – an early view.</p>	<p>R1 To clarify the nature and operation of consortia. We found there to be continuing uncertainty about some aspects of the nature of regional consortia and their present and future scope (paragraphs 2.2 to 2.20). We therefore recommend:</p> <ul style="list-style-type: none"> <li>Local authorities should clarify whether consortia services are jointly provided or are commissioned services (services provided under joint-committee arrangements are jointly provided services and are not commissioned services).</li> </ul> <p>R2 To focus on outcomes through medium-term planning. We found that the development of effective regional consortia was hindered by a focus on short-term actions and uncertainty about the future of consortia (paragraphs 2.33 to 2.36; 3.16 to 3.17). We therefore recommend:</p> <ul style="list-style-type: none"> <li>As any possible local authority re-organisation will not be fully implemented until 2020, the Welsh Government and regional consortia should develop three-year plans for the further development, scope, and funding of regional consortia linked to appropriate strategic objectives.</li> </ul>

Date of report	Title of review	Recommendation
June 2015	Achieving improvement in support to schools through regional education consortia – an early view.	<p>R3 To develop more collaborative relationships for the school improvement system. The development of the National Model for Regional Working involved many school improvement partners but we found that this had not led to the development of sufficiently collaborative relationships (paragraphs 2.25 to 2.32). We therefore recommend:</p> <ul style="list-style-type: none"> <li>• Regional consortia should develop improved arrangements for sharing practice and supporting efficiency (for example, one consortium could take the lead on tackling an issue or have functional responsibility for the development of a policy).</li> <li>• The Welsh Government, local authorities and regional consortia should recognise the interdependency of all partners fulfilling their school improvement roles and agree an approach to: <ul style="list-style-type: none"> <li>– information sharing and consultation about developments related to school improvement;</li> <li>– developing collaborative relationships of shared accountability; and</li> <li>– undertaking system wide reviews, and an alignment of the understanding and position of regional consortia across all Welsh Government relevant strategies.</li> </ul> </li> </ul> <p>R4 To build effective leadership and attract top talent. Regional consortia, local authorities and the Welsh Government have all found difficulties in recruiting to senior leadership for education and we found there had been limited action to address this (paragraphs 2.37 to 2.40). We therefore recommend:</p> <ul style="list-style-type: none"> <li>• the Welsh Government and local authorities should collaborate to improve the attractiveness of education leadership roles to attract the most talented leaders for the school improvement system; and</li> <li>• local authorities should collaborate to support the professional development of senior leaders and to ensure appropriate performance management arrangements are in place for senior leaders.</li> </ul>

Date of report	Title of review	Recommendation
June 2015	Achieving improvement in support to schools through regional education consortia – an early view.	<p>R5 To improve the effectiveness of governance and management of regional consortia. Whilst continuing progress is being made, we found that regional consortia have not yet developed fully effective governance and financial management arrangements (paragraphs 3.2 to 3.36). We therefore recommend that local authorities and their regional consortia should:</p> <ul style="list-style-type: none"> <li>• improve their use of self-evaluation of their performance and governance arrangements and use this to support business planning and their annual reviews of governance to inform their annual governance statements;</li> <li>• improve performance management including better business planning, use of clear and measurable performance measures, and the assessment of value for money;</li> <li>• make strategic risk management an integral part of their management arrangements and report regularly at joint committee or board level;</li> <li>• develop their financial management arrangements to ensure that budgeting, financial monitoring and reporting cover all relevant income and expenditure, including grants funding spent through local authorities;</li> <li>• develop joint scrutiny arrangements of the overall consortia as well as scrutiny of performance by individual authorities, which may involve establishment of a joint scrutiny committee or co-ordinated work by local authority scrutiny committees;</li> <li>• ensure the openness and transparency of consortia decision making and arrangements;</li> <li>• recognise and address any potential conflicts of interest; and where staff have more than one employer, regional consortia should ensure lines of accountability are clear and all staff are aware of the roles undertaken; and</li> <li>• develop robust communications strategies for engagement with all key stakeholders.</li> </ul>

Date of report	Title of review	Recommendation
July 2015	<p>Review of Corporate Safeguarding Arrangements in Welsh Councils</p>	<p>R1 Improve corporate leadership and comply with Welsh Government policy on safeguarding through:</p> <ul style="list-style-type: none"> <li>• the appointment of a senior lead officer who is accountable for safeguarding and protecting children and young people with corporate responsibilities for planning improvements;</li> <li>• the appointment of a lead member for safeguarding; and</li> <li>• regularly disseminating and updating information on these appointments to all staff and stakeholders.</li> </ul> <p>R2 Ensure there is a corporate-wide policy on safeguarding covering all Council services to provide a clear strategic direction and clear lines of accountability across the Council.</p> <p>R3 Strengthen safe recruitment of staff and volunteers by:</p> <ul style="list-style-type: none"> <li>• ensuring that Disclosure and Barring Service (DBS) checks and compliance with safe recruitment policies cover all services that come into contact with children;</li> <li>• creating an integrated corporate compliance system to record and monitor compliance levels on DBS checks; and</li> <li>• requiring safe recruitment practices amongst partners in the third sector and for volunteers who provide services commissioned and/or used by the Council which are underpinned by a contract or service level agreement.</li> </ul> <p>R4 Ensure all relevant staff, members and partners understand their safeguarding responsibilities by:</p> <ul style="list-style-type: none"> <li>• ensuring safeguarding training is mandated and coverage extended to all relevant Council service areas, and is included as standard on induction programmes;</li> <li>• creating a corporate-wide system to identify, track and monitor compliance on attending safeguarding training in all Council departments, elected members, schools, governors and volunteers; and</li> <li>• requiring relevant staff in partner organisations who are commissioned to work for the Council in delivering services to children and young people to undertake safeguarding training.</li> </ul>

Date of report	Title of review	Recommendation
July 2015	<p>Review of Corporate Safeguarding Arrangements in Welsh Councils</p>	<p>R5 In revising guidance, the Welsh Government should clarify its expectations of local authorities regarding the roles and responsibilities of the designated officer within education services, and the named person at senior management level responsible for promoting the safeguarding.</p> <p>R6 Improve accountability for corporate safeguarding by regularly reporting safeguarding issues and assurances to scrutiny committee(s) against a balanced and Council-wide set of performance information covering:</p> <ul style="list-style-type: none"> <li>• benchmarking and comparisons with others;</li> <li>• conclusions of internal and external audit/ inspection reviews;</li> <li>• service-based performance data;</li> <li>• key personnel data such as safeguarding training, and DBS recruitment checks; and</li> <li>• the performance of contractors and commissioned services on compliance with Council safeguarding responsibilities.</li> </ul> <p>R7 Establish a rolling programme of internal audit reviews to undertake systems testing and compliance reviews on the Council's safeguarding practices.</p> <p>R8 Ensure the risks associated with safeguarding are considered at both a corporate and service level in developing and agreeing risk management plans across the Council.</p>

Date of report	Title of review	Recommendation
October 2015	<p>Supporting the Independence of Older People: Are Councils Doing Enough?</p>	<p>R1 Improve governance, accountability and corporate leadership on older people's issues through:</p> <ul style="list-style-type: none"> <li>• the appointment of a senior lead officer who is accountable for coordinating and leading the Council's work on older people's services;</li> <li>• realigning the work of the older people's strategy coordinators to support development and delivery of plans for services that contribute to the independence of older people;</li> <li>• the appointment of a member champion for older people's services; and</li> <li>• regularly disseminating and updating information on these appointments to all staff and stakeholders.</li> </ul> <p>R2 Improve strategic planning and better coordinate activity for services to older people by:</p> <ul style="list-style-type: none"> <li>• ensuring comprehensive action plans are in place that cover the work of all relevant council departments and the work of external stakeholders outside of health and social care; and</li> <li>• engaging with residents and partners in the development of plans, and in developing and agreeing priorities.</li> </ul> <p>R3 Improve engagement with, and dissemination of, information to older people by ensuring advice and information services are appropriately configured and meet the needs of the recipients.</p> <p>R4 Ensure effective management of performance for the range of services that support older people to live independently by:</p> <ul style="list-style-type: none"> <li>• setting appropriate measures to enable Members, officers and the public to judge progress in delivering actions for all council services;</li> <li>• ensuring performance information covers the work of all relevant agencies and especially those outside of health and social services; and</li> <li>• establishing measures to judge inputs, outputs and impact to be able to understand the effect of budget cuts and support oversight and scrutiny.</li> </ul>

Date of report	Title of review	Recommendation
October 2015	<p>Supporting the Independence of Older People: Are Councils Doing Enough?</p>	<p>R5 Ensure compliance with the Public Sector Equality Duty when undertaking equality impact assessments by:</p> <ul style="list-style-type: none"> <li>• setting out how changes to services or cuts in budgets will affect groups with protected characteristics;</li> <li>• quantifying the potential impact and the mitigation actions that will be delivered to reduce the potentially negative effect on groups with protected characteristics;</li> <li>• indicating the potential numbers who would be affected by the proposed changes or new policy by identifying the impact on those with protected characteristics; and</li> <li>• ensuring supporting activity such as surveys, focus groups and information campaigns includes sufficient information to enable service users to clearly understand the impact of proposed changes on them.</li> </ul> <p>R6 Improve the management and impact of the Intermediate Care Fund by:</p> <ul style="list-style-type: none"> <li>• setting a performance baseline at the start of projects to be able to judge the impact of these overtime;</li> <li>• agreeing the format and coverage of monitoring reports to enable funded projects to be evaluated on a like-for-like basis against the criteria for the fund, to judge which are having the greatest positive impact and how many schemes have been mainstreamed into core funding; and</li> <li>• improving engagement with the full range of partners to ensure as wide a range of partners are encouraged to participate in future initiatives and programmes.</li> </ul>



Date of report	Title of review	Recommendation
December 2015	Delivering with less - Leisure Services	<p>R1 Improve strategic planning in leisure services by:</p> <ul style="list-style-type: none"> <li>• setting an agreed council vision for leisure services;</li> <li>• agreeing priorities for leisure services;</li> <li>• focusing on the Council's position within the wider community sport and leisure provision within the area; and</li> <li>• considering the potential to deliver services on a regional basis.</li> </ul> <p>R2 Undertake an options appraisal to identify the most appropriate delivery model based on the Council's agreed vision and priorities for leisure services which considers:</p> <ul style="list-style-type: none"> <li>• the availability of capital and revenue financing in the next three-to-five years;</li> <li>• options to improve the commercial focus of leisure services;</li> <li>• opportunities to improve income generation and reduce council 'subsidy';</li> <li>• a cost-benefit analysis of all the options available to deliver leisure services in the future;</li> <li>• the contribution of leisure services to the Council's wider public health role;</li> <li>• better engagement with the public to ensure the views and needs of users and potential users are clearly identified;</li> <li>• the impact of different options on groups with protected characteristics under the public sector equality duty; and</li> <li>• the sustainability of service provision in the future.</li> </ul>

Date of report	Title of review	Recommendation
December 2015	Delivering with less - Leisure Services	<p>R3 Ensure effective management of performance of leisure services by establishing a suite of measures to allow officers, Members and citizens to judge inputs, outputs and impact. This should cover council-wide and facility specific performance and include:</p> <ul style="list-style-type: none"> <li>• capital and revenue expenditure;</li> <li>• income;</li> <li>• council 'subsidy';</li> <li>• quality of facilities and the service provided;</li> <li>• customer satisfaction;</li> <li>• success of 'new commercial' initiatives;</li> <li>• usage data – numbers using services/facilities, time of usage, etc; and</li> <li>• impact of leisure in addressing public health priorities.</li> </ul> <p>R4 Improve governance, accountability and corporate leadership on leisure services by:</p> <ul style="list-style-type: none"> <li>• regularly reporting performance to scrutiny committee(s);</li> <li>• providing elected Members with comprehensive information to facilitate robust decision-making;</li> <li>• benchmarking and comparing performance with others; and</li> <li>• using the findings of internal and external audit/inspection reviews to identify opportunities to improve services.</li> </ul>

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**CABINET MEETING: 15 SEPTEMBER 2016**

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**WALES AUDIT OFFICE: ANNUAL IMPROVEMENT REPORT  
2015-16**

**REPORT OF DIRECTOR OF CORPORATE RESOURCES**

**AGENDA ITEM: 4**

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**PORTFOLIO: CORPORATE SERVICES & PERFORMANCE (COUNCILLOR  
GRAHAM HINCHEY)**

**Reason for this Report**

1. To consider the Wales Audit Office Annual Improvement Report and identify key areas to monitor at future Challenge Forum meetings held between Cabinet Members and Directors.

**Background**

2. Each year, the Auditor General is required to audit the improvement planning and reporting arrangements of Welsh councils to assess whether each authority will meet statutory continuous improvement duties. In addition, the Auditor General undertakes an in-depth corporate assessment at each authority on a cyclical basis (currently at least once every four years). In the intervening years, in addition to audits of improvement planning and reporting, the Wales Audit Office, on behalf of the Auditor General, will keep track of developments and focus further assessment work on a number of key themes, developed in discussion with each authority.
3. This Annual Improvement Report summarises the audit work undertaken at the Council since the last such report was published in September 2015. In October 2015 the Council received a Corporate Follow-on Inspection and in their report of February 2016, the Wales Audit Office concluded that: The Council has put in place better arrangements to support improvement and to address longstanding issues, but is now at a critical point in embedding them if it is to achieve a step change in delivering improved outcomes.
4. This Annual Improvement Report includes a summary of the key findings from reports issued by 'relevant regulators', namely: the Care and Social Services Inspectorate Wales (CSSIW) and Her Majesty's Inspectorate for Education and Training in Wales (Estyn). Nonetheless, this report does

not represent a comprehensive review of all the Council's arrangements or services. The conclusions in this report are based on the work carried out at the Council by relevant external review bodies and, unless stated otherwise, reflect the situation at the point in time that such work was concluded.

## **Wales Audit Office Findings**

5. The Auditor General sets out in the Wales Audit Office Annual Improvement Report 2015-16 his belief that, based on and limited to the work carried out by the Wales Audit Office and relevant regulators, the Council is likely to comply with the requirements of the Local Government Measure during 2016-17. Whilst the Auditor General states that this is not a definitive diagnosis of organisational health or a prediction of future success, it provides an opinion on the extent to which the arrangements currently in place are reasonably sound as far as can be ascertained from the work carried out.
6. Attached at Appendix A is the Wales Audit Office Annual Improvement Report 2015-16.
7. The Auditor General made two recommendations in his Annual Improvement Report issued as part of the previous Corporate Assessment Follow-on:
  - The Council must ensure that it addresses the proposals for improvement as set out in the Annual Improvement Report to deliver improved outcomes within the next 12 months.
  - The Council must ensure that its annual improvement report contains a summary assessment of the Council's view of its success in achieving its improvement objectives for the year.
8. A significant amount of work has been undertaken to make improvements in these key areas:
  - As part of the Council's Performance and Governance Programme, three key projects have been established to address Business Planning, Performance Reporting, and Performance Support and Improvement. These projects are focussed on strengthening the performance management arrangements of the Council, which will lead to a fully developed Performance Management Framework and Strategy.
  - The Council has responded with confirmation that future improvement reports will include a summary assessment of its success in achieving its improvement objectives. The Council published a separate self-assessment in respect of its performance in achieving its 2014-15 improvement objectives.

### **Legal Implications**

9. There are no direct legal implications arising from this report. However it should be noted that the Local Government (Wales) Measure 2009 requires the Auditor General to undertake an annual improvement assessment, and to publish an annual improvement report, for each improvement authority in Wales.
10. The Report appended at Appendix A has been produced by staff of the Wales Audit Office on behalf of the Auditor General to discharge his duties and states whether he believes that the authority has discharged its improvement planning duties under the Local Government Measure. An important ancillary activity for the Auditor General is the co-ordination of assessment and regulatory work (required by section 23), which takes into consideration the overall programme of work of all relevant regulators at an improvement authority. The Auditor General may also take account of information shared by relevant regulators (under section 33) in his assessments.
11. The Auditor General, depending on his findings, could carry out special inspections (under section 21), which would be reported to the authority and Ministers, and which he may publish (under section 22).

### **Financial Implications**

12. There are no direct financial implications arising from this report.

### **HR Implications**

13. There are no direct HR implications arising from this report

## **RECOMMENDATIONS**

Cabinet is recommended to:

1. Note the Wales Audit Office Annual Improvement Report 2015-16
2. Note that key issues will be built into the Challenge Forum meetings

**Christine Salter**  
**Corporate Director**  
**9 September 2016**

*The following appendix is attached:*

Appendix A - Wales Audit Office Annual Improvement Report 2015-16.





WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

# Annual Improvement Report 2015-16

## The City of Cardiff Council

Issued: July 2016

Document reference: 367A2016





This Annual Improvement Report has been prepared on behalf of the Auditor General for Wales by Non Jenkins and Chris Pugh under the direction of Alan Morris.

**Huw Vaughan Thomas**  
**Auditor General for Wales**  
**Wales Audit Office**  
**24 Cathedral Road**  
**Cardiff**  
**CF11 9LJ**

The Auditor General is independent of government, and is appointed by Her Majesty the Queen. The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General. The Wales Audit Office is held to account by the National Assembly.

Together with appointed auditors, the Auditor General audits local government bodies in Wales, including unitary authorities, police, probation, fire and rescue authorities, national parks and community councils. He also conducts local government value for money studies and assesses compliance with the requirements of the Local Government (Wales) Measure 2009.

Beyond local government, the Auditor General is the external auditor of the Welsh Government and its sponsored and related public bodies, the Assembly Commission and National Health Service bodies in Wales.

The Auditor General and staff of the Wales Audit Office aim to provide public-focused and proportionate reporting on the stewardship of public resources and in the process provide insight and promote improvement.

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# Summary report

## About this report

- 1 This Annual Improvement Report (AIR) summarises the audit work undertaken at the City of Cardiff Council (the Council) since the last such report was published in August 2015. This report also includes a summary of the key findings from reports issued by 'relevant regulators', namely: the Care and Social Services Inspectorate Wales (CSSIW); and Her Majesty's Inspectorate for Education and Training in Wales (Estyn). Nonetheless, this report does not represent a comprehensive review of all the Council's arrangements or services. The conclusions in this report are based on the work carried out at the Council by relevant external review bodies and, unless stated otherwise, reflect the situation at the point in time that such work was concluded.
- 2 Taking into consideration the work carried out during 2015-16, the Auditor General will state in this report whether he believes that the Council is likely to make arrangements to secure continuous improvement for 2016-17.
- 3 This statement should not be seen as a definitive diagnosis of organisational health or as a prediction of future success. Rather, it should be viewed as providing an opinion on the extent to which the arrangements currently in place are reasonably sound insofar as can be ascertained from the work carried out.
- 4 We want to find out if this report gives you the information you need and whether it is easy to understand. You can let us know your views by e-mailing us at [info@audit.wales](mailto:info@audit.wales) or writing to us at 24 Cathedral Road, Cardiff, CF11 9LJ.

## 2015-16 performance audit work

- 5 The work carried out since the last AIR, including that of the 'relevant regulators', is set out below.

Project name	Brief description
Wales Audit Office: Financial Resilience Assessment	Review of the Council's financial position and how it is budgeting and delivering on required savings, and following up issues highlighted in the 2014-15 financial position work.
Wales Audit Office: Annual 'Improvement Plan' Audit	Review of the Council's published plans for delivering on improvement objectives in line with the requirements of the Measure.
Wales Audit Office: Annual 'Assessment of Performance' Audit	Review of the Council's published performance assessment in line with the requirements of the Measure.
Wales Audit Office: Corporate Assessment Follow On	A follow-on from the Corporate Assessment reported in September 2014 to assess the Council's progress against the Proposal for Improvement made.
Estyn: Evaluation of schools performance	A review of the performance across a range of areas of schools within the Council.
Estyn: Final monitoring visit	An assessment of the Council's progress against recommendations made following a monitoring visit in February 2014.
CSSIW: Annual Review and Evaluation of Performance	An evaluation of the Council's performance in delivering its social services functions.
CSSIW: Inspection of Children's Services	An inspection of Children's Services looking at the access arrangements for children and young people and their families who were either referred for care and support or where information was received about children's well-being.
HM Inspectorate of Probation	A full joint inspection of Youth Offending work in Cardiff.
Wales Audit Office National reports	<ul style="list-style-type: none"> <li>• The financial resilience of councils in Wales</li> <li>• Community safety partnerships</li> <li>• Income generation and charging</li> <li>• Council funding of third sector services</li> </ul>

**Based on, and limited to, the work carried out by the Wales Audit Office and relevant regulators, the Auditor General believes that the Council is likely to comply with the requirements of the Local Government Measure during 2016-17 providing that it fully embeds arrangements to support improved outcomes and maintains the current pace of improvement**

- 6 The Auditor General has reached this conclusion because:
- a Our Corporate Assessment Follow On report published in February 2016 concluded that the Council had put in place better arrangements to support improvement and to address longstanding issues, but it was now at a critical point in embedding them if it is to achieve a step change in delivering improved outcomes.
  - b The Council did not meet the requirements of the Measure in respect of its assessment of its 2014-15 performance. Its Improvement Report published in October 2015 did not assess how progress had contributed to the success of achieving its 2014-15 improvement objectives. Our certificate is contained in [Appendix 3](#).
  - c Our Financial Resilience Assessment reported that the Council had improved its arrangements for financial planning and has sound financial control and governance arrangements, but now needs to develop robust plans to support the timely delivery of its savings proposals.
  - d The CSSIW published in its October 2015 Annual Review and Evaluation of Performance that the Council continued to face significant challenges in social services as some key areas of performance still require improvement, although it is moving in the right direction.
  - e Estyn reported in March 2016 that the Council had made sufficient progress in relation to the recommendations arising from its monitoring visit in 2014, and it was no longer in need of significant improvement. Estyn removed the Council from follow up activity.
  - f The CSSIW's inspection of Children's Services reported in March 2016 that the Council was committed to prioritising services that support the most vulnerable, but had to deliver this against a backdrop of declining budgets and increasing demand.
  - g The Council met the requirements of the Measure in publishing its 2016-17 Improvement Plan. Our certificate is contained in [Appendix 2](#).

- 7 The Council is now at a critical point and must ensure that it continues to embed its improved arrangements consistently to secure a step change in improved outcomes by the end of this year.
- 8 In response to our Corporate Assessment Follow On report, the Council prepared an action plan to address our recommendation, and associated proposals for improvement. During 2016-17, we will assess the Council's arrangements for demonstrating its progress in addressing the recommendation and proposals for improvement contained in our Corporate Assessment Follow-on Report.

## Recommendations and proposals for improvement

- 9 Given the wide range of services provided by the Council and the challenges it is facing, it would be unusual if we did not find things that can be improved. The Auditor General is able to:
- a make proposals for improvement – if proposals are made to the Council, we would expect it to do something about them and we will follow up what happens;
  - b make formal recommendations for improvement – if a formal recommendation is made, the Council must prepare a response to that recommendation within 30 working days;
  - c conduct a special inspection and publish a report and make recommendations; and
  - d recommend to Ministers of the Welsh Government that they intervene in some way.
- 10 The formal recommendations made by the Auditor General during the course of the year are set out below. Authorities must prepare a response within 30 working days of receiving them. Lower-priority issues, known as proposals for improvement, are contained in our other reports but may be referred to later on in this report. We will continue to monitor both the Auditor General's recommendations and proposals for improvement during the course of our improvement assessment work.

### **Recommendation – Corporate Assessment Follow-on (published February 2016)**

R1 The Council must ensure that it addresses the proposals for improvement as set out in this report to deliver improved outcomes within the next 12 months.

**The Council responded with an action plan to address this recommendation and the proposals for improvement contained within the report. We will assess the Council's arrangements for demonstrating its progress during our improvement assessment work in 2016-17.**

**Recommendation – Certificate of Compliance for the Audit the City of Cardiff Council’s assessment of 2014-15 performance (issued November 2015)**

R2 The Council must ensure that its annual improvement report contains a summary assessment of the Council’s view of its success in achieving its improvement objectives for the year.

**The Council responded with confirmation that future improvement reports would include a summary assessment of the Council’s view of its success in achieving its improvement objectives. In response, the Council also published a separate self-assessment in respect of its performance in achieving its 2014-15 improvement objectives.**

**We will audit the Council’s 2015-16 Annual Improvement Report in November 2016.**

- 11 Areas for Improvement (AFIs) made by Estyn and recommendations made CSSIW and HM Inspectorate of Probation during the course of the year are set out below.

**CSSIW’s Performance Evaluation Report 2014-15**

**AFI1**

- Timeliness of completing reviews of older people’s care needs.
- Implementation of a quality element in the commission of residential care.
- Increase capacity in the delivery of domiciliary care.
- Improve performance in reducing delayed transfers of care.
- Continue to increase the number of direct payments to the people of Cardiff.

**AFI2**

- Continue to increase the uptake of direct payments.
- Continue to increase the number of permanently appointed social workers.
- Improve performance in completing personal education plans.
- Recruitment of personal advisers.
- Completion of initial and core assessments.

**AFI3**

- To maintain a sustainable management structure.
- Appoint to the posts of assistant director.
- Continue to meet the challenges of the Social Services and Wellbeing Act.



## **CSSIW's Inspection of Children's Services**

### **Providing Direction**

- R1 Strong political and corporate support for children's services should be continued in order to achieve the Council's vision for children and young people in Cardiff, while continuing to manage the consistent high volume of demand on statutory services.
- R2 The council must strengthen the operational plans to support the effective co-ordination of the remodelling of children's services and its interface with the Early Help Strategy.
- R3 The council should assure itself that arrangements for accommodation and 'agile working' which it was planning to implement will support effective social work.

### **Delivering Social Services**

- R4 The workforce strategy should be fully implemented to maximise retention of staff and action taken to promote more timely recruitment of staff.
- R5 The council should consider how it can increase the opportunities for staff to be engaged in the development and transformation of services; and for the voices of children and their families to be included in service planning.
- R6 Staff must have the capacity to complete the training which has been identified to support their professional development.
- R7 The quality assurance framework should be systematically implemented across children's services. This should include management oversight of the quality and frequency of supervision.

### **Shaping Services**

- R8 The council must review its arrangements to ensure services can meet the needs of children and young people, particularly for those being subjected to domestic violence.
- R9 A timely review of the effectiveness and the impact on outcomes for people of the remodelling of children's services and its interface with the Early Help Strategy should be included in the planning arrangements.

### **Access Arrangements**

- R10 A range of user-friendly information should be developed and made easily accessible for families, children and young people not only with respect to signposting to preventative services but also how children's services carries out its work.
- R11 The council must develop more effective arrangements to ensure that the needs of children and young people are assessed if contacts and referrals about their well-being are repeated.
- R12 The council must work with partners to agree a shared understanding of the threshold for statutory services.
- R13 Careful consideration should be given to how the current effective interface between 'children's access point and the intake and assessment teams' is maintained when the remodelling of the service is implemented.
- R14 Arrangements for children's services staff to access information held on parents who are users of adult services should be reviewed.
- R15 The 'out of hours' arrangements for the completion of 'welfare checks' on children and young people should be agreed with partner agencies.

### **Assessment Care Management**

- R16 The quality of plans should be improved to be more outcome-focused and reflect the needs identified in the assessments.
- R17 Work to agree a model of risk assessment should be completed with a strong focus on consistency in risk management.
- R18 More emphasis should be given to recording the views of children, young people and their families.
- R19 The council should review the use of written agreements with families which should only be used within safeguarding or public law outline arrangements. Guidance for social workers and managers for their use should be developed.

**HM Inspectorate of Probation's Full Joint Inspection of Youth Offending Work**

**The Chair of the Youth Offending Service Management Board should ensure that:**

- R1 Governance arrangements, at all levels, provide appropriate support, scrutiny and challenge to the work of the Youth Offending Service and its outcomes.
- R2 The work of the Youth Offending Service is targeted, meets local need, and is driven by a clear strategy and effective delivery plan.
- R3 There is sufficient access to Child and Adolescent Mental Health Services.
- R4 There is sufficient exchange of information between the Youth Offending Service and the police service.

**The Youth Offending Service Manager should ensure that:**

- R5 The planning and review of work to manage the risk of harm posed to others is of sufficient quality.
- R6 The planning and review of work to manage the safeguarding and vulnerability of children and young people is of sufficient quality.
- R7 There is effective management oversight of the quality of work to manage risk of harm to others, and the safeguarding and vulnerability of children and young people.
- R8 The Youth Offending Service meets fully the needs of Welsh speakers, and promotes the value of Welsh as an employment skill.



# Detailed report



# Corporate Assessment Follow On

**The Council has put in place better arrangements to support improvement and to address longstanding issues, but it is now at a critical point in embedding them if it is to achieve a step change in delivering improved outcomes**

- 12 We reported our Corporate Assessment of the Council in September 2014, and continued to monitor the Council's progress during 2014-15 and 2015-16. In February 2016, we published our Corporate Assessment Follow On report which concluded that; 'The Council has put in place better arrangements to support improvement and to address longstanding issues, but was now at a critical point in embedding them if it is to achieve a step change in delivering improved outcomes'.
- 13 We reached this conclusion because:
  - a overall, the Council had responded positively to the Corporate Assessment findings, and put better arrangements in place to support improvement and address longstanding issues; and
  - b the Council is now at a critical point in ensuring that improved arrangements are embedded and implemented consistently and constructively across the organisation in order to achieve a step change in delivering improved outcomes.
- 14 Our Corporate Assessment Follow On report made one formal recommendation which was that: 'The Council must ensure that it addresses the proposals for improvement as set out in this report to deliver improved outcomes within the next 12 months.' The 14 proposals for improvement in the Corporate Assessment Follow On report related to the following areas
  - a Leadership and Management
  - b Governance
  - c Performance Reporting
  - d Corporate Enablers
- 15 The full **Corporate Assessment Follow On report** can be obtained from the Wales Audit Office website.
- 16 The Council responded constructively to the Corporate Assessment Follow on report and prepared a **statement of action** to address the recommendation made and its associated proposals for improvement. The statement of action was resolved at the Council's Cabinet meeting on 21 March 2016, and can be obtained from the Council's website.
- 17 During 2016-17, we will continue to assess the Council's arrangements for demonstrating its progress in addressing the recommendation and proposals for improvement contained in our Corporate Assessment Follow-on Report.



# Performance

## Audit of the City of Cardiff Council's 2016-17 Improvement Plan

- 18 On 29 April 2016 we issued a certificate confirming that the Council had discharged its duties under section 15(6) to (9) of the Local Government Measure and had acted in accordance with Welsh Government guidance sufficiently to discharge its duties. Our certificate is contained in [Appendix 2](#).

## Certificate of compliance for the Audit of the City Of Cardiff Council's assessment of 2014-15 performance

- 19 On 13 November 2015, we issued a certificate of Compliance for the Audit of the City of Cardiff Council's assessment of 2014-15 performance. The certificate confirmed that the Council had not discharged its duties under sections 15(2), (3), (8) and (9) of the Measure. Our certificate is contained in [Appendix 3](#).
- 20 The Auditor General made the following recommendation when issuing the assessment of 2014-15 performance certificate of compliance: 'The Council must ensure that its annual improvement report contains a summary assessment of the Council's view of its success in achieving its improvement objectives for the previous year.'
- 21 Whilst the Council's Improvement Report 2014-15 published in October 2015 set out its eight improvement objectives, it did not contain an assessment of its success in achieving these. The Council's Improvement Report 2014-15 instead assessed performance against the delivery of actions contained within its Corporate Plan 2014-17.
- 22 The Council responded constructively to our recommendation and in January 2016 published an additional report [The Report on Our Improvement Objectives](#) containing an assessment of the Council's view of its success in achieving its 2014-15 improvement objectives. This can be obtained from the Council's website.
- 23 We will review the Council's 2015-16 performance assessment in November 2016.

## Estyn's evaluation of school performance

- 24 Estyn undertook a review of school performance within the Council for 2015-16 and identified the following:
- a The proportion of pupils eligible for free school meals in Cardiff was higher than the Wales average. This was taken into account when evaluating the performance of the Council.
  - b Performance in the Foundation Phase indicator and key stage 2 core subject indicator had improved steadily over the last four years and was now broadly in line with the Wales average.

- c At key stage 3, performance in the core subject indicator also remained broadly in line with the Wales average.
- d At key stage 4, performance in the level 2 threshold including English or Welsh and mathematics had improved at a faster rate than the Wales average and in 2015, and for this measure, met or slightly exceeded the benchmarks for performance set by the Welsh Government over the last three years. Performance in the capped points score was improving at a slower rate than the Wales average and the authority had not met the Welsh Government benchmarks for this measure for the last three years.
- e The performance of pupils eligible for free school meals had improved and was now broadly in-line with the Wales average across the majority of the main indicators. However, at level 2, level 1 and the capped points score, performance was worse than the Wales average.
- f Attendance at secondary schools remained at the same level in the past two years and is in-line with the Wales average. Primary school attendance is slightly higher than the Wales average.

**Estyn reported that the Council had made sufficient progress in relation to the recommendations arising from its monitoring visit in 2014, and it was no longer in need of significant improvement**

- 25 Following its monitoring visit in February 2014, Estyn made six recommendations to the Council:
- a raise standards, particularly at key stage 4;
  - b reduce exclusions and reduce the proportion of young people who are not in education, employment or training post-16;
  - c make sure that the arrangements for delivering school improvement services challenge and support all schools effectively, in order to improve standards for learners in all key stages;
  - d improve the effectiveness of joint planning across the range of partnership working;
  - e improve performance management processes to ensure a consistent approach in delivering objectives; and
  - f improve the scrutiny of local education services.



- 26 During January 2016 Estyn undertook its final monitoring visit to assess the Council's progress against the six recommendations made in February 2014. Following the final monitoring visit, Estyn concluded that the Council had made satisfactory progress in addressing the all of the recommendations. As a result, Estyn reported that the Council was no longer in need of significant improvement, and removed it from follow-up activity. Estyn's **final outcome letter** published in March 2016 is available on its website.

### **CSSIW reported that the Council continues to face significant challenges in social services as some key areas of performance still require improvement, although the Council is moving in the right direction**

- 27 The CSSIW published its **Annual Review and Evaluation of Performance 2014-15** in October 2015 and this is available on its website.
- 28 The CSSIW reported that the Council continued to face significant challenges in transforming services in light of increasing demand and financial pressures, alongside preparing for the implementation of the Social Services and Well Being (Wales) Act. The reorganisation of the corporate leadership team saw a further planned change at senior management level being implemented. Changes to the role of the director for social services should bring more clarity and cohesion to the delivery of services across the Council.
- 29 The Director's annual report presented a clear picture of the challenges and areas of progress made within the directorate over the past year. Clear aims were set for delivering improvements over the coming year.
- 30 Performance indicators demonstrated some key areas of performance still required improvement, although the Council is moving in the right direction. In adult services improvements were required in reducing the number of people waiting for hospital discharge. In children's services there was an increase in the number of children being looked after by the Council. Performance in the area of intake and assessment needed continued improvement.
- 31 Undertaking a strategic overview of services enabled the Council to begin to plan for changes within the department. Planned appointments for the posts of assistant director children's services and assistant director adult services should enable the directorate to:
- a take up the strategic challenge it faces in responding to the delivery of the Social Services and Wellbeing Act;
  - b promotion of integrated services with health and the Vale of Glamorgan;
  - c management of new models of care; and
  - d the promotion of service users' well-being in ever-increasing financial restraint.

- 32 There remained strong corporate support for the delivery of social services and efforts have been made to protect the social services budget as far as possible. The Council had ensured that elected members were briefed and understood the implications of the Social Services and Wellbeing (Wales) Act 2014.
- 33 There remained good corporate understanding of the challenges facing the department and the difficulties it faced in its efforts to provide services to the most vulnerable.

### **CSSIW undertook an inspection of Children's Services and found that the Council was committed to prioritising services that support the most vulnerable, but had to deliver this against a backdrop of declining budgets and increasing demand**

- 34 In January 2016, the CSSIW undertook an **Inspection of Children's Services** and the report is available on its website. The inspection looked at the access arrangements for children and young people and their families who were either referred for care and support or where information was received about children's well-being. The inspection included reviewing the effectiveness of the interface between preventative and statutory provision, but there was no focus on services for disabled children. The CSSIW considered the quality of outcomes achieved for children and families who received a service.
- 35 The CSSIW inspection reported in March 2016, and concluded that there was a clear strategic direction for children's services and a high level of confidence in leadership arrangements. Staff morale was generally positive and the senior management team were well regarded by staff.
- 36 There was strong corporate support for children's services which had a high profile across the Council. Elected members and the corporate management team demonstrated a common understanding of the direction and drive needed to ensure the service effectively supported improved outcomes for children and young people.
- 37 Corporate and senior officers evidenced good strategic preparation for the impending implementation of the Social Services and Well-being (Wales) Act 2014. Senior managers were able to articulate how the remodelled services and the early help strategy would deliver the intended outcomes for young people.
- 38 The timeliness for managing contacts and referrals had improved in the first two quarters of 2015-16 but remained an area for progress. The recording of previous history of multiple contacts was inconsistent and did not support effective risk assessment.

- 39 The quality of initial assessments seen was good, with appropriate decision-making and records clear and up to date. A good range of information had been used to develop the analysis of need, but it was not always evident that the child had been seen.
- 40 Children and young people who were, or were likely to be, at risk of harm were identified and work was appropriately undertaken to help keep them safe. The arrangements for child protection enquiries and investigations including those which were outside working hours were timely and effective.
- 41 The arrangements for access to children's services were well organised and mainly effective. Timeliness for decision making on referrals in one working day stood at 83 per cent for 2014-15, and the 28,354 contacts screened during the year resulted in 4,195 referrals. The threshold to statutory services was relatively high but there was timely appropriate response to concerns about children or young people who might be at risk. It appeared that the high number of repeat contacts will only be reduced if there are sufficient preventive services to effectively support families sooner.

# Use of resources

## Audit of the Council's accounts

- 42 On 23 November 2015, the Auditor General issued an Annual Audit Letter to the Council. The letter summarises the key messages arising from his statutory responsibilities under the Public Audit (Wales) Act 2004 as the Appointed Auditor and his reporting responsibilities under the Code of Audit Practice. The Auditor General issued an unqualified opinion on the Council's accounting statements confirming that they present a true and fair view of the Council's, Group's and the Pension Fund's financial position and transactions. The Annual Audit Letter can be found in [Appendix 4](#) of this report.

## The Council had improved its arrangements for financial planning and has sound financial control and governance arrangements, but now needs to develop robust plans to support the timely delivery of its savings proposals

- 43 During the period May to October 2015 we undertook a review of the Council's financial resilience, following up issues highlighted in the 2014-15 financial position work. The focus of the work was on the delivery of 2014-15 savings plans, and the 2015-16 financial planning period.
- 44 We reported in March 2016 that the Council had improved its arrangements for financial planning and had sound financial control and governance arrangements, but now needed to develop robust plans to support the timely delivery of its savings proposals.
- 45 In reaching our conclusion, we reported the following findings:
- a the Council had improved its financial planning arrangements, and has a track record of operating within its overall budget, but has not delivered all of its in-year planned savings;
  - b the Council had sound financial control arrangements in place; and
  - c the Council had sound financial governance arrangements in place.
- 46 The Council's Audit Committee received our [Financial Resilience Assessment report](#) in June 2016 and the full report can be found on the Council's website.

# Governance

- 47 During 2015-16, our governance-related work was undertaken as part of the Corporate Assessment Follow On, which is reported separately above. The full [Corporate Assessment Follow On Report](#) is available on our website.

## HM Inspectorate of Probation Cardiff Youth Offending Service had experienced staff, but there was scope for improvement in its work with children and young people and leadership and oversight needed strengthening

- 48 In May 2016, HM Inspectorate of Probation reported on its [Full Joint Inspection of Youth Offending Work](#) at the Council, and the report is available on its website. The Council was inspected primarily because its performance showed the lowest three-month and 12-month reconviction performance in Wales over a sustained period. The reoffending data showed a decrease from the previous year to 41.8 per cent but was still higher than the latest average figure for England and Wales at 37.9 per cent. Reoffending frequency rates and the use of custody were also decreasing but still above the England and Wales average.
- 49 The joint inspection of youth offending work in Cardiff was one of a small number of full joint inspections undertaken by HM Inspectorate of Probation with the criminal justice, social care, education and health inspectorates. Inspectors focused on six key areas: reducing reoffending, protecting the public, protecting children and young people, ensuring the sentence is served, the effectiveness of governance and court work and reports.
- 50 Inspectors were pleased to find that:
- a Work to reduce reoffending was satisfactory. Inspectors found good quality work in custodial sentences and in managing the transfer of cases to adult probation services. There was little evidence of work with victims or restorative justice work.
  - b Work to protect the public and actual or potential victims was satisfactory. Reports to court gave clear explanations of the risk children and young people posed to others. Case managers had a good understanding of policies and procedures to manage risk of harm, but management oversight was insufficient.
  - c Work to protect children and reduce their vulnerability was satisfactory. Initial assessments of safeguarding and vulnerability were good, but the quality of planning to address vulnerability was insufficient. There was good liaison and joint working with Children's Services but limited access to Child and Adolescent Mental Health Services.

- d Work to ensure that the sentence was served was satisfactory. Staff had a good knowledge of, and interest in, the children and young people they worked with. In some cases restrictive requirements in criminal behaviour orders ran the risk of further criminalising the child.
  - e The management and delivery of interventions to reduce reoffending was satisfactory. Staff were delivering and planning services to a high standard. There was a well-established junior attendance centre fully integrated within the Youth Offending Service. There was no overarching strategy or policy to determine the range and content of provision.
- 51 Inspectors were, however, concerned to find that the effectiveness of governance and partnership arrangements was unsatisfactory. A previous lack of effective leadership had weakened the Youth Offending Service Management Board. There was minimal use of performance data and local information to target service delivery and improve outcomes.
- 52 Inspectors made recommendations to assist the Youth Offending Service to make continuing improvements, including ensuring governance arrangements at all levels provide appropriate support, scrutiny and challenge to the work of the Youth Offending Service and its outcomes.

# Appendix 1 – Status of this report

The Local Government (Wales) Measure 2009 (the Measure) requires the Auditor General to undertake an annual improvement assessment, and to publish an annual improvement report, for each improvement authority in Wales. This requirement covers local councils, national parks, and fire and rescue authorities.

This report has been produced by staff of the Wales Audit Office on behalf of the Auditor General to discharge his duties under section 24 of the Measure. The report also discharges his duties under section 19 to issue a report certifying that he has carried out an improvement assessment under section 18 and stating whether, as a result of his improvement plan audit under section 17, he believes that the authority has discharged its improvement planning duties under section 15.

Improvement authorities are under a general duty to ‘make arrangements to secure continuous improvement in the exercise of [their] functions’. Improvement authorities are defined as local councils, national parks, and fire and rescue authorities.

The annual improvement assessment is the main piece of work that enables the Auditor General to fulfil his duties. The improvement assessment is a forward-looking assessment of an authority’s likelihood to comply with its duty to make arrangements to secure continuous improvement. It also includes a retrospective assessment of whether an authority has achieved its planned improvements in order to inform a view as to the authority’s track record of improvement. The Auditor General will summarise his audit and assessment work in a published annual improvement report for each authority (under section 24).

The Auditor General may also, in some circumstances, carry out special inspections (under section 21), which will be reported to the authority and Ministers, and which he may publish (under section 22). An important ancillary activity for the Auditor General is the co-ordination of assessment and regulatory work (required by section 23), which takes into consideration the overall programme of work of all relevant regulators at an improvement authority. The Auditor General may also take account of information shared by relevant regulators (under section 33) in his assessments.



# Appendix 2 – Audit of the City of Cardiff Council’s 2016-17 Improvement Plan

## Certificate

I certify that, following publication on 7 April 2016, I have audited the City of Cardiff Council’s Improvement Plan in accordance with section 17 of the Local Government (Wales) Measure 2009 (the Measure) and my Code of Audit Practice.

As a result of my audit, I believe that the Council has discharged its duties under section 15(6) to (9) of the Measure and has acted in accordance with Welsh Government guidance sufficiently to discharge its duties.

## Respective responsibilities of the Council and the Auditor General

Under the Measure, the Council is required to prepare and publish an Improvement Plan describing its plans to discharge its duties to:

- make arrangements to secure continuous improvement in the exercise of its functions;
- make arrangements to secure achievement of its improvement objectives; and
- make arrangements to exercise its functions so that any performance standard specified by Welsh Ministers is met.

The Measure requires the Council to publish its Improvement Plan as soon as is reasonably practicable after the start of the financial year to which it relates, or after such other date as Welsh Ministers may specify by order.

The Council is responsible for preparing the Improvement Plan and for the information set out within it. The Measure requires that the Council has regard to guidance issued by Welsh Ministers in preparing and publishing its plan.

As the Council’s auditor, I am required under sections 17 and 19 of the Measure to carry out an audit of the Improvement Plan, to certify that I have done so, and to report whether I believe that the Council has discharged its duties to prepare and publish an Improvement Plan in accordance with statutory requirements set out in section 15 and statutory guidance.

## Scope of the Improvement Plan audit

For the purposes of my audit work I will accept that, provided an authority meets its statutory requirements, it will also have complied with Welsh Government statutory guidance sufficiently to discharge its duties.

For this audit I am not required to form a view on the completeness or accuracy of information, or whether the Improvement Plan published by the Council can be achieved. Other assessment work that I will undertake under section 18 of the Measure will examine these issues. My audit of the Council’s Improvement Plan, therefore, comprised a review of the plan to ascertain whether it included elements prescribed in legislation. I also assessed whether the arrangements for publishing the plan complied with the requirements of the legislation, and that the Council had regard to statutory guidance in preparing and publishing its plan.

The work I have carried out in order to report and make recommendations in accordance with sections 17 and 19 of the Measure cannot solely be relied upon to identify all weaknesses or opportunities for improvement.

Huw Vaughan Thomas  
Auditor General for Wales

CC: Non Jenkins, Manager  
Chris Pugh, Performance Audit Lead

# Appendix 3 – Audit of the City of Cardiff Council’s assessment of 2014-15 performance

## Certificate

I certify that, following publication on 20 October 2015 I have audited the City of Cardiff Council’s (the Council’s) assessment of its performance in 2014-15 in accordance with section 17 of the Local Government (Wales) Measure 2009 (the Measure) and my Code of Audit Practice.

As a result of my audit, I believe that the Council has not discharged its duties under sections 15(2), (3), (8) and (9) of the Measure and has not acted in accordance with Welsh Government guidance sufficiently to discharge its duties.

## Respective responsibilities of the Council and the Auditor General

Under the Measure, the Council is required to annually publish an assessment which describes its performance:

- in discharging its duty to make arrangements to secure continuous improvement in the exercise of its functions;
- in meeting the improvement objectives it has set itself;
- by reference to performance indicators specified by Welsh Ministers, and self-imposed performance indicators; and
- in meeting any performance standards specified by Welsh Ministers, and self-imposed performance standards.

The Measure requires the Council to publish its assessment before 31 October in the financial year following that to which the information relates, or by any other such date as Welsh Ministers may specify by order.

The Measure requires that the Council has regard to guidance issued by Welsh Ministers in publishing its assessment.

As the Council’s auditor, I am required under sections 17 and 19 of the Measure to carry out an audit to determine whether the Council has discharged its duty to publish an assessment of performance, to certify that I have done so, and to report whether I believe that the Council has discharged its duties in accordance with statutory requirements set out in section 15 and statutory guidance.

## Scope of the audit

For the purposes of my audit work I will accept that, provided an authority meets its statutory requirements, it will also have complied with Welsh Government statutory guidance sufficiently to discharge its duties.

For this audit I am not required to form a view on the completeness or accuracy of information. Other assessment work that I will undertake under section 18 of the Measure may examine these issues. My audit of the Council’s assessment of performance, therefore, comprised a review of the Council’s publication to ascertain whether it included

elements prescribed in legislation. I also assessed whether the arrangements for publishing the assessment complied with the requirements of the legislation, and that the Council had regard to statutory guidance in preparing and publishing it.

The work I have carried out in order to report and make recommendations in accordance with sections 17 and 19 of the Measure cannot solely be relied upon to identify all weaknesses or opportunities for improvement.

### Recommendations under the Local Government (Wales) Measure 2009

The Council must prepare a statement of action and a timetable for taking action in response to this statutory recommendation within 30 working days of receiving this certificate.

R1 The Council must ensure that its annual improvement report contains a summary assessment of the Council's view of its success in achieving its improvement objectives for the previous year.

Huw Vaughan Thomas  
Auditor General For Wales

CC: Leighton Andrews, Minister for Public Services  
Non Jenkins, Manager  
Chris Pugh, Performance Audit Lead

# Appendix 4 – 2014-15 Annual Audit Letter

Councillor Phil Bale  
Leader Cardiff Council  
County Hall  
Atlantic Wharf  
Cardiff  
CF10 4UQ

Dear Councillor Bale

## **Annual Audit Letter – City of Cardiff Council 2014-15**

This letter summarises the key messages arising from the Auditor General for Wales' statutory responsibilities under the Public Audit (Wales) Act 2004 as the Appointed Auditor and my reporting responsibilities under the Code of Audit Practice.

### **The Council complied with its responsibilities relating to financial reporting and use of resources**

It is the Council's responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the accounting statements;
- review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that I have completed the audit of the accounts.

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This Code is based on International Financial Reporting Standards.

On 29 September 2015 I issued an unqualified audit opinion on the accounting statements confirming that they present a true and fair view of the Council's, Group's and the Pension Fund's financial position and transactions. My report is contained within the Statement of Accounts. The key matters arising from the accounts audit were reported to members of the Audit Committee and Council in my Audit of Financial Statements Report on 16 and 24 September 2015 respectively, and a more detailed report to officers has also been issued.

Overall the statement of accounts and associated working papers provided for audit were of a good standard although the audit process took longer than it has in previous years, with a contributory factor being the number of experienced staff leaving the Council and officers having to take on new roles at a crucial time in the audit process. We will work with officers to improve the closure process from both our and the Council's perspective in 2015-16. One of the more significant issues noted in my Audit of Financial Statements Report related to the incorrect capitalisation of some revenue expenditure on Council Dwellings. Whilst the amounts involved were not material to my audit opinion this is an important issue that needs to be addressed going forward.

**I am satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources but areas for improvement have been identified**

My consideration of the Council's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts as well as placing reliance on the work completed as part of the Improvement Assessment under the Local Government (Wales) Measure 2009.

Overall, I am satisfied there are no issues that would impact on the unqualified audit opinion given on the 2014-15 statement of accounts. However, a number of issues were raised in last year's Annual Improvement Report and Corporate Assessment 2014. The main conclusion of the report was that 'fragmented leadership and management have meant that weak performance in key service areas has not improved'. Given the findings of the report and the work that the Council had already started to address these issues, it was agreed that a follow on review would be undertaken in 2014-15 with progress monitored throughout this period. The findings of this work, due to be reported by the end of the year, will highlight areas where the effectiveness of these arrangements has yet to be demonstrated or where further improvements could be made. It is vital that the Council addresses any issues raised if it is to achieve improved performance.

The extremely challenging financial position faced by all local government bodies in Wales continues, with the Council projecting a £117 million shortfall over the period 2016-17 to 2018-19. The Council has acknowledged that it needs to consider fundamental changes in the way it operates and delivers its services and that difficult decisions will need to be made to meet the funding gap. It is recognised that effective financial

management has a high profile throughout the Council at both officer and member level but the focus now must be on delivering agreed savings proposals to ensure the Council remains financially resilient in the future.

**I issued a certificate confirming that the audit of the accounts has been completed on 29 September 2015**

**My work to date on certification of grant claims and returns has not identified significant issues that would impact on the 2015-16 accounts or key financial systems**

A more detailed report on my grant certification work will follow in 2016 once this year's programme of certification work is complete.

The financial audit fee for 2014-15 was in line with the agreed fee set out in the 2015 Audit Plan.

Yours sincerely

**Ann-Marie Harkin**

For and on behalf of the Auditor General for Wales

23 November 2015



# Appendix 5 – National report recommendations 2015-16

Date of report	Title of review	Recommendation
April 2015	<p><b>The financial resilience of councils in Wales</b></p>	<p>R1 Councils should ensure that their corporate plan:</p> <ul style="list-style-type: none"> <li>• is the core driver for the service plans and other supporting strategies including workforce, information technology and capital expenditure;</li> <li>• maintains at least a three to five year forward view and is aligned with the medium term financial plan and other supporting strategies; and</li> <li>• should clearly articulate the desired role of the council in five years - the model for delivering priority services and the infrastructure and resources needed to deliver future priorities within available finances.</li> </ul> <p>R2 The medium term financial plan should identify the major financial risks and key assumptions and senior officers and councillors should subject them to effective scrutiny and challenge before adopting the plan.</p> <p>R3 Councils need to ensure that funding deficits are accurately projected and fully reconciled to detailed savings plans for each year over the life of the medium term financial plan.</p> <p>R4 Councils should review the adequacy of the financial assurance arrangements that underpin the delivery of annual savings plans, including the level of scrutiny and challenge provided by councillors.</p> <p>R5 Councils should ensure that they have a comprehensive reserves strategy that outlines the specific purpose of accumulated useable reserves as part of their Medium term Financial Plan.</p> <p>R6 Councils should develop corporate wide policies on income generation with a view to increasing revenue streams and relieving financial pressures.</p> <p>R7 Councils should:</p> <ul style="list-style-type: none"> <li>• strengthen budget setting and monitoring arrangements to ensure financial resilience; and</li> <li>• review the coverage and effectiveness of their internal and external assurance financial systems and controls to ensure they are fit for purpose and provide early warning of weaknesses in key systems.</li> </ul>

Date of report	Title of review	Recommendation
April 2015	The financial resilience of councils in Wales	<p>R8 Councils must review their finance teams and ensure that they have sufficient capacity and capability to meet future demands.</p> <p>R9 Council officers need to equip councillors with the knowledge and skills they need to deliver effective governance and challenge by extending training opportunities and producing high quality management information.</p>
June 2015	Achieving improvement in support to schools through regional education consortia – an early view.	<p>R1 To clarify the nature and operation of consortia. We found there to be continuing uncertainty about some aspects of the nature of regional consortia and their present and future scope (paragraphs 2.2 to 2.20). We therefore recommend:</p> <ul style="list-style-type: none"> <li>Local authorities should clarify whether consortia services are jointly provided or are commissioned services (services provided under joint-committee arrangements are jointly provided services and are not commissioned services).</li> </ul> <p>R2 To focus on outcomes through medium-term planning. We found that the development of effective regional consortia was hindered by a focus on short-term actions and uncertainty about the future of consortia (paragraphs 2.33 to 2.36; 3.16 to 3.17). We therefore recommend:</p> <ul style="list-style-type: none"> <li>As any possible local authority re-organisation will not be fully implemented until 2020, the Welsh Government and regional consortia should develop three-year plans for the further development, scope, and funding of regional consortia linked to appropriate strategic objectives.</li> </ul>

Date of report	Title of review	Recommendation
June 2015	<p>Achieving improvement in support to schools through regional education consortia – an early view.</p>	<p>R3 To develop more collaborative relationships for the school improvement system. The development of the National Model for Regional Working involved many school improvement partners but we found that this had not led to the development of sufficiently collaborative relationships (paragraphs 2.25 to 2.32). We therefore recommend:</p> <ul style="list-style-type: none"> <li>• Regional consortia should develop improved arrangements for sharing practice and supporting efficiency (for example, one consortium could take the lead on tackling an issue or have functional responsibility for the development of a policy).</li> <li>• The Welsh Government, local authorities and regional consortia should recognise the interdependency of all partners fulfilling their school improvement roles and agree an approach to: <ul style="list-style-type: none"> <li>– information sharing and consultation about developments related to school improvement;</li> <li>– developing collaborative relationships of shared accountability; and</li> <li>– undertaking system wide reviews, and an alignment of the understanding and position of regional consortia across all Welsh Government relevant strategies.</li> </ul> </li> </ul> <p>R4 To build effective leadership and attract top talent. Regional consortia, local authorities and the Welsh Government have all found difficulties in recruiting to senior leadership for education and we found there had been limited action to address this (paragraphs 2.37 to 2.40). We therefore recommend:</p> <ul style="list-style-type: none"> <li>• the Welsh Government and local authorities should collaborate to improve the attractiveness of education leadership roles to attract the most talented leaders for the school improvement system; and</li> <li>• local authorities should collaborate to support the professional development of senior leaders and to ensure appropriate performance management arrangements are in place for senior leaders.</li> </ul>

Date of report	Title of review	Recommendation
June 2015	<p>Achieving improvement in support to schools through regional education consortia – an early view.</p>	<p>R5 To improve the effectiveness of governance and management of regional consortia. Whilst continuing progress is being made, we found that regional consortia have not yet developed fully effective governance and financial management arrangements (paragraphs 3.2 to 3.36). We therefore recommend that local authorities and their regional consortia should:</p> <ul style="list-style-type: none"> <li>• improve their use of self-evaluation of their performance and governance arrangements and use this to support business planning and their annual reviews of governance to inform their annual governance statements;</li> <li>• improve performance management including better business planning, use of clear and measurable performance measures, and the assessment of value for money;</li> <li>• make strategic risk management an integral part of their management arrangements and report regularly at joint committee or board level;</li> <li>• develop their financial management arrangements to ensure that budgeting, financial monitoring and reporting cover all relevant income and expenditure, including grants funding spent through local authorities;</li> <li>• develop joint scrutiny arrangements of the overall consortia as well as scrutiny of performance by individual authorities, which may involve establishment of a joint scrutiny committee or co-ordinated work by local authority scrutiny committees;</li> <li>• ensure the openness and transparency of consortia decision making and arrangements;</li> <li>• recognise and address any potential conflicts of interest; and where staff have more than one employer, regional consortia should ensure lines of accountability are clear and all staff are aware of the roles undertaken; and</li> <li>• develop robust communications strategies for engagement with all key stakeholders.</li> </ul>

Date of report	Title of review	Recommendation
July 2015	<p><b>Review of Corporate Safeguarding Arrangements in Welsh Councils</b></p>	<p>R1 Improve corporate leadership and comply with Welsh Government policy on safeguarding through:</p> <ul style="list-style-type: none"> <li>• the appointment of a senior lead officer who is accountable for safeguarding and protecting children and young people with corporate responsibilities for planning improvements;</li> <li>• the appointment of a lead member for safeguarding; and</li> <li>• regularly disseminating and updating information on these appointments to all staff and stakeholders.</li> </ul> <p>R2 Ensure there is a corporate-wide policy on safeguarding covering all Council services to provide a clear strategic direction and clear lines of accountability across the Council.</p> <p>R3 Strengthen safe recruitment of staff and volunteers by:</p> <ul style="list-style-type: none"> <li>• ensuring that Disclosure and Barring Service (DBS) checks and compliance with safe recruitment policies cover all services that come into contact with children;</li> <li>• creating an integrated corporate compliance system to record and monitor compliance levels on DBS checks; and</li> <li>• requiring safe recruitment practices amongst partners in the third sector and for volunteers who provide services commissioned and/or used by the Council which are underpinned by a contract or service level agreement.</li> </ul> <p>R4 Ensure all relevant staff, members and partners understand their safeguarding responsibilities by:</p> <ul style="list-style-type: none"> <li>• ensuring safeguarding training is mandated and coverage extended to all relevant Council service areas, and is included as standard on induction programmes;</li> <li>• creating a corporate-wide system to identify, track and monitor compliance on attending safeguarding training in all Council departments, elected members, schools, governors and volunteers; and</li> <li>• requiring relevant staff in partner organisations who are commissioned to work for the Council in delivering services to children and young people to undertake safeguarding training.</li> </ul>

Date of report	Title of review	Recommendation
July 2015	<p>Review of Corporate Safeguarding Arrangements in Welsh Councils</p>	<p>R5 In revising guidance, the Welsh Government should clarify its expectations of local authorities regarding the roles and responsibilities of the designated officer within education services, and the named person at senior management level responsible for promoting the safeguarding.</p> <p>R6 Improve accountability for corporate safeguarding by regularly reporting safeguarding issues and assurances to scrutiny committee(s) against a balanced and Council-wide set of performance information covering:</p> <ul style="list-style-type: none"> <li>• benchmarking and comparisons with others;</li> <li>• conclusions of internal and external audit/ inspection reviews;</li> <li>• service-based performance data;</li> <li>• key personnel data such as safeguarding training, and DBS recruitment checks; and</li> <li>• the performance of contractors and commissioned services on compliance with Council safeguarding responsibilities.</li> </ul> <p>R7 Establish a rolling programme of internal audit reviews to undertake systems testing and compliance reviews on the Council's safeguarding practices.</p> <p>R8 Ensure the risks associated with safeguarding are considered at both a corporate and service level in developing and agreeing risk management plans across the Council.</p>

Date of report	Title of review	Recommendation
October 2015	<p>Supporting the Independence of Older People: Are Councils Doing Enough?</p>	<p>R1 Improve governance, accountability and corporate leadership on older people's issues through:</p> <ul style="list-style-type: none"> <li>• the appointment of a senior lead officer who is accountable for coordinating and leading the Council's work on older people's services;</li> <li>• realigning the work of the older people's strategy coordinators to support development and delivery of plans for services that contribute to the independence of older people;</li> <li>• the appointment of a member champion for older people's services; and</li> <li>• regularly disseminating and updating information on these appointments to all staff and stakeholders.</li> </ul> <p>R2 Improve strategic planning and better coordinate activity for services to older people by:</p> <ul style="list-style-type: none"> <li>• ensuring comprehensive action plans are in place that cover the work of all relevant council departments and the work of external stakeholders outside of health and social care; and</li> <li>• engaging with residents and partners in the development of plans, and in developing and agreeing priorities.</li> </ul> <p>R3 Improve engagement with, and dissemination of, information to older people by ensuring advice and information services are appropriately configured and meet the needs of the recipients.</p> <p>R4 Ensure effective management of performance for the range of services that support older people to live independently by:</p> <ul style="list-style-type: none"> <li>• setting appropriate measures to enable Members, officers and the public to judge progress in delivering actions for all council services;</li> <li>• ensuring performance information covers the work of all relevant agencies and especially those outside of health and social services; and</li> <li>• establishing measures to judge inputs, outputs and impact to be able to understand the effect of budget cuts and support oversight and scrutiny.</li> </ul>



Date of report	Title of review	Recommendation
October 2015	<p>Supporting the Independence of Older People: Are Councils Doing Enough?</p>	<p>R5 Ensure compliance with the Public Sector Equality Duty when undertaking equality impact assessments by:</p> <ul style="list-style-type: none"> <li>• setting out how changes to services or cuts in budgets will affect groups with protected characteristics;</li> <li>• quantifying the potential impact and the mitigation actions that will be delivered to reduce the potentially negative effect on groups with protected characteristics;</li> <li>• indicating the potential numbers who would be affected by the proposed changes or new policy by identifying the impact on those with protected characteristics; and</li> <li>• ensuring supporting activity such as surveys, focus groups and information campaigns includes sufficient information to enable service users to clearly understand the impact of proposed changes on them.</li> </ul> <p>R6 Improve the management and impact of the Intermediate Care Fund by:</p> <ul style="list-style-type: none"> <li>• setting a performance baseline at the start of projects to be able to judge the impact of these overtime;</li> <li>• agreeing the format and coverage of monitoring reports to enable funded projects to be evaluated on a like-for-like basis against the criteria for the fund, to judge which are having the greatest positive impact and how many schemes have been mainstreamed into core funding; and</li> <li>• improving engagement with the full range of partners to ensure as wide a range of partners are encouraged to participate in future initiatives and programmes.</li> </ul>

Date of report	Title of review	Recommendation
December 2015	Delivering with less - Leisure Services	<p>R1 Improve strategic planning in leisure services by:</p> <ul style="list-style-type: none"> <li>• setting an agreed council vision for leisure services;</li> <li>• agreeing priorities for leisure services;</li> <li>• focusing on the Council's position within the wider community sport and leisure provision within the area; and</li> <li>• considering the potential to deliver services on a regional basis.</li> </ul> <p>R2 Undertake an options appraisal to identify the most appropriate delivery model based on the Council's agreed vision and priorities for leisure services which considers:</p> <ul style="list-style-type: none"> <li>• the availability of capital and revenue financing in the next three-to-five years;</li> <li>• options to improve the commercial focus of leisure services;</li> <li>• opportunities to improve income generation and reduce council 'subsidy';</li> <li>• a cost-benefit analysis of all the options available to deliver leisure services in the future;</li> <li>• the contribution of leisure services to the Council's wider public health role;</li> <li>• better engagement with the public to ensure the views and needs of users and potential users are clearly identified;</li> <li>• the impact of different options on groups with protected characteristics under the public sector equality duty; and</li> <li>• the sustainability of service provision in the future.</li> </ul>

Date of report	Title of review	Recommendation
December 2015	Delivering with less - Leisure Services	<p>R3 Ensure effective management of performance of leisure services by establishing a suite of measures to allow officers, Members and citizens to judge inputs, outputs and impact. This should cover council-wide and facility specific performance and include:</p> <ul style="list-style-type: none"> <li>• capital and revenue expenditure;</li> <li>• income;</li> <li>• council 'subsidy';</li> <li>• quality of facilities and the service provided;</li> <li>• customer satisfaction;</li> <li>• success of 'new commercial' initiatives;</li> <li>• usage data – numbers using services/facilities, time of usage, etc; and</li> <li>• impact of leisure in addressing public health priorities.</li> </ul> <p>R4 Improve governance, accountability and corporate leadership on leisure services by:</p> <ul style="list-style-type: none"> <li>• regularly reporting performance to scrutiny committee(s);</li> <li>• providing elected Members with comprehensive information to facilitate robust decision-making;</li> <li>• benchmarking and comparing performance with others; and</li> <li>• using the findings of internal and external audit/inspection reviews to identify opportunities to improve services.</li> </ul>

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# CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD



**AUDIT COMMITTEE: 19 September 2016**

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## WAO TRACKER/OTHER STUDIES

### REPORT OF CORPORATE DIRECTOR RESOURCES

**AGENDA ITEM: 8.1**

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#### Reason for this Report

1. The Audit Committee's Terms of Reference requires that members consider specific reports as agreed with the external auditors.
2. This report has been prepared to provide Audit Committee members with an update on the programme of work planned to be conducted by the Auditor General during 2016/17.

#### Background

3. The Auditor General for Wales undertakes a range of audit work in relation to improvement under the Local Government (Wales) Measure 2009. The audit work falls into three categories:
  - National Studies
  - Local Government Studies
  - Specific Work in Local Authorities
4. In October 2015 the Council introduced a 'Tracker' to capture the output of regulators, in this case the work of the Wales Audit Office. This 'Tracker' sets out the programme of Wales Audit Office work, together with the indicative timeframes for reports, the reports received.

#### Work Programme

5. The following Local government studies are anticipated to be completed during the remaining part of 2016/17:
  - Financial Position and Resilience (follow up study)
  - Council Funding of Third Sector Services
  - Strategic Approach of Councils to Income Generation and Charging for Services
  - Strategic Commissioning
  - Public Procurement and the National Procurement Service
  - Waste Management
  - School Places and Capital Investment In Schools

### **Reasons for Recommendations**

6. To present the update on the Auditor General's improvement work programme and to provide the Committee with confidence that these reports will be presented to the relevant committee as they become available.

### **Legal Implications**

7. There are no legal implications arising from this report

### **Financial Implications**

8. There are no financial implications arising from this report

### **Recommendations**

9. To note the work of the Auditor General and identify any issues which the Audit Committee consider relevant to their work programme.

**CHRISTINE SALTER  
CORPORATE DIRECTOR RESOURCES  
19th September 2016**

*The following Background Document has been taken into account:*  
Appendix A - Auditor General for Wales Annual Plan 2016/17



Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Annual Plan 2016-17

Including additional information on our  
three-year strategy and priorities



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

# Foreword from the Auditor General for Wales and the Chair of the Wales Audit Office



Thanks to the professionalism, dedication and hard work of Wales Audit Office staff and our contractors, we successfully delivered almost the entire programme of work laid out in our [Annual Plan for 2015-16](#). However, I do not underestimate the challenges that lie ahead in a period of austerity in maintaining an audit programme that discharges my responsibilities as Auditor General to report in the public interest, whilst being dependent on fee income from the bodies I audit. I look forward, therefore, to working with the new National Assembly to design and implement a more effective and efficient method of financing my work than exists at present.

More detailed information on the delivery of my programme of work can be accessed through the audit and study reports published on [our website](#). In addition, our forthcoming Annual Report and Accounts for 2015-16 will include case study examples of the work we have undertaken and its impact.

Alongside a number of key revisions to my work programme and priority projects, this Annual Plan for 2016-17 incorporates four strategic themes which will underpin our work over the next three years. We have also provided a more detailed description of our current operating environment, and of how we plan to respond to that environment and achieve our aims and objectives, thereby helping the public sector in Wales to succeed in meeting the challenges it faces.

**Huw Vaughan Thomas**  
Auditor General for Wales



The Board is continually focused on ensuring that the Auditor General for Wales has the right skills and resources to deliver his work programme, and on enhancing the efficiency and effectiveness of the way the Wales Audit Office operates. Over the course of the year, we have subjected our priorities, performance measures and targets to further scrutiny and refinement to ensure they are fit for purpose, suitably challenging but achievable within the specified timescales.

The results of that work are reflected in this Plan. In particular, this plan sets out our commitment to implement a new programme of work to facilitate transformation in the way we undertake our work, with an initial focus on making more effective use of data and information technology.

In our approach to transforming the way we work, our focus has been firmly fixed on considering what type of audit office Wales needs now and in the future to ensure the Auditor General's work delivers appropriate impact and improvement. Over the coming year we want to continue to explore the best ways we can work with our key stakeholders, both internal and external, and how we can effectively assess whether we are getting it right.

**Isobel Garner**

Chair, on behalf of the Wales Audit Office

This Annual Plan of the Auditor General for Wales and the Wales Audit Office for the year ending 31 March 2017, which includes additional information on our three-year strategy and priorities, has been jointly prepared by the Auditor General for Wales and the Wales Audit Office under section 25(1) of the Public Audit (Wales) Act 2013.

It is laid before the National Assembly for Wales by the Auditor General for Wales and the Chair of the Wales Audit Office under section 26 of the Public Audit (Wales) Act 2013.

The National Assembly has made provision through Standing Order 18.11(i) for its Finance Committee to be responsible for considering and reporting to the Assembly on the Annual Plan.

If you require this publication in an alternative format and/or language please contact us using the details below.

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# Who we are

- 1 The Auditor General for Wales is the statutory external auditor of most of the Welsh public sector.
2. The Auditor General is responsible for the audit of the majority of public money spent in Wales, including the funds that are voted annually by the National Assembly. Significant elements of this funding are passed by the Welsh Government to the NHS and local government in Wales.
3. The Wales Audit Office constitutes a Board that employs professionally qualified staff and utilises other resources, including additional expertise from private sector accountancy firms, to enable the Auditor General to carry out his functions. The Wales Audit Office currently employs around 260 staff.
- 4 Together, the Auditor General and the staff of the Wales Audit Office independently examine whether public money in Wales is being managed wisely and is properly accounted for.
- 5 We undertake our work in accordance with the Auditor General's Code of Audit Practice. As laid out in the Code, alongside specific legal and professional requirements, five widely recognised principles underpin our audit work.

## Principles of public audit

1	<b>Public focus</b> Audit is carried out on behalf of the public and in the public interest. The public has a legitimate stake in audit work and should be engaged with its processes.
2	<b>Independent</b> Audit must be, and be seen to be, independent. Auditors should report in public without being influenced by fear or favour.
3	<b>Proportionate</b> Audited bodies need to be given enough space to deliver services to a high standard. They should be subject to sufficient, but not excessive, levels of scrutiny.
4	<b>Accountable</b> Auditors are publicly funded and are accountable for the stewardship of the resources provided to them. They must work economically, efficiently and effectively.
5	<b>Sustainable</b> Audit work must be undertaken with regard to sustainable development - meeting the needs of the present without compromising the ability of future generations to meet their own needs.

# What we do

**Public sector audit involves providing an opinion on the accounts and also covers issues such as:**

- **regularity (whether public money is being used for approved purposes);**
- **propriety (how public business is being conducted); and**
- **value for money.**

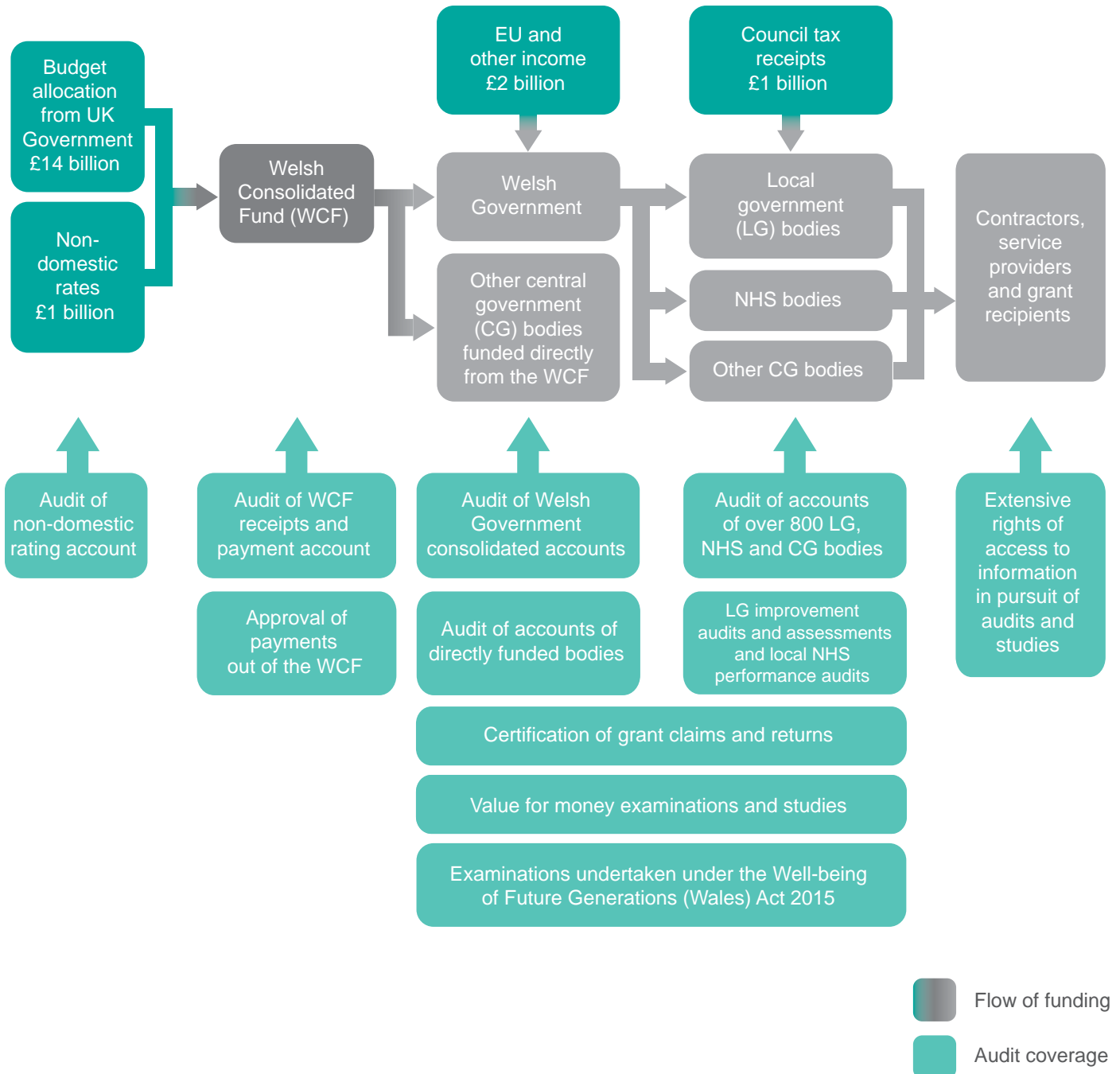
- 6 Each year the Auditor General, using resources provided by the Wales Audit Office, delivers a wide ranging and proportionate programme of external audit work, alongside certain other functions. The Auditor General also retains a degree of flexibility in his programme in order that he can respond swiftly and effectively to any issues we encounter through our audit work or that are brought to his attention.
- 7 The Auditor General's functions apply across different types of bodies, to examine public spending irrespective of who delivers the services.
- 8 We identify good practice from across the full breadth of the Auditor General's audit work and disseminate this through the Good Practice Exchange (a free web-based resource) and other media, including shared learning seminars and webinars.

The aspects of value for money – economy, efficiency and effectiveness

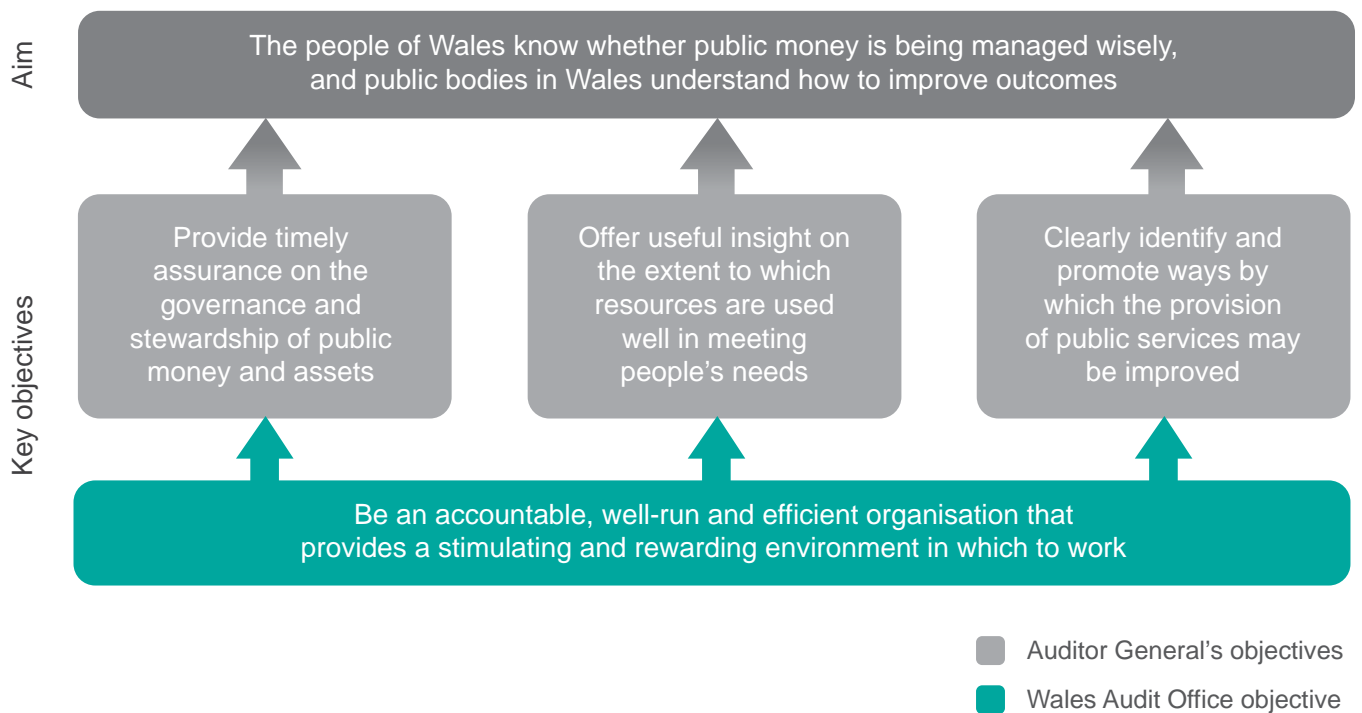




# How we follow the public pound in Wales



# Our aim and objectives



- 9 Our aim is focused on informing the people of Wales and helping public bodies in Wales to succeed.
- 10 Our fourth key objective underpins the first three; in order for the Auditor General to deliver a high quality audit service, the Wales Audit Office must be a well-run organisation which delivers value for money.

# Our operating environment

- 11 We consider the following factors to be those that will have greatest influence over the way we deliver our work and achieve our aim and objectives over the next three years.

## We are in a period of financial constraint

- 12 Those charged with delivering public services continue to face real-terms reductions in annual budgets, while seeking to meet rising public expectations and demands and addressing a range of acknowledged service deficiencies. Public services in Wales must be ambitious in finding new ways of delivering services, so that they can sustain and protect outcomes for lower cost. Transformation through innovation, sharing and acting on good practice, and improving efficiency and effectiveness represents the most sustainable solution in the long term.

## Governance arrangements are now required to have a wider scope

- 13 The National Assembly has recently placed further legal requirements on the public sector in Wales to strengthen governance arrangements in accordance with the principles of sustainable development, through the Well-being of Future Generations (Wales) Act 2015. Each public body listed in the Act must work to improve the economic, social, environmental and cultural well-being of Wales. To do this they must set and publish well-being objectives and then take action to make sure they meet those objectives.

## The political and policy landscape continues to evolve

- 14 A broad range of policy and political factors are likely to influence how we deliver our work over the next few years. These include:
- a changes to the devolution landscape;
  - b fiscal devolution – transfer of some tax raising and borrowing powers from Westminster to Wales by 2018;
  - c Welsh Government proposals for local government reform, including a move to fewer and larger councils;
  - d acceleration of changes to service delivery models and financing mechanisms;
  - e requirement for earlier closure of local government accounts by 2018-19; and
  - f amendments to Welsh Government grant funding and certification arrangements.

## We live in an increasingly networked society

- 15 Over recent years, advances in information technology have led to increased digitisation of service delivery, increased public access to data, and new opportunities and ways to communicate through social media and other forms of digital communication.

# Our strategy

16 In response to our operating environment, our Plan for delivering our programmes of work during 2016-17 and for the three-year period 2016-2019 is underpinned by four high-level strategic themes.

## Continue to undertake our audit work with an austerity emphasis



We will continue to place increased emphasis on strengthening financial management across the Welsh public sector and improving the effectiveness and efficiency of the use of public resources and assets.

Our audit work will focus on assisting service transformation and helping public bodies cope with, and succeed despite, the impact of funding reductions.

## Report more comprehensively on the effectiveness of governance arrangements



We will enhance our audit work on governance arrangements to support public bodies in meeting their responsibilities under the new legislation.

Increasingly, our consideration of financial resources, and the way in which public bodies account for their use, will be integrated with a consideration of their stewardship of human and natural resources.

## Strengthen our workforce strategy so we can better respond to future developments



We will strengthen and optimise our workforce strategy to ensure we can both meet current demand and are able to anticipate and respond to future developments.

Our emphasis will be on having the right number and a diverse mix of people, with the right skills, knowledge and experience, in the right place, at the right time and at the right cost.

## Make more effective use of data and information technology

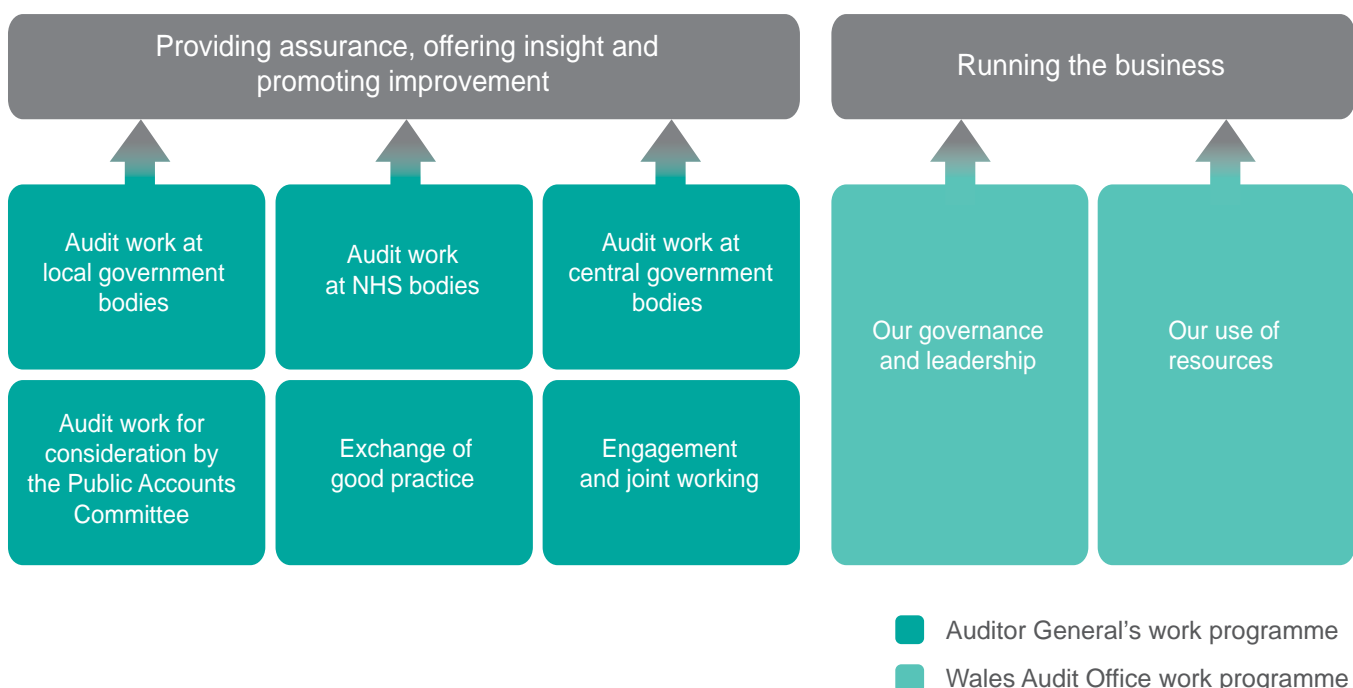


We will undertake audit work focussed on audited bodies' capacity to exploit digital transformation and their digital risk awareness.

We will also seek to take steps to enhance the impact of our work through further exploring new technology and maximising the effectiveness of our data collection, analysis and communication findings.

# Our plan for delivery

17 The following pages constitute our Plan for delivering our programmes of work during 2016-17 and for the three-year period 2016-2019. The Plan is divided into eight sections which are aligned with our objectives as illustrated below, and are each underpinned by our four high-level strategic themes.



18 The first six sections of the Plan relate to the Auditor General's work programme. The referenced appendices in these sections outline the Auditor General's priorities for 2016-17 in exercising his functions. The tables in these sections outline further priority areas of improvement or other work that we intend to undertake over the next three years, alongside or as part of the Auditor General's statutory programme of audit work. The remaining two sections of the Plan relate to the Wales Audit Office's work programme. The tables in these sections outline the Wales Audit Office's priorities for 2016-17 and for the next three years in exercising its functions.

- 19 The resources available, and which may become available to the Wales Audit Office, as per the approved [Estimate of Income and Expenses for the Year Ended 31 March 2017](#), are to be used in delivering these work programmes.
- 20 While priority projects in the Plan are listed under headline areas, several touch on one or more of the areas. Each project is sponsored by a named individual from our executive management team.
- 21 A key theme underpinning much of our audit work below will be to take account of the obligation that relevant public bodies will be under from April 2016 to adopt the sustainable development principles as set out in the Well-being of Future Generations (Wales) Act 2015. Our priority will be to engage those bodies in developing an approach to discharge the Auditor General's duty under that legislation.

# Audit work at local government bodies

22 The Auditor General's programme of work in local government covers a broad range of bodies, including unitary authorities, fire and rescue authorities, national park authorities, police and crime commissioners and chief constables, local government pension funds and town and community councils. The programme includes audits of accounts, certification of grant claims and returns, improvement audits and assessments, and local government studies.

## Appendix 1 – The Auditor General's programme of audit work at local government bodies in 2016-17

23 Local government bodies in Wales currently face several significant challenges and risks. These include reductions in funding, weaknesses in governance, scrutiny and public reporting arrangements, increased demand for care and education services, an urgent need for many councils to improve standards in education, and the prospect of substantive reform and mergers in the future.

Three-year priorities	When	Management Committee Lead
Undertake local assessments and provide all-Wales overviews of the corporate capacity of local government bodies to deliver transformation and change programmes	2016 and each year thereafter	Gillian Body Assistant Auditor General and Head of Performance Audit
Better integrate the planning and reporting of our local audit of accounts and performance audit work, particularly in relation to examining the effectiveness of governance arrangements	2016	Gillian Body
Prepare, including through working with relevant stakeholders, for the introduction of faster closure of local government accounts	2016-2018	Anthony Barrett Assistant Auditor General and Head of Financial Audit
Develop and pilot an outcome-based approach to grant certification for local government accounts	2016-2017	Anthony Barrett
Provide more informative reporting on the effectiveness of governance arrangements through our modified framework for the audit of town and community councils	2016	Anthony Barrett



# Audit work at NHS bodies

24 The Auditor General's work across NHS Wales covers all seven local health boards and the three NHS Trusts, as well as the work of the Welsh Government's Health and Social Care Department. The Auditor General audits the annual accounts of each NHS body, and reports publicly on the arrangements in place to secure economy, efficiency and effectiveness in their use of resources.

## Appendix 1 – The Auditor General's programme of audit work at NHS bodies in 2016-17

25 Across the NHS in Wales (as elsewhere in the UK) highly-publicised failures in corporate and clinical governance in recent years, together with associated quality and patient safety concerns, have served to dent public confidence in healthcare provision. In addition, the provisions of the NHS Finance (Wales) Act 2014 present an opportunity to shift away from the short-term pressures of annual budgets and to focus instead on robust medium-term integrated delivery plans.

Three-year priorities	When	Management Committee Lead
Undertake comparative assessments of governance arrangements in NHS bodies with a view to identifying and sharing good practice in specific areas that NHS bodies have found difficult and problematic	2016	Gillian Body
Participate fully in the escalation intervention protocol to identify and respond to serious issues affecting service delivery, quality and safety of care and organisational effectiveness across NHS Wales	2016 and each year thereafter	Mike Usher Sector Lead, Health and Central Government
Publish an audit review of the initial operation of three-year NHS integrated delivery plans	2016-2017	Gillian Body

# Audit work at central government bodies

26 The central government sector in Wales covers a diverse range of public bodies, including the Welsh Government and its sponsored bodies, the offices of various statutory commissioners, inspectors and regulators, and the National Assembly Commission. Unlike for local government and health bodies, the Auditor General is not required to conduct a programme of performance audit work at each central government body, but instead only provides an annual opinion on their accounts. Performance audit work conducted within this sector currently sits within his programme of value for money studies.

## Appendix 1 – The Auditor General’s programme of audit work at central government bodies in 2016-17

27 A particular challenge for the Welsh Government is the implementation of fiscal powers for Wales from April 2018, including the creation of the Welsh Revenue Authority and a Treasury function. Preparatory work has commenced on this complex change programme, and a Wales Audit Office observer attends the Welsh Government’s Programme Board. A different set of strategic challenges will be posed by the evolving relationship between Wales and Westminster and the further changes to the devolution settlement that will be contained in the upcoming Wales Bill.

Three-year priorities	When	Management Committee Lead
Publish an annual overview report on the results of audit work undertaken within the central government sector	2016 and each year thereafter	Anthony Barrett
Explore with the Welsh Government the potential for undertaking a cyclical programme of governance and performance audit reviews across each of the Welsh Government departments and sponsored bodies	2016-2017	Mike Usher
Provide the National Assembly’s Finance Committee with an audit commentary on preparedness for the introduction of fiscal powers and on progress made throughout the planning and implementation stages	2016-2019	Mike Usher
Evaluate and prepare for the accounting and audit implications of the implementation of Welsh fiscal powers	2016-2019	Mike Usher

# Audit work for consideration by the Public Accounts Committee

28 This programme of audit work includes value for money examinations, the preparation of summary reports of the findings from audit work across multiple NHS, central government and/or local government bodies, and examinations undertaken in response to issues of public concern identified through our audit work or raised with the Auditor General. The outputs from much of this programme support the work of the National Assembly's Public Accounts Committee and potentially other Assembly committees.

## Appendix 1 –The Auditor General's programme of audit work being undertaken during 2016-17 for consideration by the Public Accounts Committee

29 In determining his programme of value for money studies, the Auditor General takes into account the views of the Public Accounts Committee and consults more widely with other stakeholders. His key aims for the programme are to provide comprehensive and timely coverage of spending and risks to value for money, including to address a broad range of issues that are of material interest or concern, and to give consideration to the long-term well-being of the people of Wales. We look to support the Public Accounts Committee and, where relevant, other Assembly committees to help maximise the impact of their scrutiny inquiries.

Three-year priorities	When	Management Committee Lead
Increase the impact of, and engagement with, our public reporting through enhancing the design of our reports and broadening our communication channels	2016-2017	Gillian Body
Enhance our work that examines whole systems and the linkages between service providers, including in particular the interface between health and social care provision	2016-2018	Gillian Body
Following the 2016 Assembly elections, develop a constructive relationship with the new Public Accounts Committee and identify ways to further enhance support for their scrutiny work	2016-2018	Gillian Body
Raise awareness of the work of the Auditor General and Wales Audit Office among Assembly Committees, including through contributing to the induction of new Assembly Members after the 2016 Assembly elections	2016-2017	Huw Vaughan Thomas Auditor General and Chief Executive

# Exchange of good practice

- 30 In recent years we have developed approaches to facilitate knowledge exchange with increasing success. One of the two main strands of our approach is the provision of freely available online resources that enable the public, service users, service providers, policy makers and decision makers to access information that will leave them better informed. In particular, we aim to promote the sharing of this information across organisational, geographical and international boundaries.
- 31 Our other strand of activity involves facilitating conversations where the learning from comparative successes and failures is shared face-to-face. Increasingly we are looking to bring the views and experience of global experts to these conversations.

## Appendix 1 – Our programme of good practice work in 2016-17

Three-year priorities	When	Management Committee Lead
Encourage improvements in public services by capturing at least 50 improvement opportunities from an annual programme of 12 shared learning events, and monitor their translation into action	2016 and each year thereafter	Alan Morris Sector Lead, Local Government and Criminal Justice
Develop programmes of good practice work on key challenges facing public services including governance, planning for the long-term, public service transformation, making more effective use of data and information technology, and austerity	2016-17	Alan Morris
Invest in developing and supporting self-sustaining 'communities of interest' amongst public bodies to build upon the momentum generated by our good practice and shared learning activity	2016 and each year thereafter	Alan Morris
Provide opportunities for staff from across the organisation to share and develop skills through participation in good practice work and shared learning activities	2016 and each year thereafter	Alan Morris

# Engagement and joint working

- 32 The Auditor General and Wales Audit Office are committed to effective stakeholder engagement to inform the development, maximise the relevance, and extend the reach and impact of the Auditor General's work. In 2016-17 and over the next three years we will continue to increase awareness of the Auditor General's work, through a range of face-to-face engagement activities and through more effective use of information technology, including web-based applications and social media.
- 33 We are also committed to working closely with the other UK audit agencies through the Public Audit Forum, and with the other main external review bodies in Wales through the Inspection Wales initiative, to enhance the efficiency and effectiveness of public audit and the collective impact of our work. On occasion, we represent Wales on the international audit stage.
- 34 The Wales Audit Office is able to make arrangements with certain types of bodies for it or the Auditor General to provide services to, or to exercise the functions of those bodies. But, we are mindful that all such activities should be self-financing and should not be undertaken to the detriment of our core audit work in Wales.

## Appendix 1 – The Auditor General's programme of joint working activity in 2016-17

Three-year priorities	When	Management Committee Lead
Embed arrangements for more effective management of correspondence received from the public or other interested parties about matters relevant to the Auditor General's functions	2016	Kevin Thomas Director of Corporate Services
Make use of the results of our stakeholder feedback to further our sector understanding and relationships with audited bodies to both better inform our work programme and contribute to developments and improvements across the public sector	2016 and each year thereafter	Huw Vaughan Thomas
Further enhance our engagement with the public, their representatives and other stakeholders to gauge the impact of our work, assess our performance and measure our success	2016 and each year thereafter	Huw Vaughan Thomas
Encourage participation in the National Fraud Initiative from a greater range of bodies in receipt of public funding, and expand the information used in the data matching exercise	2016	Anthony Barrett
Further enhance the efficiency and effectiveness of audit, inspection and regulation in Wales through working closely with Inspection Wales partners to realise more efficient working practices and achieve greater impact through joint working and the sharing of intelligence and resources	2016 and each year thereafter	Huw Vaughan Thomas

# Our governance and leadership

35 As required by the Public Audit (Wales) Act 2013, we are in the unique position of having not only non-executive and executive members of the Wales Audit Office Board, but also employee elected members to provide an extra dimension of insight and experience. Our governance arrangements provide us with a real opportunity to further develop and progress as an organisation.

## Appendix 2 – The roles and responsibilities of the Wales Audit Office Board

- 36 The key aspects of the Wales Audit Office’s programme of work for 2016-17 and for the next three years will be to:
- a ensure that our governance arrangements are embedded within the organisation, including through strong and accountable leadership and robust risk management arrangements;
  - b provide the Auditor General with the resources needed for delivering the Auditor General’s work;
  - c make sure that the Wales Audit Office is a well-run and efficient organisation; and
  - d monitor the delivery of this Plan.

## Appendix 3 – Our risk management arrangements

37 The Wales Audit Office has a senior management structure which is designed to provide clear lines of reporting and accountability, and to enable the Auditor General’s work to inform the public and influence public service delivery in the most efficient and effective way.

Three-year priorities	When	Management Committee Lead
Implement a programme of work to facilitate strategic transformation of audit, with an initial focus on making more effective use of data and information technology	2016	Huw Vaughan Thomas
Strengthen leadership capability, through a leadership development programme and continued use of 360° performance reviews for senior staff and supporting reviews of Board effectiveness	2016-2019	Huw Vaughan Thomas
Strengthen our workforce planning arrangements, including through more effective succession planning and more detailed modelling of future demand scenarios	2016-2019	Kevin Thomas
Monitor the development of our unique governance arrangements working collaboratively with other UK audit bodies, with a view to sharing knowledge, learning and experience	2016-2019	Huw Vaughan Thomas
More effectively use external benchmarking and comparison, working collaboratively with other UK audit bodies, to assess our performance, measure our success, and improve our impact	2016-2019	Kevin Thomas

# Our use of resources

38 In 2016-17 and over the next three years we will build on our effective working relationship with the National Assembly's Finance Committee. The Finance Committee scrutinises our use of resources, including through consideration of our estimate, fee scheme, annual plan, interim report(s) and annual report and accounts. We therefore work to the highest standards in applying and accounting for our resources.

## **Appendix 4 – Our estimate of income and expenditure for 2016-17**

- 39 Sustainable development is widely understood to mean meeting the needs of the present without compromising the ability of future generations to meet their own needs. We have been working hard to embed the principles of sustainable development in the way we run our organisation, and in the way we resource the Auditor General's audit work, for a number of years. The Well-being of Future Generations (Wales) Act 2015, will require us to make further progress in this area.
- 40 Approximately two thirds of Wales Audit Office funding comes from fees charged to audited bodies in accordance with a Scheme of Fees approved by the National Assembly. In November 2014, the Assembly's Finance Committee recommended that the Public Audit (Wales) Act 2013 be amended to clarify audit fee charging requirements, and has subsequently stated that it will set out the issues in its legacy report for consideration in the Fifth Assembly.
- 41 Most of the remainder of Wales Audit Office funding comprises approved financing from the Welsh Consolidated Fund. In these times of significant financial restraint, cost efficiency continues to be a priority and we continue to operate an efficiency and effectiveness programme to support this across the business.



Three-year priorities	When	Management Committee Lead
Make better use of technology and information management to rationalise and streamline our business systems and processes, through implementation of a rolling three-year ICT plan	2016-2019	Kevin Thomas
Expand and enhance our existing graduate trainee programme including through establishing a collaborative programme under which our trainees will spend time working in the wider public sector in Wales	2016-2018	Anthony Barrett
Keep a tight grip on costs, seek further efficiencies and keep fees as low as possible	2015-2018	Steve O'Donoghue Director of Finance
Develop proposals for simplifying and improving the cost-effectiveness of the funding arrangements of the Wales Audit Office, for consideration by the Assembly's Finance Committee	2016-2017	Steve O'Donoghue
Make better use of our estate to minimise cost and assist flexible audit delivery	2016-2019	Kevin Thomas
Demonstrate our corporate social responsibility through our work on: <ul style="list-style-type: none"> <li>• improving environmental stewardship;</li> <li>• promoting the well-being of our staff;</li> <li>• advancing equality of opportunity, eliminating discrimination and fostering good relations; and</li> <li>• promoting use of the Welsh language and meeting the new Welsh language standards.</li> </ul>	2016-2019	Kevin Thomas

# Measuring and reporting on our performance

- 42 In 2016-17 and over the next three years we will use a combination of quantitative and qualitative methods to measure, report and reflect on our performance and risks. This will include regular reporting to our Management Committee and Board on progress made in delivering our priorities and achieving our key performance measure targets. It will also include internal audit reports to our Management Committee and Audit and Risk Assurance Committee. We will place particular emphasis on evaluating our direction of travel and pace of improvement, alongside comparison with appropriate benchmarking.
- 43 We will report on our performance externally through our **Annual Report and Accounts** and **Interim Report(s)**, and by providing evidence at meetings of the National Assembly's Finance Committee.
- 44 Our framework of key performance measures is centred on the following themes and questions about our activities. Our suite of targets has been developed with reference to current levels of performance and appropriate benchmarks. The targets will be subject to further scrutiny and refinement during 2016-17 to ensure they are suitably challenging but achievable within the specified timescales.

## Impact

To what extent is our work informing the people of Wales, helping public bodies in Wales to succeed, and valued by our stakeholders?

## Delivery

Are we delivering our audits on time and to the required quality and professional standards?

## Leadership

Are our governance and leadership arrangements operating effectively?

## Financial

How well are we managing our finances and assets?

## Social

How well are we promoting and supporting equality, well-being and learning?

## Environmental

How well are we managing our impact on the environment?

## Communication

How well are we raising awareness of and encouraging engagement with our work?

## Appendix 5 – Key performance measures and targets

# Appendix 1 - Programmes of work for 2016-17

## The Auditor General's programme of audit work at local government bodies in 2016-17

### Audits of accounts

22 unitary authorities  
3 fire and rescue authorities  
3 national park authorities  
4 police and crime commissioners  
4 chief constables  
8 pension funds  
A number of other smaller local government bodies including joint committees and harbour authorities  
Audits of over 740 town and community councils on a limited assurance basis

### Certification of grant claims and returns

Up to 20 schemes worth approaching £3 billion and involving around 420 individual claims

### Improvement audits and assessments

22 unitary authorities (including six more detailed corporate assessments)  
3 fire and rescue authorities  
3 national park authorities

### Local government studies

Financial position and resilience (follow-up study)  
Council funding of third sector services  
The strategic approach of councils to income generation and charging for services  
The effectiveness of local community safety partnerships  
Addressing dependency and demand for Public Services through the development of effective prevention approaches  
Strategic commissioning  
Improving joint working on housing and health

The Auditor General's 2016-17 programme of performance audits and assessments will have a particular focus on the themes of financial management, governance and transformational change.

## The Auditor General's programme of audit work at NHS bodies in 2016-17

### Audits of accounts

7 local health boards  
3 NHS trusts  
Local health board summarised accounts  
NHS trusts summarised accounts

### Structured assessments

7 local health boards  
3 NHS trusts

### Local performance audit work

7 local health boards  
3 NHS trusts

### Health studies

Radiology services  
NHS Consultant Contract (follow-up study)  
Governance arrangements at Betsi Cadwaladr University Health Board (follow-up study)  
Emergency ambulance commissioning arrangements  
GP Out of Hours services  
Discharge Planning

# The Auditor General's programme of audit work at central government bodies in 2016-17

## Welsh Government accounts

Welsh Government consolidated accounts  
Non-domestic rating account  
Welsh Consolidated Fund receipts and payment account  
Whole of Government Accounts  
Approval of payments out of the Welsh Consolidated Fund

## Accounts of Welsh Government sponsored bodies

Arts Council of Wales  
Arts Council of Wales Lottery Fund  
Care Council for Wales  
Higher Education Funding Council for Wales  
National Library of Wales  
National Museums and Galleries of Wales  
Natural Resources Wales  
Sports Council for Wales Main and Trust Accounts  
Sports Council for Wales Lottery Fund  
Local Democracy and Boundary Commission for Wales  
Qualifications Wales

## National Assembly for Wales accounts

National Assembly for Wales Commission  
Assembly Members Pension Fund

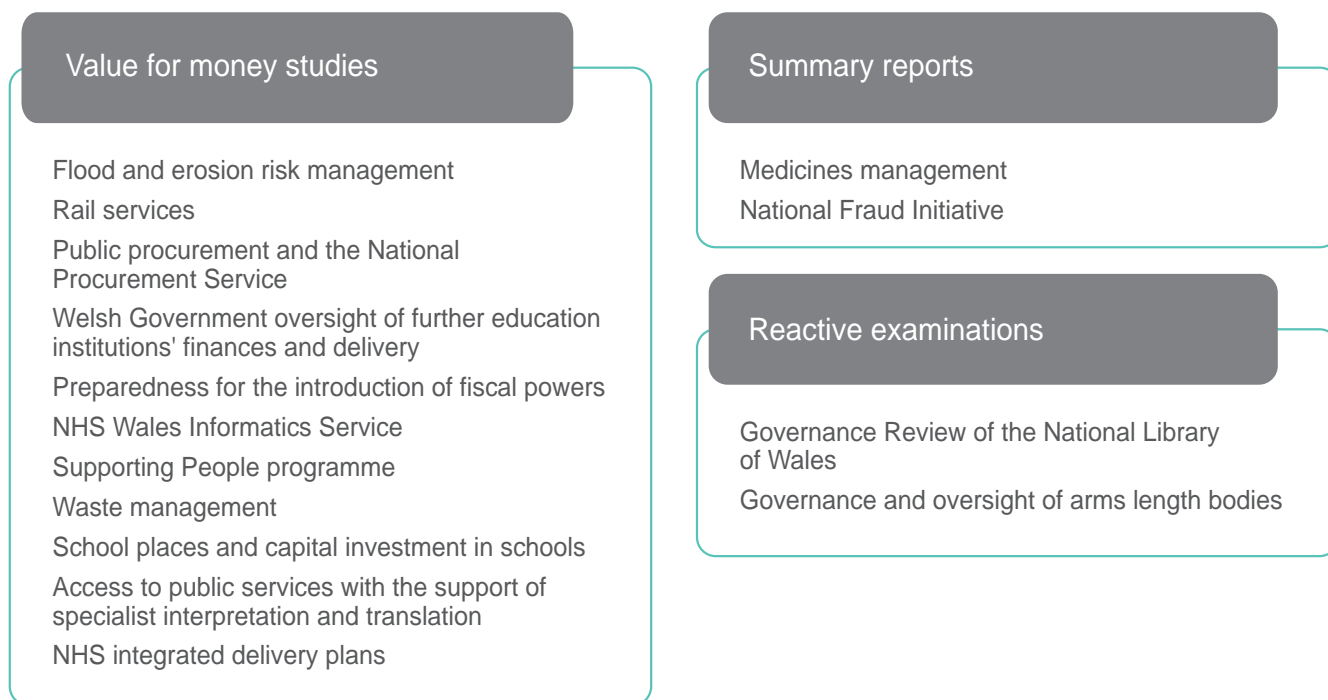
## Accounts of commissioners, inspectors and regulators

Children's Commissioner for Wales  
Older People's Commissioner for Wales  
Public Services Ombudsman for Wales  
Welsh Language Commissioner  
Estyn  
Education Workforce Council  
Future Generations Commissioner

## Welsh Government companies

Hybu Cig Cymru  
Careers Choice  
Life Sciences Hub  
Sector Development Wales

## The Auditor General's programme of audit work being undertaken during 2016-17 for consideration by the Public Accounts Committee



Some, but not all, of the work listed above is already in progress and is due to be reported on in 2016-17. The programme of work retains a degree of flexibility to respond to changing circumstances, priorities and risks and following the 2016 Assembly elections, we will be looking to engage with the new Public Accounts Committee at an early stage on priorities for future work with a view to commencing a number of further value for money studies in the second half of 2016-17.

There may also be additional outputs in 2016-17 arising from examinations undertaken in response to issues of public concern or from local programmes of audit work where there are issues or learning of wider relevance.

## Our programme of good practice work in 2016-17

### Shared learning seminars

- Community safety partnerships
- Maximising the impact of internal audit
- Strategic importance of digital in delivery of public services
- Effective governance of partnerships, collaborations and alternative delivery models
- Complaints are a gift
- Public services working across boundaries for better health and wellbeing
- Building on lessons learnt from the management of capital projects
- Building on the lesson of the public procurement and NPS study

### Good practice guides

- Governance
- Staff involvement and engagement

### Shared learning webinars

- Open data
- Benefits Realisation
- Clinical Coding

### External facilitation of shared learning and community support

- Academi Wales summer school
- NHS Wales Finance Directors Network
- Working With Not To co-production practitioner groups
- Good Practice Wales
- Futures Generations Commissioner
- Public Health Wales
- One Voice Wales
- Wales Centre for Behaviour Change, Bangor University

Our programme of seminars and webinars is flexible and further topics will be added during the course of the year. More information on our [Programme of good practice work](#), including our case studies library, can be found on our website.



# The Auditor General's programme of joint working and commissioned work activity in 2016-17

## Joined up delivery

National Fraud Initiative with other UK audit agencies

Working with Estyn to undertake inspections of Regional Education Improvement Consortia

Annual certification of the accounts of the European Agricultural Funds

Follow-up joint review with Healthcare Inspectorate Wales of governance arrangements at Betsi Cadwaladr University Health Board

Development of a memorandum of understanding with the Future Generations Commissioner

## Membership of external working groups

EURORAI

International Integrated Reporting Council's Public Sector Pioneer Network

Public Audit Forum

CIPFA/LASAAC Local Authority Code Board

ICAEW Public Sector Audit Committee

CIPFA Audit and Accounting Standards Panel

Inspection Wales initiative

DWP Housing Benefit and Welfare Reform UK inspectorates liaison group

Youth Justice Board/HMIP 'Keeping in Touch' liaison panel

## Commissioned audit work

A range of charity audits

Chief Auditor to and audit of the accounts of the Government of Anguilla

Waste management and trade refuse benchmarking groups

## Participation with observer status on external working groups

Partnership Council for Wales

Welsh Government Treasury Implementation Board

Finance Minister's Welsh Tax Forum

Welsh Government 'Simplification Challenge'

Welsh Government Co-ordinating Officials Group

CSSIW Local Authority Inspection Framework Board

Local Government Data Unit Board

Fire and Rescue Service National Framework Project Board

Financial Reporting Council Public Sector Advisory Group

# Appendix 2 - Roles and responsibilities of the Wales Audit Office Board



David Corner  
Non-executive  
Member



Amanda Hughes  
Elected  
Employee  
Member



Kevin Thomas  
Appointed  
Employee  
Member



Steve Burnett  
Non-executive  
Member and  
Senior Independent  
Director



Isobel Garner  
Non-executive  
Chair



Huw Vaughan  
Thomas  
Auditor General  
for Wales and  
Chief Executive



Lindsay Foyster  
Non-executive  
Member



Peter Price  
Non-executive  
Member



Louise Fleet  
Elected  
Employee  
Member

## The Board is responsible for:

- Monitoring the exercise of the Auditor General's functions
- Providing the Auditor General with advice
- Employing staff and providing resources for the exercise of the Auditor General's functions
- Charging fees for work done by the Auditor General
- Preparing jointly with the Auditor General an annual plan and estimate of income and expenses

## Appendix 3 - Our risk management arrangements

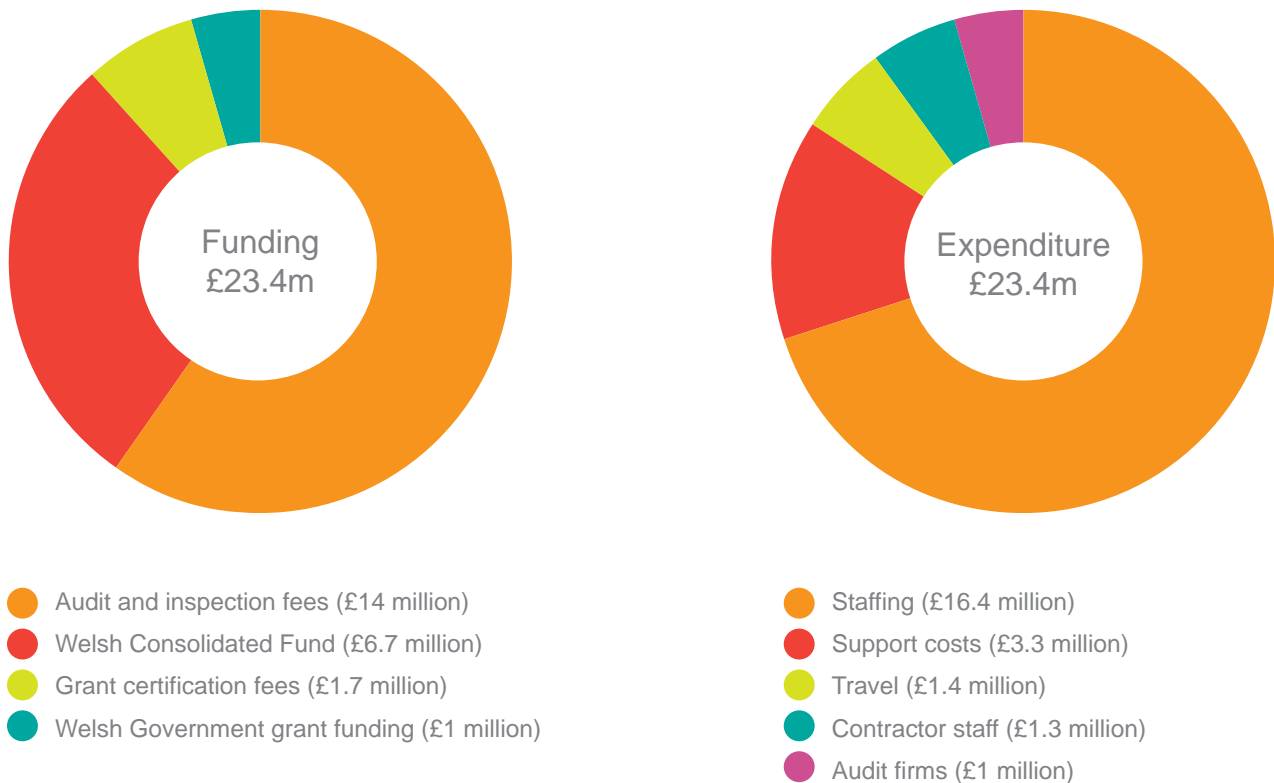
Given the nature of our business, our tolerance of risk in areas of professional audit judgement, regularity and propriety, and financial management is low.

In other areas, such as in relation to the exchange of good practice and engaging more effectively with the public, we are prepared to accept more risk in order to take advantage of opportunities to pursue our aim and objectives.

The Wales Audit Office is committed to adopting best practice in the identification, evaluation and cost-effective control of risks to ensure they are reduced to an acceptable level or eliminated. It is acknowledged that some risks will always exist and will never be eliminated – but these too must be monitored and controlled.

The Wales Audit Office Board has overall responsibility for risk management and is supported by an Audit and Risk Assurance Committee. The Management Committee is responsible for managing risk on a day-to-day basis, and maintains a risk register with identified strategic and operational risks that could affect the achievement of our aim and objectives.

# Appendix 4 - Our estimate of income and expenditure for 2016-17



The Assembly's Finance Committee approved the 2016-17 budget for the Wales Audit Office in November 2015. £16.7million of planned expenditure relates to resources to be made available to the Auditor General to carry out his work programme, through drawing on the expertise of our Financial Audit Practice and Performance Audit Practice<sup>1</sup>. A further £6.7million provides a range of corporate enabling services, including accommodation and other support services, such as legal advice, ICT and HR<sup>2</sup>.

More information on our [Estimate of income and expenditure for the year ending 31 March 2017](#) can be found on our website.

<sup>1</sup> Per the Public Audit (Wales) Act 2013, this is the maximum amount of the resources available, and which may become available, that it is anticipated will be allocated by the Wales Audit Office to the Auditor General for the purpose of undertaking his work programme.

<sup>2</sup> Per the Public Audit (Wales) Act 2013, this is deemed as the resources required to support the Wales Audit Office's programme.

# Appendix 5 - Key performance measures and targets

## Impact

No.	Indicator	Description	Target
I1	Accepted recommendations	Proportion of recommendations or proposals for improvement that are fully accepted for implementation by audited bodies	90 per cent
I2	Savings identified	Value of potential savings identified through our work	At least £8 million in 2016-17 and £24 million during 2016-2019
I3	Credibility	Proportion of stakeholders who consider the Auditor General to be an independent and authoritative commentator on the governance and stewardship of public money and assets	At least 90 per cent
I4	Insight	Proportion of stakeholders who said that through our work, they gained useful insight that they would not have acquired otherwise	At least 80 per cent
I5	Improvement	Proportion of stakeholders who believe our work has led to improvements in the provision of public services	At least 80 per cent

## Delivery

No.	Indicator	Description	Target
D1	On time	Proportion of audit products delivered on time	95 per cent
D2	National reports	Number of national reports published	14 per annum
D3	Good practice	Number of good practice products delivered, including seminars and webinars	20 per annum
D4	Quality	Proportion of audits that are delivered in accordance with required quality standards	100 per cent of annual sample
D5	Approval of payments	Proportion of requests to draw from the Welsh Consolidated Fund that are processed within 24 hours of receipt of required information	100 per cent

## Leadership

No.	Indicator	Description	Target
L1	Confidence	Proportion of stakeholders that said they have confidence in our work	At least 90 per cent
L2	Engagement	Proportion of staff that feel they understand and are engaged with our strategic approach as set out in this Plan	At least 80 per cent
L3	Trust and motivation	Proportion of staff that feel they are trusted to carry out their job effectively	At least 80 per cent
L4	Continuous improvement	Proportion of staff that feel encouraged to come up with new and better ways of doing things	At least 80 per cent
L5	Performance management	Proportion of staff that agree their performance is evaluated fairly	At least 95 per cent

## Financial

No.	Indicator	Description	Target
F1	Financial balance	Level of surplus at year end	Within two per cent of budget
F2	Supplier payments	Proportion of suppliers paid within 10 days of receipt of invoice	At least 85 per cent
F3	Debt recovery	Value of aged debts aged over 60 days	Less than £300,000
F4	Cost savings	Value of cost savings or additional income identified throughout the business	£1 million in 2016-17
F5	Efficiency of estate	Costs including for rent and rates per whole-time equivalent	Less than £3,300 in 2016-17

## Social

No.	Indicator	Description	Target
S1	Sickness absence	Average working days lost per member of staff per annum	Less than 6.5 days
S2	Learning and development	Proportion of staff that feel they are able to access appropriate learning and development opportunities when they need to	At least 80 per cent
S3	Inclusion and fair treatment	Proportion of staff that feel they are treated fairly and with respect	At least 80 per cent
S4	Work-life balance	Proportion of staff that feel they are able to strike a good balance between their work and private life	At least 80 per cent
S5	Welsh language provision	Number of complaints received regarding our Welsh language provision	0

## Environmental

No.	Indicator	Description	Target
E1	Environmental management	Level of Groundwork Wales Green Dragon Environmental Standard accreditation	Level 5 (highest level) in 2016-17
E2	Greenhouse gas emissions	Total CO <sub>2</sub> equivalent emissions from sources that we own or control, from consumption of purchased electricity, or that are produced indirectly as a consequence of our activities	Less than 575 tonnes in 2016-17*
E3	Waste	Total waste produced	Less than 60 tonnes in 2016-17 and less than 50 tonnes by 2018
E4	Reused, recycled or composted	Proportion of our total waste produced that is reused, recycled or composted	60 per cent in 2016-17 and 70 per cent by 2018
E5	Paper	Paper consumption	Less than 2,200 reams in 2016-17

\* E2 will be subject to further review during the year following us seeking external advice, including from DEFRA on our calculation methodologies.



## Communication

No.	Indicator	Description	Target
C1	Website	Number of page views	210,000 per annum
C2	Press coverage	Proportion of media articles published about our work that have positive or neutral sentiment	At least 90 per cent
C3	Social media	Klout score – a measure of our social media influence by analysing our Twitter account activity	Score of at least 48 out of 100 in 2016-17
C4	Shared learning seminars	Number of attendees at our shared learning seminars	1,000 per annum
C5	External events	Number of instances where our staff are invited to present audit learning at externally hosted conferences and events	25 per annum

**CITY OF CARDIFF COUNCIL  
CYNGOR DINAS CAERDYDD**

**AUDIT COMMITTEE:**

**19 SEPTEMBER 2016**

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**TREASURY PERFORMANCE REPORT – POSITION AT 31  
AUGUST 2016**

**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 9.1**

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**Appendix 1 of this report is not for publication as it contains exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972**

**PORTFOLIO: CORPORATE AFFAIRS**

**Reason for this Report**

1. The Audit Committee Terms of Reference sets out their responsibility for undertaking scrutiny of the accounting, audit and commercial issues in relation to the Council's Treasury Management Strategy and practices.
2. This report has been prepared to provide Audit Committee Members with performance information and a position statement on Treasury Management as at 31 August 2016.

**Background**

3. Appendix 1 provides the Committee with position statements on investments and borrowing at 31 August 2016.

**Performance**

4. At 31 August 2016, investments total £91.1 million. The forecast level of interest receivable from treasury investments is £300,000.
5. Borrowing is £674.1 million, with the average rate being 4.81%. The total interest forecast to be payable is £32.8 million as at the Month 4 budget monitoring position but this will clearly be subject to the timing of any external borrowing.
6. If no further borrowing is to be undertaken during the year, based on current capital programme commitments, the estimated level of internal borrowing at 31 March 2017 would be £53 million. If borrowing is not undertaken or taken later in the year, then the value of interest expense will be less than budgeted.

## Investments

7. Pages 2 and 3 of the Performance Report consider the position on investments. The charts on the Performance Report show the position at a point in time and investments continue to be closely monitored.
8. The current investments list details each investment, the interest rate, the start date and maturity date. They also link this back to the credit criteria approved by Council in February 2016 by a colour coding which indicates the perceived strength of the organisation.
9. The balance of investments is at a point in time and will fluctuate depending on the timing of income and expenditure e.g. payments to suppliers, receipt of grants, capital receipts etc.
10. The charts that surround this table provide additional information and the key areas to highlight are shown below.
  - **Counterparty Exposure** displays actual investment against the maximum permitted directly with an organisation – This demonstrates that we are not exceeding any exposure limits.
  - **Remaining Maturity Profile of Investments.** Maturities of investments have been spread to achieve a balanced profile.
  - **Investments by Institution.** This expresses the investments held with different institutions as a percentage of the total. It can be seen that investments remain diversified over a number of organisations.
  - **Geographic Spread of Investments** as determined by the country of origin of relevant organisations. All countries are rated AA and above as per our approved criteria.
  - **Investments by Financial Sector.** The majority of investments are with banks.

## Borrowing

11. New PWLB borrowing of £10 million was undertaken at the end of June 2016 and £2 million of PWLB loans were repaid during August on the scheduled maturity date.
12. The timing and quantum of any new external borrowing will be considered in conjunction with the Council's treasury advisors, having regard to forecasts for interest rates and performance in delivering the capital programme. Updates would be provided in future reports to Committee.
13. Following the referendum in June 2016, the Bank of England reduced the base rate to 0.25% from 0.50%, the first movement since 2009. As a consequence investment rates on deposits have reduced as have borrowing rates and this has been reflected in a revised interest forecast which indicates interest rates remaining lower for longer.

## Reason for Report

14. To provide Audit Committee Members with a performance position statement at 31 August 2016.

## **Legal Implications**

15. No direct legal implications arise from this report.

## **Financial Implications**

16. Treasury management activities undertaken by the Council are governed by a range of policies, codes of practice and legislation. This report and appendices indicates the treasury management position at one point in time and makes a number of assumptions in forecasts which will be updated in future reports. The report provides a tool for indicating to Members the treasury position. Future reports will highlight main changes since this report.

## **RECOMMENDATIONS**

17. That the Treasury Performance Report for 31 August 2016 be noted.

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**  
**9 September 2016**

*The following appendix is attached*  
Appendix 1 – Cardiff Council Treasury Management Performance Report – 31 August 2016

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By virtue of paragraph(s) 14, 21 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

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**TREASURY MANAGEMENT ANNUAL REPORT 2015/16**

**REPORT OF THE CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 9.2**

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**Annexes B & C to this Appendix 1 of this report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972**

**PORTFOLIO: CORPORATE AFFAIRS**

**Reason for this Report**

1. The Audit Committee Terms of Reference sets out their responsibility for undertaking scrutiny of the accounting, audit and commercial issues in relation to the Council's Treasury Management Strategy and practices.
2. This report has been prepared to provide Audit Committee Members with the Treasury Management Annual Report before submission to Council in September in accordance with the Council's Treasury Management Policy.

**Background**

3. Council requires the scrutiny of the accounting, audit and commercial issues of its Treasury Management Strategy and Practices to be undertaken by the Council's Audit Committee due to the technical nature of the documents. The report attached at Appendix 1 provides the Committee with the Treasury Management Annual Report for 2015/16. Audit Committee has already been appraised of the main contents of this report, from previous Treasury Management and performance reports.

**Issues**

4. In accordance with regulatory requirements, reports were submitted to Council in February 2015 indicating the Treasury Management Strategy for 2015/16 and a mid year report in December 2015. The following paragraphs cover the main highlights of the annual report for 2015/16.
5. The bank base rate remained unchanged at 0.5%. At 31 March 2016, investments stood at £58 million. The annual report includes charts indicating who the investments are placed with and for how long. All investments are deemed recoverable and so no losses are required to be recognised in the Council's Statement of Accounts for activities during 2015/16. Interest receivable from treasury investments totalled £0.5 million during the year.

6. At 31 March 2016, the Council had £666.1 million of external borrowing, with £201.6 million of new borrowing and £6 million of scheduled repayments during 2015/16. New borrowing included £187 million to make the housing settlement buy out payment to WG. Interest payable during the year from its revenue budget on this debt was £32.2 million of which £13 million was paid for by the Housing Revenue Account in accordance with statutory formulas.
7. The level of internal borrowing is £43 million at 31 March 2016. (£25 million at 31 March 2015). Lender Option Borrower Option Loans terms were not changed by the lender during the year, so these were not required to be repaid early, but remain a re-financing risk. Due to restrictive penalty costs, no debt rescheduling was undertaken during the year.
8. At the start of the financial year, the Council is required to set a number of prudential indicators for capital and revenue expenditure. During 2015/16, there was no breach of indicators requiring a separate report to Council. Local affordability indicators are also produced highlighting the percentage of the Council's budgets committed to capital financing costs.

### **Reason for Recommendations**

9. To allow Audit Committee to undertake the scrutiny of Treasury Management in accordance with Council's Treasury Management Policies.

### **Legal Implications**

10. No direct legal implications arise from this report.

### **Financial Implications**

11. This report provides a summary of the Council's Treasury Management activities during 2015/16. The report is required to be submitted to Council to discharge its reporting duties under the Treasury Management Policy adopted by the Council. This requires a report on treasury management at the start of the year, a mid year report and an annual report at the end of the year. The report is to note the activities and position of the prior financial year but highlights the level of investments, borrowing, risks and revenue impact of treasury management decisions.

### **RECOMMENDATIONS**

12. That the Treasury Management Annual Report for 2015/16 be noted.

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**  
**05 September 2016**

The following appendix is attached:  
Appendix 1 – City of Cardiff Council Treasury Management Annual Report 2015/16

Annexes B & C to this Appendix are not for publication as they contain exempt information of the description in Paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972.

## The County Council of the City and County of Cardiff

### Treasury Management Annual Report 2015/2016



## **Introduction**

1. Treasury management activities are the management of an organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
2. The Council carries out its treasury management activities in accordance with a code developed for public services in 2011 by the Chartered Institute of Public Finance and Accountancy (CIPFA).
3. On 25<sup>th</sup> February 2010, Council approved policies and adopted the four clauses of the treasury management code which are replicated in **Annexe A** for information. Council received a report in February 2015 on the Council's Treasury Management Strategy for 2015/16 and a mid year review in December 2015.
4. This report provides members with an annual report for the Council's Treasury Management activities for 2015/16. It covers:-
  - the economic background to treasury activities
  - investment strategy and outturn for 2015/16
  - borrowing strategy and outturn for 2015/16
  - debt rescheduling
  - compliance with treasury limits and prudential indicators
  - treasury management issues for 2016/17
5. Council requires the scrutiny of the accounting, audit and commercial issues of its Treasury Management Strategy and practices to be undertaken by the Council's Audit Committee. A number of reports were submitted to the Committee to note and review during the year, with each committee receiving a report on the position and performance of treasury investments and borrowing. Reports included the treasury management implications of housing finance reform.

## **Economic Background**

6. Bank of England base rate remained at 0.5% throughout the year, unchanged since 2009. Market expectations at the start of 2015/16 were for a rate rise, however slower growth and lower inflation forecasts meant any rate rise forecasts were gradually pushed back. Coupled with cheap credit being made available to banks for the Funding for Lending Scheme this continued to depress interest rates for borrowing and investments. Whilst medium to long term PWLB borrowing rates rose during the first quarter of 2015/16, the trend was for rates to fall by the end of the year.

## **Investments and Outturn**

7. The management of the day-to-day cash requirements of the Council is undertaken in-house with credit advice from Capita Asset Services, the Council's Treasury Management Advisors. This may involve temporary borrowing pending receipt of income/long-term funds or the temporary lending of surplus funds. These temporary

surplus funds fluctuate daily and arise from a number of sources including differences in timing of revenue and capital cash flows, reserves, provisions and other balances held for future use.

8. The Council invests with institutions listed on the Council's approved lending list and in accordance with investment guidelines established by the Welsh Government as reflected in the Council's investment strategy. Lending to these institutions is subject to the time and size limits laid down on that list. The categories, names, periods and size limits on this list can be extended, varied or restricted at any time by the Section 151 Officer under delegated powers and are monitored closely in conjunction with the Council's treasury advisors.
9. An extract from the investment strategy approved by Council in February 2015 is shown below.

*Given the likelihood of internal borrowing and the interest rate forecasts identified above, longer term investments above one year will be unlikely. The Debt Management Agency Deposit Facility will be used only as a last resort.*

10. At 31 March 2016, investments stood at £58 million, with a short term investment strategy employed for most of the year. The Council's choice of investments maintained an approach of security where the amount invested is that repayable. **Annexe B** shows with whom these investments were held.
11. A selection of performance indicators and benchmarking charts in relation to investments is included in **Annexe C**. The main areas to highlight at 31 March 2016 are as follows:-
  - Counterparty exposure against the maximum allowed directly with an organisation. This shows that at 31 March 2016 no exposure limits set were breached. This was also the case during the course of the year.
  - In accordance with recommended accounting requirements in Wales, the total for investments includes a five year £1 million cash backed indemnity with Lloyds Banking Group for the provision of mortgages under the Local Authority Mortgage Scheme.
  - Investments held with different institutions as a percentage of the total shows that investments are diversified over a number of organisations and this was a strategy applied where possible during the course of the year.
  - The geographic spread of investments as determined by the country of origin of relevant organisations. All investments are in sterling and countries are rated AA and above as per our approved criteria.
12. Using historic data adjusted for current financial market conditions and based on the level of counterparty exposure at 31 March 2016, the probability of any default is low at circa 0.022% of the investments outstanding, £12,760.
13. All investments held at 31 March 2016 are deemed recoverable. Accordingly, no impairment losses are reflected in the Council's 2015/16 Statement of Accounts arising from the Council's treasury management activities during 2015/16 or prior.

14. The overall level of interest receivable from treasury investments totalled £0.5 million in 2015/16. The returns achieved compared to industry benchmarks are shown in the table below.

	Return on Investment 2014/15		Return on Investment 2015/16	
	Benchmark 7day / 3month (%)	Achieved (%)	Benchmark 7day / 3month (%)	Achieved (%)
In-house	0.35 / 0.43	0.61	0.36/ 0.46	0.70

15. The benchmarks are the average of the 7 day London Interbank Bid Rate (LIBID) and 3 month LIBID respectively. These represent the average rate during the course of the year for investments for those periods. Performance exceeded benchmarks, due to availability of notice accounts offering higher deposit rates and undertaking longer term deposits where appropriate.

### **Borrowing and Outturn**

16. Long term borrowing is undertaken to finance the Council's capital programme. The main sources of borrowing are currently the Public Works Loan Board (PWLB) and the Money Markets.
17. At 31 March 2016, the Council had £666.1 million of external borrowing. This was predominantly made up of fixed interest rate borrowing from the Public Works Loan Board payable on maturity.

31 March 2015			31 March 2016	
£m	Rate (%)		£m	Rate (%)
418.1		Public Works Loan Board (PWLB)	612.8	
52.0		Market	52.0	
0		Welsh Government	0.5	
0.4		Other	0.8	
<b>470.5</b>	<b>5.19</b>	<b>Total External Debt</b>	<b>666.1</b>	<b>4.84</b>

18. Total interest payable on external debt during 2015/16 was £32.2 million of which £13 million was payable by the Housing Revenue Account (HRA). In total £31.6 million was set aside from General Fund and HRA revenue budgets in line with the Councils approved policy on provision for debt repayment.

19. Extracts from the borrowing strategy approved by Council in February 2015 are shown below.

*The Council will aim to manage its debt portfolio on a long-term basis with a high regard to the effects on current and future Council Tax and Rent Payers. The Council's Borrowing Strategy for 2016/17 and the capital financing revenue budgets included in the MTFP will consider all options to meet the long-term aims of:*

- Promoting revenue cost stability to aid financial planning and avoid a stop-start approach to service delivery, although it is recognised that this may have a financial impact.*
- Pooling borrowing and investments to ensure the whole Council shares the risks and rewards of treasury activities.*
- Reduction over time in the average rate of interest on Council borrowing.*
- Ensuring any refinancing risk is manageable each financial year, using opportunities to re-profile borrowing where cost effective to do so both in the short and long term.*
- Ensuring borrowing plans are aligned to known capital expenditure spending plans, the useful life of assets created and consistent with the prudent provision for the repayment of any such expenditure paid for by borrowing.*

*External verses internal borrowing*

*Whilst interest rates for borrowing are greater than interest rates the Council receives for investments (the cost of carry), it makes financial sense to use any internal cash balances held in the short-term to pay for capital expenditure and minimise costs (Internal Borrowing), rather than undertake external borrowing. However, there is a risk that the Council may have to borrow at higher rates when it does actually need to borrow in future and so this position is kept under continuous review.*

*A high level balance sheet review undertaken at a point in time suggests that a maximum level of internal borrowing is circa £70 million. However this is dependent on cash flows, the timing of use of General and Earmarked Reserves and provisions and longer term pressures in the MTFP.*

*The forecast level of internal borrowing at 31 March 2016 in relation to the CFR is deemed manageable. However, based on the current forecasts of future capital expenditure plans and high level analysis of the sustainability of internal borrowing from the Council's balance sheet position for future years, external borrowing will be required to be undertaken in the medium term.*

*Whilst investment rates remain lower than long term borrowing rates internal borrowing will be used to minimise short-term costs where possible.*

20. During 2015/16 borrowing of £201.6 million was undertaken predominantly from PWLB at an average rate of 4.09% and this was for capital expenditure purposes only.



21. As reported previously to Council and Cabinet, £187.392 million of PWLB loans were undertaken in April 2015 to make a settlement payment or 'Buy-out' from the Housing Revenue Account Subsidy System.
22. In accordance with the requirements of the agreement with Welsh Government and HM Treasury, the level of borrowing for the buy out had to generate a specified level of interest payable in the first five years, be taken only from the PWLB and be at special rates of interest determined by the PWLB and HM Treasury. The period over which loans taken were also those that helped achieve a balanced maturity profile for the Council as a whole and this can be seen in the chart in Annexe D. The Council does not distinguish between HRA and General Fund Loans i.e all loans are undertaken in the name of the Council and a single pool of debt is maintained.
23. Together with the natural maturity of £6.0m of primarily PWLB loans, the overall effect of new borrowing during the year was to reduce the average rate on the Council's borrowing to 4.84% at the 31 March 2016. As part of the 2015/16 Mid Year Treasury Management Report, Council received a full update on the impact on Treasury Management and loans undertaken for buy out.
24. As part of its loan portfolio, the Council has 6 Lender Option Borrower Option (LOBO) loans totalling £51 million. These are where the lender can request a change in the rate of interest payable by the Council on pre-determined dates. The Council at this point has the option to repay the loan. Apart from the option to increase rates these loans are comparable to PWLB and have no other complications such as variation in interest rates or complex terms.
25. Interest rates on the LOBO's held range between 3.81% and 4.35% which are not unreasonable and are below the Council's average rate of interest payable. Details of the loans are shown in the table below.
26. None of the LOBO's had to be repaid during 2015/16. However £24 million of the LOBO's are subject to the lender potentially requesting a change in the rate of interest payable every six months, which could trigger early repayment. This is a manageable refinancing risk as LOBO's form a relatively low proportion of the Council's overall borrowing at 7.66%.

<b>£m</b>	<b>Rate</b>	<b>Potential Repayment Date</b>	<b>Option Frequency</b>	<b>Full Term Maturity</b>
6	4.28%	21/05/2016	6 months	21/11/2041
6	4.35%	21/05/2016	6 months	21/11/2041
6	4.06%	21/05/2016	6 months	23/05/2067
6	4.08%	01/09/2016	6 months	23/05/2067
5	4.10%	15/01/2018	5 years	17/01/2078
22	3.81%	21/11/2020	5 years	23/11/2065

27. In accordance with the strategy, the Council has been undertaking internal borrowing which is when it uses temporary cash balances it holds in the short term instead of undertaking external borrowing. This is confirmed by a comparison of the Council's external level of debt and Capital Financing Requirement at 31 March 2016 as shown later in this report.

### **Debt Rescheduling**

28. During 2015/16 savings in the Capital Financing budget allowed a technical adjustment to be undertaken to pay off historic penalties payable amounting to £2.1 million in relation to rescheduling of borrowing undertaken in previous years. In accordance with accounting requirements these amounts would normally be required to be charged to Council revenue budgets over a number of years and this adjustment will therefore allow savings to be realised in support of future budgets.
29. No debt rescheduling or early repayment of debt was undertaken during 2015/16. The main obstacle remains the level of premium (penalty) that would be chargeable on early repayment by the PWLB. The premium payable on the balance of PWLB loans at 31 March 2016 which are eligible for early repayment (£407 million) is £284 million. This premium is payable primarily because:-
- Interest rates on loans of equivalent maturities compared to those held are currently lower
  - A penalty rate or lower early repayment rate was introduced by HM Treasury in November 2007, which increased the cost of premiums and reduced flexibility of Local Authorities to make savings. This remains an obstacle in the ability of local authorities to manage debt more effectively.
30. Whilst the cost of Premiums can be spread over future years, options for restructuring that have been considered result in an adverse Net Present Value (NPV). Whilst there may have been short terms savings, these were outweighed by potentially longer term costs and not deemed cost effective.
31. Opportunities for restructuring will continue to be considered in conjunction with our Treasury advisors and reported to Audit Committee periodically as part of standard Treasury Management updates which Cabinet and Council receive.

### **Compliance with treasury limits and prudential indicators**

32. During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the annual Treasury Management Strategy. The actual outturn for 2015/16 Prudential Indicators is set out in the following paragraphs and compared to the original estimates contained in the 2015/16 Budget Report. Future year's figures are taken from the Budget Report for 2016/17 and will be updated in the Budget Report for 2017/18.

## Capital Expenditure

33. The “Prudential Code” requires the Council to estimate the capital expenditure that it plans to incur over the Medium Term. The actual capital expenditure incurred in 2015/16 and reported in the Outturn Report to Cabinet in June 2016 and estimates of capital expenditure for the current and future years as set out in the Budget Report of February 2016 are as follows:-

<b>Capital Expenditure</b>					
	<b>2015/16 Actual</b>	<b>2015/16 Original Estimate</b>	<b>2016/17 Estimate Month 4</b>	<b>2017/18 Estimate</b>	<b>2018/19 Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
General Fund	82	89	82	114	49
HRA	207	208	25	28	27
<b>Total</b>	<b>289</b>	<b>297</b>	<b>107</b>	<b>142</b>	<b>76</b>

## Capital Financing Requirement (CFR) – The Borrowing Requirement (Excluding Landfill Provision)

34. Where capital expenditure has been incurred without a resource to pay for it immediately e.g. via capital receipts, grants or other contributions, this will increase what is termed the Council’s Capital Financing Requirement (CFR) or its need to undertake borrowing. The Council is required to make an annual prudent provision for the repayment of historic capital expenditure from its revenue budget. This reduces the CFR. Calculation of the CFR is summarised in the following table.

	Opening Capital Financing Requirement (CFR)
+	Capital expenditure incurred in year
-	Grants, contributions, reserves and receipts received to pay for capital expenditure
-	Prudent Minimum Revenue Provision & Voluntary Repayment
=	Closing Capital Financing Requirement (CFR)

There are two main types of additional borrowing to pay for capital expenditure:-

- ‘Supported Borrowing’ - costs of servicing are included within the annual RSG the Council receives from the WG.
- ‘Unsupported Borrowing’ – costs of servicing to be met by the Council from Council tax, savings, additional income or sale of assets.

35. It is the CFR that results in the need to borrow and it is important to note that any financial deficit and liabilities of the HRA are ultimately liabilities of the Council. It should be noted that the CFR figures quoted below exclude non cash backed provisions in relation to Landfill after care provision. This relates to future expenditure obligations over a 60 year period.
36. The CFR as at 01 April 2015 was £495 million. The actual CFR as at 31 March 2016, estimates for current and future years (estimated in the February 2016 budget) are shown in the table below:-

<b>Capital Financing Requirements (Excludes Landfill Provision)</b>					
	<b>31.03.2016</b>	<b>31.03.2016</b>	<b>31.03.2017</b>	<b>31.03.2018</b>	<b>31.03.2019</b>
	<b>Actual</b>	<b>Original</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£m</b>	<b>Estimate</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
		<b>£m</b>			
General Fund	432	432	459	454	455
HRA	277	282	279	296	302
<b>Total CFR</b>	<b>709</b>	<b>714</b>	<b>738</b>	<b>750</b>	<b>757</b>
<b>External Debt Over/(Under) Borrowing</b>	<b>(43)</b>				

37. By comparing the CFR at 31 March 2016 (£709 million) and the level of external debt at the same point in time (£666 million), it can be seen that the Council is temporarily using circa £43 million of internal cash balances to finance the Capital Programme at 31 March 2016 (£25 million at 31 March 2015).
38. As set out in the February 2016 Budget Report, the CFR for the General Fund is forecast to increase over the next three years due to increasing investment in the current Capital Programme which includes increasing levels of additional borrowing for invest to save schemes. These forecasts will be updated in the 2017/18 Budget Report.
39. The Housing Revenue Account CFR at 31 March 2016 is £277 million. As part of the Housing Finance Reform voluntary agreement with WG and HM Treasury, a debt cap (limit of indebtedness) was set for this figure to be no higher than £316 million. The Council remained within the HRA debt cap at 31 March 2016.

#### Actual External Debt

40. The Code requires the Council to indicate its actual external debt at 31 March 2016 for information purposes. This was £666 million as shown in the earlier paragraphs.

### Affordable Borrowing Limit

41. The Council has a statutory duty under section 3 of the Local Government Act 2003 and supporting regulations to determine and keep under review how much it can afford to borrow and to enter into credit arrangements (the "Affordable Borrowing Limit"). This cannot be breached without Council approval. Council must have regard to the Prudential Code when setting this limit which is intended to ensure that total capital investment remains within sustainable limits and that the impact upon future council tax/rent levels is affordable.
42. During 2015/16 the Council remained within the authorised limit of £781 million set for that year.

### Operational Boundary

43. The operational boundary is the estimated level of external borrowing and is subject to the timing of borrowing decisions. The boundary was originally estimated at £714 million to match the forecast for the CFR, but the actual level of external debt equalled £666 million as less new borrowing was undertaken during the year than originally planned.

### Maturity Structure of Fixed Rate Borrowing

44. The maturity structure remains within the limits below approved as part of the 2015/16 strategy below. These limits are set to avoid having large amounts of debt maturing in a short space of time, thus being exposed to significant liquidity risk and interest rate risk.

	31-Mar-15		Upper limit	31-Mar-16			
				Loans to Maturity		Loans if LOBO's Paid Early	
	%	£m		%	£m	%	£m
Under 12 months	1.2	5.8	10	1.0	6.7	4.6	30.7
12 months and within 24 months	1.4	6.7	10	0.8	5.6	1.6	10.6
24 months and within 5 years	2.3	10.9	15	0.9	5.7	4.2	27.7
5 years and within 10 years	3.2	15.1	15	3.1	20.3	3.1	20.3
10 years and within 20 years	18.4	86.3	30	21.6	144.2	21.7	144.2
20 years and within 30 years	17.1	80.6	35	24.6	164.0	22.8	152.0
30 years and within 40 years	28.3	133.1	35	26.8	178.7	26.8	178.7
40 years and within 50 years	19.8	93.0	35	18.6	123.9	15.3	101.9
50 years and within 60 years	7.2	34.0	15	1.8	12.0	0.0	0.0
60 years and within 70 years	1.1	5.0	5	0.8	5.0	0.0	0.0

45. The maturity profile of the Council's borrowing as at 31 March 2016 is also shown in a chart in **Annexe D**. Unless the Council's LOBO loans are repaid early, very little debt matures within the next 10 years. In the medium to long term, efforts will be made to restructure loans maturing in 2056/57 and to review LOBO maturities in order to reduce refinancing risk.

Ratio of financing costs to net revenue stream

46. This indicator shows the proportion of the Council's net revenue stream (its core budget) that is subsumed each year in servicing debt financing costs. Financing costs include, interest payable and receivable on treasury management activities, premiums or discounts on debt restructuring and prudent revenue budget provision for repayment of borrowing.
47. For the General Fund, net revenue stream refers to the aggregate of the Revenue Support Grant, redistributed Non-Domestic Rates and the Council Tax precept. For the HRA, it is the total of Housing rents and service charges.

<b>Ratio of Capital Financing Costs to Net Revenue Stream</b>					
	<b>2015/16 Original Estimate %</b>	<b>2015/16 Actual %</b>	<b>2016/17 Estimate %</b>	<b>2017/18 Estimate %</b>	<b>2018/19 Estimate %</b>
General Fund	6.30	6.21	6.08	5.86	5.89
HRA	35.01	31.96	31.17	31.51	30.78

48. The variance for the HRA in 2015/16 is due to estimates having to be made when determining the 2015/16 ratio of what the impact of the Housing Finance Subsidy reform would be. The settlement was not finalised until March 2015.
49. Whilst the indicator above is a required ratio, it has a number of limitations. The indicator:
- Does not take into account the fact that some of the Council's budget is non-controllable, delegated or protected.
  - Is impacted by transfers in and out of the settlement.
  - Includes investment income which is unpredictable, particularly in future years.
  - Does not reflect gross capital financing costs for schemes that are undertaken by initial borrowing ultimately to be repaid from within service area budgets.
50. Although there may be short term implications, approved invest to save schemes such as the School Organisation Plan are intended to be net neutral on the capital financing budget. There are however risks that the level of income, savings or capital receipts anticipated from such schemes will not materialise, having a detrimental long term consequence on the Revenue budget. This requires careful monitoring when considering future levels of additional borrowing.

51. Accordingly additional local indicators were developed and are shown in the table below for the period up to 2020/21. These indicators, which will be updated in the budget proposals report for 2017/18, show capital financing costs of the Council as a percentage of its controllable budget and excludes treasury investment income on temporary cash balances:-

<b>Capital Financing Costs as percentage of Controllable Budget</b>									
	2011/12	2015/16	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Difference 11/12-20/21
	Actual	Original Estimate	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	%
	%	%	%	%	%	%	%	%	
Net	13.47	16.65	15.94	15.79	15.27	15.53	17.00	16.82	24.87
Gross	15.17	20.77	19.86	19.94	20.31	20.80	22.51	22.37	47.76

52. Whilst the method on which the above indicator is based continues to be refined, it is a useful measure of risk to affordability. An increasing ratio indicates that a greater percentage of the budget that is controllable is required for capital financing costs which are committed in the long term. The requirement to meet these additional costs can only come from future savings or from increases in Council Tax. Careful monitoring of these indicators will be required over the life of the Capital Programme and the Medium Term Financial Plan.

53. As the Council realigns itself strategically to lower funding levels it will need to consider the level of debt and potential financial resilience issues that may be a consequence of increasing borrowing.

#### Principal Invested for over 364 days

54. An upper limit for principal invested over 364 days was set at £60 million and this was not breached during the year, primarily due to the strategy adopted of minimising the period for which investments are made during 2015/16.

#### Treasury Management issues for 2016/17

55. Whilst this report is primarily in relation to Treasury Activities for 2015/16, some key issues for 2016/17 are :-

- Reduction in the Bank of England base rate to 0.25% in August 2016 and impact on interest rates for both investments and borrowing have reduced.
- The continuation of internal borrowing to maximise short term savings and timing of any external borrowing.



56. In accordance with the Council's Treasury Management Policy, Council will a further update on Treasury Management activities as part of the 2016/17 Mid Year Treasury Management report in December 2016.

**Christine Salter**

Corporate Director Resources

05 September 2016

The following Annexes are attached:-

Annexe A – Treasury Management Policy and Four Clauses of Treasury Management

Annexe B – Investments at 31 March 2016

Annexe C – Investment charts at 31 March 2016

Annexe D – Maturity analysis of debt as at 31 March 2016

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## **Annexe A – Treasury Management Policy and Four Clauses of Treasury Management adopted by Council 25/02/2010**

### **Council's treasury management Policy / Activities**

- This Council defines its treasury management activities as: the management of its investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks
- This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications
- This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management

### **Four Clauses of Treasury Management**

1. In compliance with the First Clause, this Council will create and maintain, as the cornerstones for effective treasury management:-
  - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
  - Suitable Treasury Management Practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities
2. In compliance with the Second Clause, this Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy in advance of the year, a mid-year review and an annual report after the year's close, in the form prescribed in its TMPs.
3. In compliance with the Third Clause, this Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Executive, and for the execution and administration of treasury management decisions to the Corporate Director Resources in accordance with existing delegations, who will act in accordance with the Policy Statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
4. In compliance with the Fourth Clause, this Council requires the scrutiny of the accounting, audit and commercial issues of its Treasury Management Strategy and Practices to be undertaken by the Council's Audit Panel due to the technical nature of the documents.

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By virtue of paragraph(s) 14, 21 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

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By virtue of paragraph(s) 14, 21 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

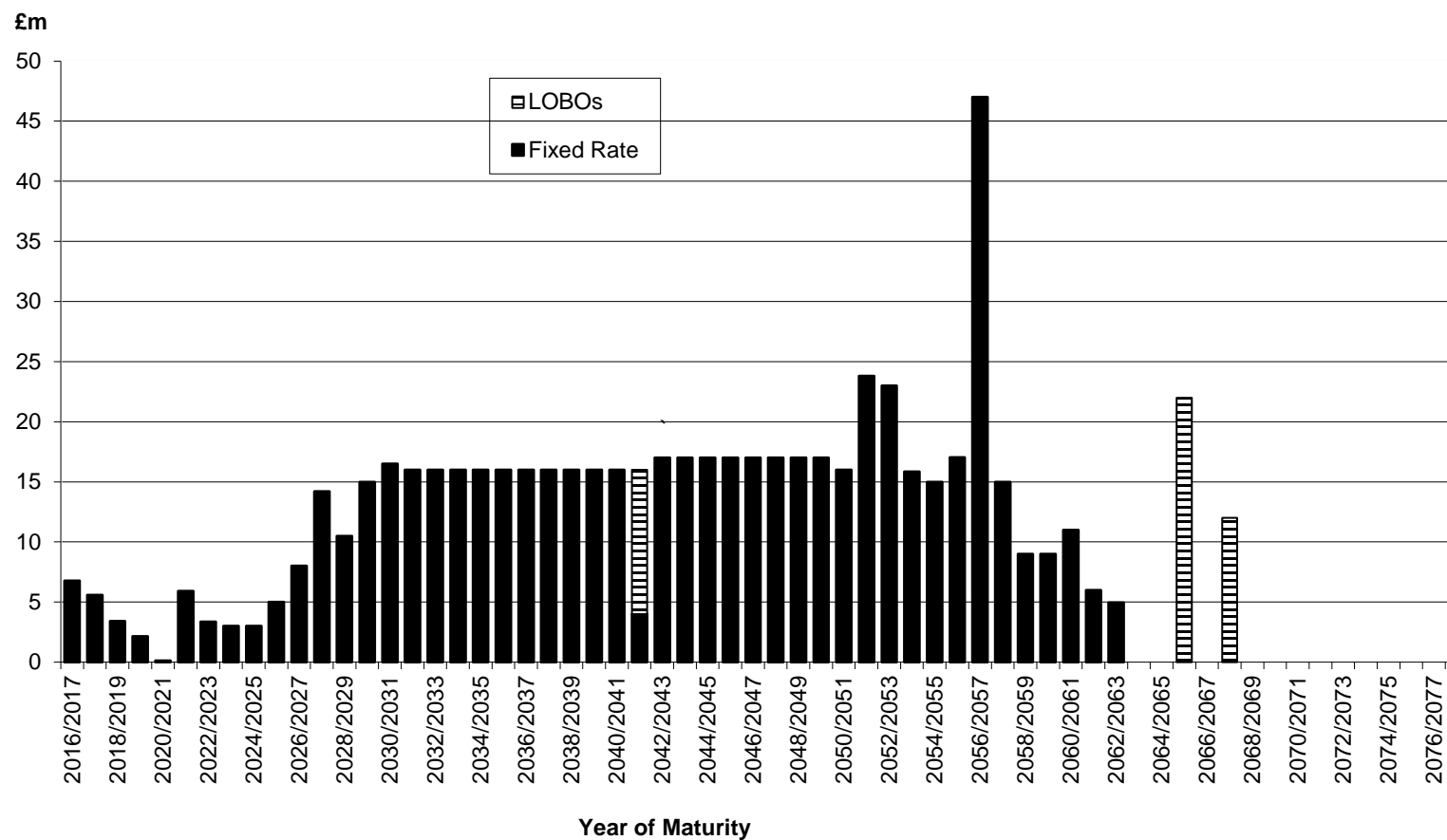
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## Annexe D – Maturity Profile of Debt at 31 March 2016

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**AUDIT COMMITTEE: 19 SEPTEMBER 2016**

**INTERNAL AUDIT PROGRESS REPORT**

**REPORT OF THE HEAD OF FINANCE**

**AGENDA ITEM: 10.1**

**Appendix B of the report is not for publication as it contains exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972**

**Reason for this Report**

1. The Audit Committee's Terms of Reference requires that Members consider reports from the Audit Manager on Internal Audit's performance during the year e.g. progress reports.
2. This report has been prepared to provide the Audit Committee Members with an update on the work of Internal Audit up to 31 August 2016, for the current financial year. As agreed with Committee previously, a full update will be provided at 6 monthly intervals.

**Background**

3. An Annual Audit Strategy/Plan is prepared each year which acts as a yardstick by which the work of Internal Audit can be measured. It is important that this allows for flexibility so that professional judgement can be applied to enable work to be prioritised over the life of the Plan in order to maximise the use of audit resources and add most value to the organisation in targeting changing risks.
4. The Head of Finance prepares quarterly briefings and a half yearly progress report outlining the work undertaken by the audit teams and key performance information.
5. In line with the provisions of the Public Sector Internal Audit Standards (1100), organisational independence is maintained as the Head of Finance reports functionally to the Audit Committee for all audit-related matters. The Head of Finance reports administratively and otherwise professionally to the Corporate Director, Resources.
6. Progress reports are discussed with the Corporate Director Resources, to provide them with a meaningful update of the work of the team and to give them the opportunity to discuss changing priorities. This is then presented to Audit Committee.

**Issues**

7. The progress report to 31 August 2016 is attached at Annex 1 for information.

**Legal Implications**

8. There are no legal implications arising from this report.

**Financial Implications**

9. There are no financial implications arising from this report.

**RECOMMENDATIONS**

10. That the Committee note the report.

**IAN ALLWOOD  
HEAD OF FINANCE**

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## RESOURCES DIRECTORATE INTERNAL AUDIT SECTION

### Internal Audit Progress Report (as at 31<sup>st</sup> August 2016)

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Prepared by: Ian Allwood, Head of Finance

# INTERNAL AUDIT PROGRESS REPORT

## INTRODUCTION

### Internal Audit Section Resources

As in quarter 1, the section has been reporting directly to the Head of Finance. In line with the provisions of the Public Sector Internal Audit Standards (1100), organisational independence is maintained as the Head of Finance reports functionally to the Audit Committee for all audit-related matters. In all other respects the Head of Finance reports to the Corporate Director, Resources.

In addition, in order to enhance the profile of risk management, the responsibility for championing it across the Council has been allocated to the Operational Manager for Information Governance. This provides a clear line of demarcation between risk assurance and risk management. The role of Audit in supporting Risk Management across the Council has not diminished and the results of this work to the end of August 2016 can be found in the body of this report. The new designation for the Head of Internal Audit is Audit Manager.

### Continuing Professional Development

All PP&DR reviews in relation to performance during 2015/16 were concluded by the end of May 2016. New objectives for 2016/17 were discussed with the members of the Section, and based on the Audit Service Delivery Plan (as set out in the Strategy) and the Council's Behavioural Competency Framework. This was completed by the end of June 2016 in accordance with the timetable set by the Chief Executive.

## SUMMARY OF WORK PERFORMED

### Audit team

The Audit Strategy for 2016/17 set the scene for audit coverage for the year and the planned assignments have been set up in the audit planning, monitoring and control database. Priority in quarter 1 was given to any audits planned for 2015/16 but not completed during that year.

All auditors have been allocated three months' work each quarter with an expectation their assignments will be effectively managed and delivered within that time scale. This approach focuses on outcomes and is improving performance and timeliness of reporting.

This progress report concentrates on audit work undertaken and some key performance indicators to date. A full Plan versus Actual position will be provided at the full half year stage (to the November meeting of the Audit Committee) with any recommendations to changes to planned coverage.

Key information this quarter is shown in **Appendix A**, which shows a list of audits reported for the period April until the end of August 2016 (time of writing this report). This includes assignments carried forward from 2015/16 which were prioritised accordingly in this year's Plan.

The Head of Finance meets regularly with the Chief Executive to discuss audit matters and, in particular, provide information on the audits with limited assurance opinions. There have been a number of such reports since the last report to Audit Committee, namely:

- (a) Payments to Care Leavers;
- (b) Danescourt Primary School;
- (c) Riverbank Special School; and
- (d) St. Alban's Primary School.

The report in respect of Riverbank Special School received a "no assurance" opinion, and the executive summary is attached as **Appendix B**.

#### Investigation Team

Following the introduction of the new Disciplinary Policy which went live on 1<sup>st</sup> April 2016, the Group Auditor (Investigations) continues to deliver the mandatory investigating officer training. This year, 12 sessions have been run with 98 attendees, all of whom were either satisfied or very satisfied with their training. Training will be delivered throughout the year.

Preparations continue for the next round of the Cabinet Office's, National Fraud Initiative, data matching exercise in readiness to upload data during quarter 3. The exercise helps detect and prevent fraud and overpayments from the public purse across the UK.

Numerous fraud referrals have been received and investigations undertaken; full details relating to the half year will be reported to Audit Committee in November.



## Risk and Governance

A great deal of work has been undertaken this quarter on the Corporate Risk Register and the Annual Governance Statement (AGS). The latter included meeting with Directors to discuss their Assurance Statements and summarising these for relevant input to the AGS. The CRR and Assurance Statements summary was reported to Senior Management Team in May 2016. The CRR was reported to Audit Committee in June and Cabinet in July. The Draft AGS was reported to Committee in June as part of the Draft Statement of Accounts.

The CRR has been reviewed by the Senior Management Team and has taken on some recommendations made by the Risk Champions Group. This group is made up of representatives from directorates and offers a valuable connection between Senior Management Team, lead risk officers and directorates with the aim of building in a more strategic and future gazing CRR.

The AGS has been reviewed by Senior Management Team which in itself informed the Chief Executive preparing his own Assurance Statement. This is the first time this has been completed and is a positive step going forward. The work carried out by governance officers has been significant in terms of framing the debate and the position is evolving to a point where senior managers now need to take primary accountability and responsibility for governance by performing self reviews which then can be reviewed independently for assurance. This strengthens the overall assurance by individuals making themselves personally accountable for governance matters.

## **AUDIT PERFORMANCE AND ADDED VALUE**

### Added value

Meetings have been arranged with every Director, in line with our Relationship Manager initiative, and diarised for quarterly meetings throughout 2016/17. These are useful in progressing matters relating to audits completed and planned and for discussing directorate risks, issues and areas for potential audit input.

### Benchmarking

The Audit team is a member of the Welsh Chief Auditors, Core Cities and CIPFA benchmarking groups and has recently submitted statistics to all groups for 2015/16. Some comparative data has been received during the summer period; it is in the process of being analysed and more information will be provided to Audit Committee in the half year progress report.

## Performance Information

**Appendix C** sets out some key facts for the section for quarters 1 and 2 (to 31<sup>st</sup> August 2016).

## Processes

Internal Audit has continued to develop its use of SharePoint, the Council's Electronic Document & Record Management System.

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Reports Issued in Quarter 2 (as at 31<sup>st</sup> August 2016)

Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
<b>Fundamental / High</b>				
Council Tax 2015/16	Satisfactory			
Housing Rent Arrears	Satisfactory			
Housing Rent Setting	Satisfactory			
Local Housing Allowance	Satisfactory			
Income Management	Limited	0		Draft report issued
<b>Medium</b>				
Bishop Childs Primary School	Limited	4	4	
Trowbridge Primary School	Limited	16	16	
Carbon Reduction Commitment	Satisfactory			
Payments to Care Leavers	Limited	5	5	
Danescourt Primary School	Limited	4	4	
ICT – Cloud Computing	Satisfactory			
CRSA – agile working	Satisfactory			
CRSA – mobile working and scheduling	Satisfactory			
CRSA – office rationalisation	Satisfactory			
Riverbank	No	15	15	
St. Alban's Primary School	Limited	4	4	
CRSA – infrastructure ADM	Satisfactory			
Staffed Accommodation (KD148)	Satisfactory			
Staffed Accommodation (KD152)	Satisfactory			
Glamorgan Archives	Satisfactory			
British Council projects	Limited	15		Draft report issued
Lansdowne Primary	Limited	13		Draft report issued
CMS – purchasing cards	Satisfactory			Draft report issued
Ninian Park Primary School	Deferred	4		Draft report issued

Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
Fostering payments	Satisfactory			Draft report issued
Adamsdown Primary School	Limited	6		Draft report issued
Birchgrove Primary School	Limited	8		Draft report issued
<b><i>Follow-ups</i></b>				
Payroll overpayments	Limited	1	1	
Brindley Road Stores	Limited	1	1	
Mental Health contracts	Satisfactory	1	1	
St. Monica's Primary School	Limited	3	3	
Cantonian	Satisfactory	1		Draft report issued
Woodlands	No	11		Draft report issued
Supporting People	Limited	2		Draft report issued
Glyn Derw Michaelston	Deferred			Draft report issued
<b><i>Ad hoc assignments</i></b>				
CRSA – Schools				On-going
Financial Resilience				Draft report issued
Welsh Purchasing Consortium	Joint Committee statements for 2015/16 accounts			
Port Health	Joint Committee statements for 2015/16 accounts			
Glamorgan Archives	Joint Committee statements for 2015/16 accounts			
Prosiect Gwyrdd	Joint Committee statements for 2015/16 accounts			
<i>Mileage and subsistence</i>				
<b><i>Value for Money Studies</i></b>				
Agency costs				
Annual Leave				
<b><i>Grants</i></b>				
Illegal Money Lending Unit				
Homelessness grant				
Education Improvement grant				

By virtue of paragraph(s) 14, 21 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

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## Key Facts

AUDIT RECOMMENDATIONS		Proposed	Agreed
No. of Recommendations		258	244
No. of Risks:	Red	54	50
	Red/Amber	99	89
	Amber/Green	105	105
% Agreed			95%
AUDIT QUESTIONNAIRES		Detail	
No. of Questionnaires Sent:		12	
No. of Questionnaires Received:		12	
Excellent		72.9%	
Good		16.7%	
Satisfactory		10.4%	
Unsatisfactory		0.0%	
Return Rate:		100%	
Business Plan Target Return Rate:		66%	
Satisfaction Rating:		100%	



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**AUDIT COMMITTEE: 19 September 2016**

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**PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) – EXTERNAL  
ASSESSMENT**

**REPORT OF THE CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 10.2**

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**Reason for this Report**

1. This report has been prepared to provide Audit Committee members with an update on the proposed arrangements for the Public Sector Internal Audit Standards (PSIAS) - External Assessment.

**Background**

2. The Committee has been previously informed that a PSIAS assessment is required to be carried out at least once in every five years. This assessment is required to be carried out by external assessors.
3. Through membership of the Welsh Chief Auditor's Group it has been proposed and acted upon that a peer group is established in order to undertake such assessments. This approach is consistent with a peer group established for Core cities across the UK. This approach, based around a robust self-assessment and an external evaluation, fully meets the requirements of the Standard and has significant cost savings.
4. A draft Terms of Reference has been drawn up and agreed between the participants and this was shared with Audit Committee Members in November 2015.

**Issues**

5. Work has been undertaken in order to group and match authorities to avoid any potential conflicts of interest. This exercise has determined that Rhondda Cynon Taff (RCT) will undertake the PSIAS assessment for Cardiff whilst we will undertake the PSIAS assessment for Swansea.
6. In anticipation of the external assessment, a self-assessment has been undertaken in 2016 and an action plan has been produced (Appendix A). This self-assessment identified good overall compliance, but some gaps between the prescribed PSIAS and the practice conducted by Cardiff Council Internal Audit.
7. The review process does not demand that there must be compliance to all requirements, but an understanding and justification for any deviations is expected at the time of the external review.

8. There are 12 recommendations that have been identified and whilst it is not necessary for each of them to be actioned in order to demonstrate compliance, the majority of them will be actioned. Where it is determined not to take forward a recommendation then a clear rationale will be provided. Currently, no decision has been taken not to undertake any of the 12 recommendations
9. It should be noted that one recommendation relates to the Audit Committee being that feedback is sought from the Chair of the Audit Committee in relation to the Performance appraisal of the Audit Manager.
10. The timetable is such that both assessments will be undertaken during the Autumn with a view to results being produced in January / February 2017.

### **Legal Implications**

11. There are no legal implications arising from this report.

### **Financial Implications**

12. There are no financial implications arising directly from this report.

### **RECOMMENDATIONS**

13. Members to note the update on the activity being undertaken, prior to the external assessment being undertaken in October 2016, in compliance with the Public Sector Internal Audit Standards (PSIAS).
14. Members to consider the action plan and provide any views as to the status of any of the recommendations.

**IAN ALLWOOD  
HEAD OF FINANCE**

*The following appendix is attached:*

Appendix A – PSIAS – Draft Action Plan

## AUDIT TITLE: Public Sector Internal Audit Standards (PSIAS) Self Assessment

REF	PSIAS REQUIREMENTS	FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	ACTION DATE
<b>Standard - Purpose, Authority &amp; Responsibility (1000)</b>						
1	i) The Audit Manager periodically reviews the Internal Audit Charter and presents it to senior management and the Audit Committee for approval.	The Audit Strategy includes the Internal Audit Charter and audit plan.  Additionally, although the covering Audit Committee Report for March 2015 requested that the Audit Strategy (inclusive of the Audit plan) was approved by Audit Committee, it was minuted as being 'noted' rather than approved by Audit Committee.  It is important that Audit Committee minutes accurately reflect the resolved Audit Committee actions.	i) The Audit Committee should 'approve' the Audit Strategy each year (inclusive of the full Audit Plan and Audit Charter), and this should be correctly included in the Audit Committee minutes.  ii) The Audit Charter presented to Senior Management, with consideration given to being Countersigned by the CEO.	i) The Audit Charter has been refined and was approved together with the Audit Plan in the Audit Committee meeting on 22 March 16.  ii) Consideration will be given to the Audit Charter being countersigned by Senior Management in March 2017 in accordance with best practice.	Audit Manager	March 2016
	ii) The Audit Committee approves the Risk-Based Audit Plan.				Audit Manager	March 2017
<b>Standard - Independence and Objectivity - Organisational Independence (1110)</b>						
2	Feedback is sought from the Chair of the Audit Committee for the Audit Manager's performance appraisal.	Greater engagement with the Chair is being considered in reviewing the performance of the Audit Manager.	Annual feedback should be sought from the Audit Committee Chair on the performance appraisal of the Audit Manager.	<i>For Audit Committee Consideration.</i>		
<b>Standard - Independence and Objectivity - Impairment to Independence or Objectivity (1130)</b>						

REF	PSIAS REQUIREMENTS	FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	ACTION DATE
3	Assurance engagements for functions over which the Audit Manager has responsibility must be overseen by a party outside the internal audit activity.	<p>As acting Audit Manager, the Head of Finance has responsibilities for the Finance function.</p> <p>An arrangement is required for audits relating to the finance section to avoid them being overseen by the Head of Finance as Audit Manager.</p>	A separate process should be established, so that audits relating to the finance function are not overseen by the Head of Finance as Audit Manager.	An agreement has been made with an Operational Manager outside of the Finance Section to oversee any audits relating to the finance function. A protocol is being developed to clearly document this process.	Audit Manager	Ongoing.
<b>Standard - Proficiency and Due Professional Care – Due Professional Care (1220)</b>						
4	Internal Auditors exercise due professional care by considering the probability of significant errors, fraud, or non-compliance.	<p>The standards require analytical procedures in the planning stage of each engagement, but some Auditors require training to consistently meet this requirement without assistance.</p> <p>Some Auditors have skill gaps in respect of Excel and CAATs, meaning that, without assistance, they cannot always review the whole population data sufficiently in order to identify the probability of significant errors, fraud or non-compliance.</p>	<p>Audit Management should build on the competency assessment which has been initiated.</p> <p>Auditors in need of analytical audit planning skills should be provided with further training, and in the meantime provided with direct assistance in analysing the population data for the probability of significant errors, fraud, or non-compliance.</p>	<p>The competency framework is being developed through a process of auditor evaluation and training.</p> <p>Key skills were identified from the original assessment in the summer of 2015. This has fed into a training programme based on key identified traing needs and some individual training courses being allocated to staff where skills gaps were identified.</p> <p>The skills of each auditor will be re-assessed in 2016 as part of a rolling evaluation and training programme.</p> <p>Prior to allocating audits, the skills of each auditor are matched to the requirements of the audit. In instances where additional coaching is required at the</p>	Audit Manager / Group Auditor	Ongoing

REF	PSIAS REQUIREMENTS	FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	ACTION DATE
				audit planning stage this will continue to be provided at the outset of the audit. Any additional training needs are documented in the Post Audit Assessment (PAA) and will feed into the competency framework.		
<b>Standard - Quality Assurance and Improvement Programme - Reporting on the Quality Assurance and Improvement Programme (1320)</b>						
5	The Audit Manager reports the results of the Quality Assurance and Improvement Programme (QAIP) to senior management and the Audit Committee.	The QAIP is included in the Audit Strategy with results reported in the Annual Internal Audit Report which is issued to Audit Committee  The QAIP is not reported to senior management.	It should be ensured that the results of the QAIP are reported to senior management in addition to the Audit Committee.	To be Considered by the Audit Manager.		
<b>Standard - Governance (2110)</b>						
6	The Internal Audit activity must evaluate the effectiveness of the organisation's ethics related objectives, programmes and activities.	A governance review is planned for 2016/17 to focus on ethics and culture.	An audit of the effectiveness of the organisation's ethics related objectives, programmes and activities should be undertaken in 2016/17.	Ethics and values audit programmed for 2016/17.	Audit Manager / Group Auditor	2016/17
7	The Internal Audit activity must assess whether the organisation's information technology governance supports the organisation's strategies and objectives.	Some aspects are assessed in terms of creditors / payroll / main accounting. However, there have been some gaps in the IT specific audit work while suitable skills were being commissioned. Audit coverage is planned for 2016/17.	An audit to review whether the organisation's information technology governance supports the organisation's strategies and objectives should be undertaken in 2016/17.	ICT Audit review planned for 2016/17.	Group Auditor (Investigations)	2016/17
8	Internal Audit must assess the effectiveness of organisational performance management and accountability.	An audit of Performance and Accountability has been planned for 2016/17.	An audit of Performance and Accountability should be undertaken in 2016/17.	Performance and Accountability Audit Planned for 2016/17.	Audit Manager / Group Auditor	2016/17

REF	PSIAS REQUIREMENTS	FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	ACTION DATE
		<p>A review of KPIs, PPDR, corporate planning etc. has not been undertaken by Internal Audit in some time, but performance measures are considered and reviewed for appropriateness in audit engagements.</p> <p>It should also be noted that a recent audit was completed of risk management arrangements.</p>				
<b>Standard - Engagement Planning (2200)</b>						
9	<p>Internal Auditors develop and document a plan for each consulting engagement.</p> <p>For significant consulting engagements, a written understanding is documented and communicated including the objectives, scope, respective responsibilities and other expectations.</p>	<p>The International Professional Practices Framework (IPPF) requires plans and working papers for all consulting as well as assurance engagements.</p> <p>There is scope to improve the paperwork to support consultation engagements, which is not currently standardised or included in the Audit Protocol.</p> <p>All consulting engagements are initiated on the basis of an agreed understanding of the objectives, scope and responsibilities of the parties involved.</p> <p>It would be good practice to ensure this is documented in the event of any significant consulting engagements.</p>	<p>A pro forma / document should be developed for the purposes of documenting the consulting engagement objectives, scope, timing and resource allocations.</p> <p>For any significant consulting engagements (exceeding 10 planned days), a documented understanding should be reached with clients on the objectives, scope and respective responsibilities for the engagement.</p>	<p>A listing of working groups / forums attended by Audit has been developed. This is used to document each group attended the audit representative, scope, resource required and objectives of each audit engagement.</p>	All Auditors	March 16
10	<p>Where an engagement plan has been drawn up for an audit to a party outside of the organisation, Internal Audit has established a written</p>	<p><b>Not in Place</b></p> <p>No written agreements on confidentiality / codes of conduct are used with external clients for</p>	<p>In the event of audit engagements which relate to external parties, it must be ensured that there is a</p>	<p>To be Considered by the Audit Manager.</p>		

REF	PSIAS REQUIREMENTS	FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	ACTION DATE
	<p>understanding with that party about:</p> <p>The respective responsibilities and other expectations of the internal auditors and the outside party (including restrictions on distribution of the results of the engagement and access to engagement records).</p>	grant work etc.	written understanding, including a written agreement on confidentiality and codes of conduct.			
<b>Standard - Engagement Planning - Engagement Scope (2220)</b>						
11	<p>The engagement scope includes consideration of the following relevant areas under the control of outside parties, where appropriate:</p> <ul style="list-style-type: none"> <li>• Systems;</li> <li>• Records;</li> <li>• Personnel;</li> <li>• Premises.</li> </ul>	There is a need to develop assurance work in this area to provide assurance over third party arrangements.	Audit engagements should be planned which provide assurance over areas under third party control.	<i>To be Considered by the Audit Manager.</i>		
<b>Standard - Communicating Results - Overall Opinion (2450)</b>						
12	<p>The Internal Audit Annual Report incorporates the following:</p> <ul style="list-style-type: none"> <li>• A comparison of work actually carried out with the work planned;</li> <li>• The results of the QAIP;</li> <li>• Progress against any improvement plans resulting from the QAIP;</li> <li>• A summary of the performance of the internal</li> </ul>	<p>The Internal Audit Annual Report reflects on the results of the audit work carried out and how this supports the audit opinion.</p> <p>The QAIP is communicated in the Audit Strategy, but not specifically reported upon in the Internal Audit Annual Report. However, there has not been an external assessment and this is the first improvement action plan resulting from an internal self-assessment against the PSIAS.</p>	<p>The Annual Internal Audit Report should include:</p> <ul style="list-style-type: none"> <li>• A comparison of work actually carried out with the work planned;</li> <li>• The results of the QAIP;</li> <li>• Progress against any improvement plans resulting from the QAIP;</li> <li>• Performance targets to</li> </ul>	<i>To be captured in the Internal Audit Annual Report 2016/17.</i>	Audit Manager	March 2017



REF	PSIAS REQUIREMENTS	FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	ACTION DATE
	audit activity against its performance measures and targets.	<p>The comparative data of work carried out to planned is included in the Internal Audit Annual Report.</p> <p>Post audit assessment data and customer feedback is reported in the Internal Audit Annual Report, but targets are not shown.</p>	which internal audit activity performance is measured.			

**AUDIT COMMITTEE: 19 SEPTEMBER 2016**

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**FIGHTING FRAUD AND CORRUPTION LOCALLY**

**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 10.3**

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**Reason for this Report**

1. The Audit Committee's Terms of Reference requires that:
  - Members consider any anti-fraud strategies, policies and procedures.
  - Members receive reports on fraud prevention and detection initiatives and updates to any related policies and strategies.

**Background**

2. This report has been prepared to bring to the attention of the Audit Committee Members, three documents published by CIPFA and an Executive Summary in respect of Fighting Fraud and Corruption Locally.
3. Fighting Fraud and Corruption Locally is a strategy for English local authorities, that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape.
4. The strategy is the definitive guide for council leaders, chief executives, finance directors and all those with governance responsibilities and includes practical steps for fighting fraud, shares best practice and brings clarity to the changing anti-fraud and corruption landscape.
5. There is currently no Welsh strategy to measure against, therefore, the Council will measure its effectiveness against the Fighting Fraud and Corruption Locally strategy, and will also be implementing its guidance and best practice.

**Issues**

6. Local authorities face a significant fraud challenge. Fraud costs local authorities an estimated £2.1bn a year.

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7. Fraudsters are constantly revising and sharpening their techniques and local authorities need to do the same. There is a clear need for a tougher stance. This includes tackling cross boundary and organised fraud and corruption attempts, as well as addressing new risks.

### **Legal Implications**

8. There are no legal implications arising from this report.

### **Financial Implications**

9. There are no financial implications arising from this report.

### **Recommendations**

10. That the Committee note the report and the attached appendices.

**Christine Salter**  
**Corporate Director, Resources**

**Date:**

*The following Appendices are attached:*

*Appendix A – Fighting Fraud and Corruption Locally – Executive Summary*

*Appendix B – The local Government Counter Fraud and Corruption Strategy 2016-19*

*Appendix C – Fighting Fraud and Corruption Locally – The Companion 2016-19*

*Appendix D – Fighting Fraud and Corruption Locally – 2016/19 Checklist*

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# Fighting fraud and Corruption Locally

## The local government counter fraud and corruption strategy

Fighting Fraud and Corruption Locally is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape. Its production and subsequent implementation is overseen by an independent board, which includes representation from key stakeholders. The board commissioned the drafting and publication of the strategy from the CIPFA Counter Fraud Centre.

### Executive Summary

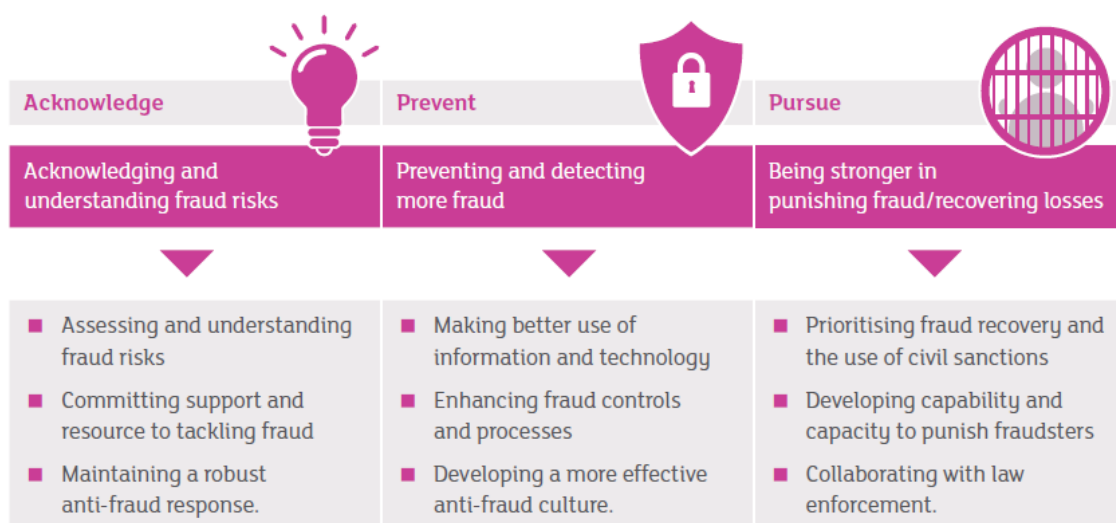
Local authorities face a significant fraud challenge. Fraud costs local authorities an estimated £2.1bn a year. Every £1 that a local authority loses to fraud is £1 that it cannot spend on supporting the community. Fraud and corruption are a drain on local authority resources and can lead to reputational damage.

Fraudsters are constantly revising and sharpening their techniques and local authorities need to do the same. There is a clear need for a tougher stance. This includes tackling cross boundary and organised fraud and corruption attempts, as well as addressing new risks.

In addition to the scale of losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities will need to work with new agencies in a new national counter fraud landscape.

This will offer opportunities to support the National Crime Agency in the fight against organised crime and work with the CIPFA Counter Fraud Centre, which has agreed to take on the hosting of Fighting Fraud and Corruption Locally, and other leaders in this field. Local authorities reported that they were still encountering barriers to tackling fraud effectively, including incentives, information sharing and powers. The strategy also addresses the issue of new anti-corruption measures for local authorities and integrates the relevant elements of the government's Anti-Corruption Plan.

In response to these challenges, local authorities will need to continue to follow the principles developed in Fighting Fraud Locally 2011 (FFL):



Local authorities have achieved success by following this approach; however, they now need to respond to an increased threat.

The strategy sets out ways in which local authorities can further develop and enhance their counter fraud response by ensuring that it is comprehensive and effective and by focusing on the key changes that will make the most difference.

Local authorities can ensure that their counter fraud response is comprehensive and effective by considering their performance against each of the six themes that emerged from the research:

→ <b>C</b> ulture	creating a culture in which beating fraud and corruption is part of daily business
→ <b>C</b> apability	ensuring that the range of counter fraud measures deployed is appropriate to the range of fraud risks
→ <b>C</b> ompetence	having the right skills and standards
→ <b>C</b> ommunication	raising awareness, deterring fraudsters, sharing information, celebrating successes
→ <b>C</b> apacity	deploying the right level of resources to deal with the level of fraud risk
→ <b>C</b> ollaboration	working together across internal and external boundaries: with colleagues, with other local authorities, and with other agencies; sharing resources, skills and learning, good practice and innovation, and information.

## The Fraud Challenge

Local authorities face a significant fraud challenge - an estimated £2.1bn a year:



The Fighting Fraud and Corruption Locally strategy sets out a vision that by 2019:

- There is a culture in which fraud and corruption are unacceptable and everyone plays a part in eradicating them.
- By better understanding of risk and using technology local authorities will shut the door to fraudsters who try to access their systems or services
- Local authorities will have invested in sustainable systems to tackle fraud and corruption and will see the results of recovery
- Local authorities will be sharing information more effectively and by using advanced data technology will prevent and detect losses
- Fraudsters will be brought to account quickly

It is now for elected members, chief executives, finance directors, and all those charged with governance to ensure this strategy is adopted and implemented in their local authorities.

# Fighting Fraud & Corruption

LOCALLY

## The local government counter fraud and corruption strategy

2016 - 2019

Supported by:



**CIPFA COUNTER  
FRAUD CENTRE**

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**Fighting Fraud and Corruption Locally** is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape. Its production and subsequent implementation is overseen by an independent board, which includes representation from key stakeholders. The board commissioned the drafting and publication of the strategy from the CIPFA Counter Fraud Centre.

This strategy is the result of an intensive period of research, surveys, face-to-face meetings and workshops. Local authorities have spoken openly about risks, barriers and what they feel is required to help them improve and continue the fight against fraud and to tackle corruption locally.



With support from:





# Foreword by Cllr Claire Kober

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Since the last Fighting Fraud Locally Strategy was published in 2011, the landscape has changed considerably for local government. Councils have dealt with unprecedented reductions in funding – up to 40% of central funding over the life of the previous Parliament and further real term reductions announced in the November 2015 Spending Review.

Rather than taking the approach of managing decline, councils have innovated, collaborated and prioritised in order to protect vital services.

Innovation is as important in fighting fraud as any area of council activity to keep ahead of fraudsters and prevent resources being taken away from delivering services to those who need them.

The transfer of welfare benefits fraud investigation staff to the DWP's Single Fraud Investigation Service means that councils need to reconsider how they counter other areas of fraud. The new Fighting Fraud and Corruption Locally Strategy is timely and should be of great help to councils in developing new approaches.

There are many examples of success but it is worth focussing on the Audit Commission's annual report in October 2014 that reported a 400% increase in right to buy fraud in London; a fact which we in Haringey anticipated over two years ago when the maximum discount available to purchase a home under the right to buy scheme was increased to £100k.

Our Fraud Team in Haringey has been working pro-actively with services across the council since 2013 to investigate potential right to buy fraud. Joining up housing, benefits and fraud teams effectively has meant that we have prevented over 120 cases of right to buy fraud, saving £12m in discounts and retaining the property for use as much needed social housing.

Where we have identified tenancy and benefit fraud alongside the right to buy fraud, we recover the property to help provide homes for those people and families in most need; and we are prosecuting the most serious cases. Secondly, our Benefits Team has been working to make it more difficult for fraud and error to occur in the first place.

Claimants are now asked to periodically resubmit current evidence of their circumstances, especially

their income, and long running claims are now reviewed in depth more often, particularly in high risk areas – those where circumstances might be expected to have changed.

We are also making it easier for claimants to tell us of changes in circumstances and reminding them that they need to tell us, and we are looking at sharing data with other agencies. Every pound siphoned off by a fraudster is a pound that cannot be spent on services where they are needed. Councils need to be vigilant.

Councils do have a good record in countering fraud and the strategy contains numerous case studies and examples of successes. Councils also have an excellent record in collaboration with the LGA's improvement team recording more than 350 successful examples of councils working together to save money and improve services, and collaboration to counter and prevent fraud is a theme running through the strategy.

I am happy to endorse this strategy on behalf of the LGA and welcome it as an opportunity for councils to review and further improve their counter fraud work.



**Claire Kober**

Chair Resources Portfolio Local Government Association and Leader Haringey Borough Council

# Foreword by Marcus Jones MP

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Fraudsters cost the local tax payer many millions of pounds each year. Indeed the estimated loss of £2.1bn quoted in this Strategy is felt to be an underestimate of the total cost to local government.

This is of concern as much to central government as it is to councils. The Strategy rightly places an emphasis on council leaders, chief executives and finance directors to provide the local leadership to take action to protect the public purse.

At a time when every penny should be invested in delivering high quality services to local people, tackling fraud head on should be a priority.

The recent figures from the Office of National Statistics show that an increasing amount of fraud is being reported to the police, Cifas and Financial Fraud Action UK.

The risks are clear, councils must ensure they are active in looking for and identifying fraud and embedding a counter fraud culture at the heart of their organisation.

Currently there is a disparity of effort in tackling this kind of criminal activity across the sector, this is a concern. Some invest in dedicated counter fraud activity and some do not, and the Strategy is right to point out that councils should take an 'invest to save' approach.

I know this is not easy, there have been some successes but more councils need to go further. The Government has helped councils, and last year provided an injection of £16m through the Counter Fraud Fund to support a wide range of council led projects across the country.

The challenge is now for local government to build on this investment, share the learning, and raise the bar. A clear message needs to be sent to fraudsters that councils won't put up with fraud of any sort. As the Strategy says – it is about having robust systems in place to prevent fraud occurring in the first place.

To look in the right areas, by taking a risk based approach to identify fraud, and where fraud is found to publicise it widely and use it as deterrent. And councils will be judged by their residents on their results.

I fully believe the onus lies rightly at the top of the organisation to set the tone and culture that councils are serious and won't tolerate fraud, that all parts of the organisation have a job to build fraud resilience into their systems, to actively look for, and where they find it prosecute fraudsters.

I hope and expect this strategy to be the spring board for councils to go further than before.



**Marcus Jones MP**

Parliamentary Under Secretary of State  
(Minister for Local Government)

# Executive Summary

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Fighting Fraud and Corruption Locally is the new counter fraud and corruption strategy for local government. It provides a blueprint for a tougher response to fraud and corruption perpetrated against local authorities. By using this strategy local authorities will develop and maintain a culture in which fraud and corruption are understood to be unacceptable, understand their fraud risk and prevent fraud more effectively, use technology to improve their response, share information and resources more effectively to prevent and detect fraud loss, bring fraudsters account more quickly and efficiently, and improve the recovery of losses.

This strategy is aimed at council leaders, chief executives, finance directors, and all those charged with governance in local authorities. It is produced as part of the Fighting Fraud and Corruption Locally initiative, a partnership between local authorities and key stakeholders, and succeeds the previous strategy, written in 2011.

Local authorities face a significant fraud challenge. Fraud costs local authorities an estimated £2.1bn a year. Every £1 that a local authority loses to fraud is £1 that it cannot spend on supporting the community. Fraud and corruption are a drain on local authority resources and can lead to reputational damage.

Fraudsters are constantly revising and sharpening their techniques and local authorities need to do the same. There is a clear need for a tougher stance. This includes tackling cross boundary and organised fraud and corruption attempts, as well as addressing new risks.

In addition to the scale of losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities will need to work with new agencies in a new national counter fraud landscape.

This will offer opportunities to support the National Crime Agency in the fight against organised crime and work with the CIPFA Counter Fraud Centre, which has agreed to take on the hosting of Fighting Fraud and Corruption Locally, and other leaders in this field. Local authorities reported that they were still encountering barriers to tackling fraud effectively, including incentives, information sharing and powers.

The strategy also addresses the issue of new anti-corruption measures for local authorities and integrates the relevant elements of the government's Anti-Corruption Plan.

In response to these challenges, local authorities will need to continue to follow the principles developed in Fighting Fraud Locally 2011 (FFL):

- **Acknowledge:** acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.
- **Prevent:** preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.
- **Pursue:** punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.

Local authorities have achieved success by following this approach; however, they now need to respond to an increased threat.

This strategy sets out ways in which local authorities can further develop and enhance their counter fraud response by ensuring that it is comprehensive and effective and by focusing on the key changes that will make the most difference.

Local authorities can ensure that their counter fraud response is comprehensive and effective by considering their performance against each of the six themes that emerged from the research:

- Culture
- Capability
- Capacity
- Competence
- Communication
- Collaboration

“At a time when resources are becoming ever more scarce, all of us involved in delivering local public services are looking at ways of doing more with less. Acknowledging the risk of fraud and committing resources to tackle it, taking steps to prevent fraud and pursuing offenders must be part of the answer. What we have learnt as a consequence of our continuing work is that success in this field depends not just on what you do but how you do it. Having an embedded anti-fraud approach across an organisation is critical to success and by focusing this strategy on the cross cutting themes of culture, capability, capacity, competence, communication, and collaboration will in my view help ensure that an anti-fraud approach becomes integral to the way we work.

**Charlie Adan**

Chief Executive Babergh and Mid Suffolk



The Companion to this document contains a section on each of these themes, with information on fraud risks, good practice and case studies to assist local authorities in strengthening their response and ensuring that it is fit for purpose.

This strategy also identifies the areas of focus that will make the most difference to local authorities' counter fraud efforts. These are:

- Leadership
- Assessing and understanding the scope of fraud and corruption risks
- Making the business case
- Using resources more effectively
- Collaborating to improve
- Using technology to tackle fraud
- Tackling corruption

Many local authorities have demonstrated that they can tackle fraud innovatively and can collaborate effectively to meet the challenges. Indeed, many have identified that a reduction in fraud can be a source of sizeable savings.

For example:

- Birmingham City Council, working with other agencies, secured a confiscation order against 2 organised fraudsters of £380,000
- The London Borough of Lewisham, working with Lewisham Homes, recouped £74,000 from one internal fraudster
- The Royal Borough of Kensington and Chelsea, by using data matching techniques to prevent fraud, made savings of £376,000 in the first year, and £250,000 for the following two years.

This strategy has been designed for local authorities by local authorities and other stakeholders. It provides a firm and practical basis to help them to take the next steps in the continuing fight against fraud and corruption.

The strategy:

- Calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment
- Illustrates the financial benefits that can accrue from fighting fraud more effectively
- Calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement
- Updates and builds upon *Fighting Fraud Locally 2011* in the light of developments such as *The Serious and Organised Crime Strategy* and the first *UK Anti-Corruption Plan*
- Sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

It is now for elected members, chief executives, finance directors, and all those charged with governance to ensure this strategy is adopted and implemented in their local authorities.

# Introduction

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This strategy document is aimed primarily at elected members, chief executives, finance directors, and those charged with governance in local authorities. A companion document aimed at counter fraud practitioners in local authorities has been produced, which lays out detailed actions for them. The strategy sets out the approach local authorities should take and the main areas of focus over the next three years in order to transform counter fraud and corruption performance, and contains major recommendations for local authorities and other stakeholders.

The strategy is based upon research carried out by the CIPFA Counter Fraud Centre.

## This consisted of:

- Workshops conducted in York, Birmingham and London with over 90 attendees
- Twelve individual interviews with key stakeholders from the counter fraud landscape including local authority representative groups, the National Anti-Fraud Network, the Home Office and the Audit Commission
- Specific focussed interviews with subject matter experts
- Three regional workshops attended by around 70 practitioners focussed on particular fraud types and barriers
- A workshop focussing on anti-corruption risks
- A survey placed on the website of the Local Authority Investigators Group on fraud risks and barriers
- Desktop research of publications and counter fraud literature, including new legislation. These documents are listed in The Companion.

By following this strategy local government will be better able to protect itself from fraud and corruption and will provide a more effective fraud response.



## Our vision is that by 2019:

- There is a culture in which fraud and corruption are unacceptable and everyone plays a part in eradicating them
- By better understanding of risk and using technology local authorities will shut the door to fraudsters who try to access their systems or services
- Local authorities will have invested in sustainable systems to tackle fraud and corruption and will see the results of recovery
- Local authorities will be sharing information more effectively and by using advanced data technology will prevent and detect losses
- Fraudsters will be brought to account quickly and efficiently and losses will be recovered.

Since the first local government counter fraud strategy, *Fighting Fraud Locally*, was published in 2011, local authorities have made significant progress in tackling fraud by acknowledging and understanding the risks they face and by collaborating, making more use of technology and information sharing to prevent fraud.

In addition, local authorities have made good use of legislation to recover assets and to take action against fraudsters. There are many examples in this document and the companion that demonstrate the efforts and achievements of local authorities despite reductions in resources and a changing enforcement landscape.

Local authorities should be commended for their part in the fight against fraud and other agencies should learn from their good practice. However, the scale of losses demonstrate that more needs to be done. The landscape continues to change and local authorities will need to respond within the context of budget reductions. There is a need to do more with less.

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## This document is divided into three sections:

### Section 1: The Fraud Challenge

Sets out the nature and the scale of fraud losses, the changes to the national and public sector fraud landscape that require a response from local authorities, and the key issues raised by stakeholders.

### Section 2: The Strategic Response

Describes the response that is required from local authorities to address the challenges it is facing, identifying the activities necessary in order to achieve the strategic vision.

### Section 3: Delivery Plan

Sets out the recommendations and the framework for delivery.

### The Companion

This additional document is aimed at counter fraud practitioners in local authorities and taken together with this strategy sets out a comprehensive blueprint for counter fraud and corruption activities that will deliver the vision.

It identifies the most pressing and serious fraud risks and sets out ways of tackling them, as well as identifying the key organisations that local authorities should work with and the roles they play.

“

Birmingham City Council has invested in creating an anti-fraud culture for some years and a number of examples of its good practice are contained within this document.

At Birmingham City Council, we are committed to protecting the public funds that we are entrusted with. In these times of austerity, the minimisation of losses to fraud and corruption is even more important in ensuring that resources are used for their intended purpose of providing essential services to the citizens of Birmingham.

Through our values, policies and procedures, the council has sought to develop an anti-fraud culture and maintain high ethical standards in its administration of public funds. Anyone who commits, or attempts to commit, fraudulent or corrupt acts against the council, will be held to account in a decisive manner.

The work of our Counter Fraud Team in identifying fraud is invaluable in ensuring that our scarce resources are protected. The development of a sophisticated data analysis capability enables the team not only to detect fraud, but helps our frontline services to prevent it as well. This helps to make sure that the council's services are provided to only those in genuine need and that our valuable resources are directed to where they are needed most”.

#### Mark Rogers

Chief Executive, Birmingham City Council

# Section 1: The Fraud Challenge

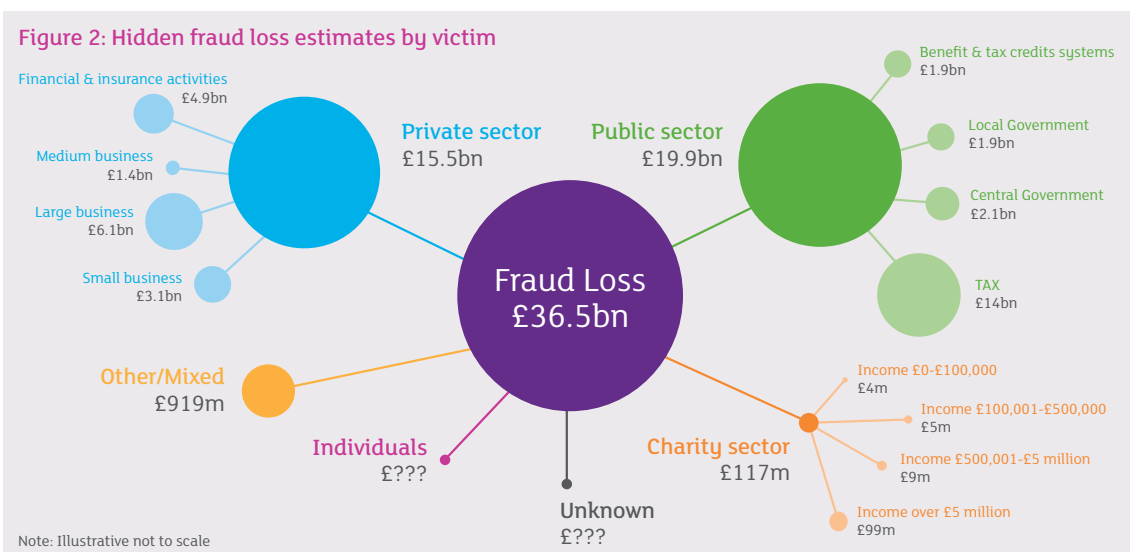
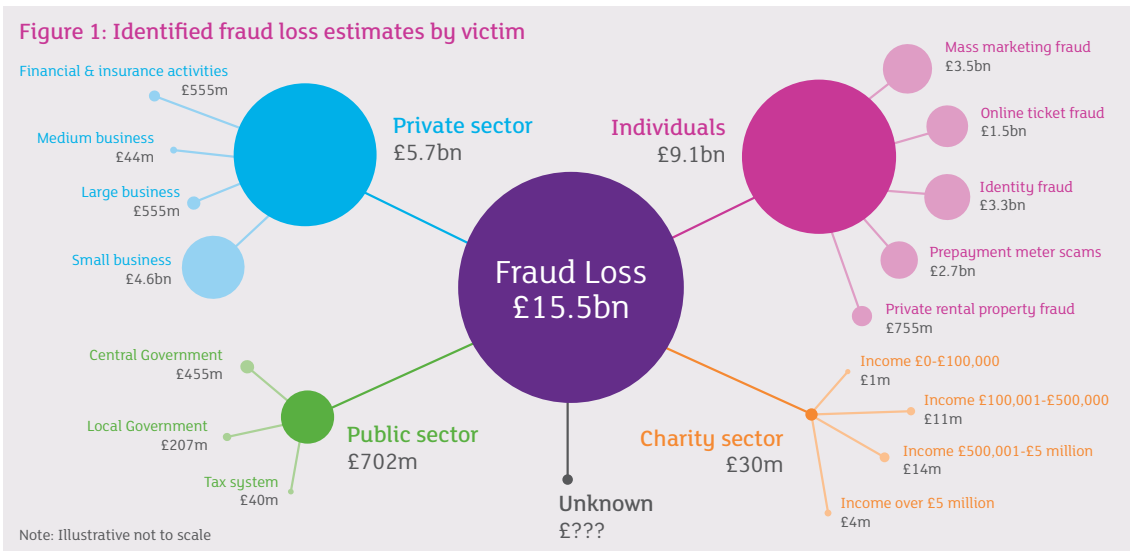
In compiling the evidence that underpins this strategy it became clear that there are three main areas of concern that necessitate a coordinated response from local authorities:

- The scale of fraud losses
- Changes to the national and public sector counter fraud landscape
- Issues raised directly by stakeholders.

## The Scale of Fraud Losses

It is accepted that fraud affects the UK across all sectors and causes significant harm. The last, most reliable and comprehensive set of figures was published by the National Fraud Authority in 2013, and indicates that fraud may be costing the UK £52bn a year.

Within these figures the estimated loss to local authorities totalled £2.1bn. The estimated losses for local authorities in 2013 are broken down in the following by identified fraud losses and hidden fraud losses:



Annual Fraud Indicator 2013



## Estimated Local Government Fraud Loss 2013

Fraud Type	Estimated Loss	Fraud Type	Estimated Loss
Housing tenancy fraud	£845m	Blue Badge Scheme misuse	£46m
Procurement fraud	£876m	Grant fraud	£35m
Payroll Fraud	£154m	Pension fraud	£7.1m
Council Tax fraud	£133m		

Annual Fraud Indicator 2013

These figures do not take into account the indirect costs of responding to and dealing with fraud and exclude some potentially significant areas of fraud loss.

The Audit Commission's Protecting the Public Purse 2014 identified detected fraud to the value of £188m following a comprehensive survey of local authorities: this was fraud after the event and did not include potential losses.

Local authorities detected 3% fewer cases of fraud than in the previous exercise but the value increased by 6%, which implies larger fraud cases.

It is clear, even allowing for inaccuracies in the measurement of fraud risk and the absence of recent data, that like other sectors of the economy local government is under attack from fraudsters and the scale of losses to local authorities is significant. There are opportunities for local authorities to take action to reduce their losses, and these are discussed in Section 2 of this document.

## Changes to the National and Public Sector Counter Fraud Landscape

Since Fighting Fraud Locally was published in 2011, there have been significant changes in the landscape nationally, including areas covering organised fraud and anti-corruption.

### The National Response to Serious and Organised Crime

The National Crime Agency was created in October 2013, and in May 2014 published the National Strategic Assessment of Serious and Organised Crime. Organised crime costs the United Kingdom £24bn each year and includes drug trafficking, human trafficking, organised illegal immigration,

high value crimes, counterfeiting, organised acquisitive crime and cybercrime.

Serious and organised criminals operate across police force boundaries and in complex ways, and the police require sophisticated capabilities to detect and disrupt their activity. The Government invested in the development of the Regional Organised Crime Unit (ROCU) network to ensure that forces have access to the capabilities they need to tackle these threats. Regional Organised Crime Units provide high end specialist capability, including regional fraud teams, to local forces tackling the threat from serious and organised crime in their region.

Action Fraud is the national reporting point for fraud and also cyber crime. As of April 2014, both Action Fraud and the NFIB are run by the City of London Police, which is the UK's lead force for fraud. This change was made by the Government to ensure that one body was responsible for the whole process of recording and analysing reports of all types of fraud.

Organised crime affects local authorities as well as other organisations. The Government launched a new Serious and Organised Crime Strategy in October 2013. Its aim is to substantially reduce the level of serious and organised crime affecting the UK and its interests. All frauds, including those committed within the context of local government should be reported to Action Fraud, either by calling: **0300 123 2040** or by visiting: [www.actionfraud.police.uk/report\\_fraud](http://www.actionfraud.police.uk/report_fraud).

The National Crime Agency (NCA) leads work against serious and organised crime, coordinating the law enforcement response, ensuring that action against criminals and organised criminal groups is prioritised according to the threat they present.

Police forces will continue to conduct most law enforcement work on serious and organised crime. They should be supported by local organised crime partnerships boards, including local authorities and



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agencies to ensure all available information and powers are used against this threat.

Local government is not immune from organised fraud. Recent years have seen a number of fraud cases where perpetrators have been part of a larger criminal network. Organised frauds often cross local authority boundaries and investigations tend to be complex, requiring the deployment of specialist resources, such as computer forensics or surveillance capability. Such resources are expensive and expertise needs to be used constantly to maintain effectiveness.

Although organised crime may not immediately seem to be a direct threat to local authorities, many organisations have already been subjected to fraud, money laundering, identity crime, intellectual property crime and theft of assets. Local authorities may be targeted by organised crime, whether to obtain council resources or to fund other activities. Local authorities need to consider how they can protect their employees, communities, businesses and themselves from the threat of organised crime.

### Anti-Corruption

On 18 December 2014 the Home Office published the first UK Anti-Corruption Plan. The aim of the plan is to bring about a co-ordinated and collaborative approach, setting out clear actions and priorities. The plan covers both UK and international activities, and includes local government.

“

Most public officials have probably never been offered a bribe and would feel pretty confident that they could spot the offer. If they don't necessarily think of themselves as totally incorruptible, they often think they can avoid getting entangled in situations where their conduct may be called into question.

However, thinking you don't need help or guidance in knowing what is legal or illegal, or even what is right or wrong, in every circumstance is a risk – a risk that could and should be avoided by getting the most of what help and guidance is available.”

**Prof Alan Doig** – Visiting Professor,  
Centre for Public Services Management,  
Liverpool Business School, Liverpool John Moores University

The response to corruption follows the UK's four components of the Serious and Organised Crime Strategy:

- **Pursue:** prosecuting and disrupting people engaged in serious and organised criminality
- **Prevent:** preventing people from engaging in serious and organised crime
- **Protect:** increasing protection against serious and organised crime
- **Prepare:** reducing the impact of this criminality where it takes place.

The plan sets out the immediate priorities for the government, which are to build a better picture of the threat from corruption, increase protection and strengthen the law enforcement response.

Local authorities are included in a number of areas within the plan as well as within a specific section. There are areas to which they should pay close attention and ensure that they have suitable arrangements in place and that they are up to date on current arrangements. It will require a change in culture and competence.

**Local government** is targeted by those who wish to corrupt local processes, such as housing or planning, for their own gain; and organised crime groups are known to target local officials to consolidate their status in communities.

UK Anti-Corruption Plan, December 2014

The NCA's Economic Crime Command also has a responsibility in respect of anti-bribery and anti-corruption. It is working with the CIPFA Counter Fraud Centre to raise awareness in this area and recommends a policy of zero tolerance to bribery and corruption, which should be endorsed by the chief executive, sound whistleblowing procedures and awareness training. The NCA also recommends reflecting the commitment in all relevant policies.

### The Public Sector Fraud Response

The Cabinet Office published Tackling Fraud and Error in Government: a Report of the Fraud, Error and Debt Taskforce in 2012. That report set out an ambitious but focused delivery programme that sought to reduce levels of fraud and error across government.

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In his foreword, The Rt. Hon. Francis Maude wrote: “We must continue to work together to support the national fraud strategy Fighting Fraud Together, and demonstrate the significant financial benefits that can be made in reducing the harm of fraud and error in the public sector.”

The Fraud, Error and Debt Taskforce was established under the 2010 to 2015 Conservative and Liberal Democrat coalition government, and was the strategic decision-making body for all fraud and error, debt and grant efficiency initiatives across government.

It met 6 times a year and included ministers, senior officials from relevant government departments, and experts from the private sector and the wider public sector. As a result of its work, this government is putting in place a fraud, error, debt and grants function and is reviewing associated groups.

As a result of the Taskforce’s work, central government is driving ahead with a broad agenda of activity on fraud, error, debt and grants. This include the roll out of the Debt Market Integrator, a new way of collecting public sector debt and developing capability across central government in countering fraud through the development of government standards for counter fraud work. It also includes projects to enhance the use of data analytics across government and increasing the efficiency and effectiveness of government grant

The National Fraud Initiative (NFI), an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud, is now under the control of the Cabinet Office. The NFI team continues to carry out data matching work with local authorities.

### **Fighting Fraud Locally 2011**

Fighting Fraud Locally, published in 2011, was the first counter fraud strategy for local authorities. It set out the challenges facing local authorities and the response required, noting the good work already carried out and proposing action to overcome the barriers to further progress.

The initiative was supported and hosted by the National Fraud Authority (NFA), which led engagement with local authorities through an independent board on which stakeholders such as the Local Government Association, the Department

for Communities and Local Government, and counter fraud experts working in local authorities were represented.

As a result of Fighting Fraud Locally, local authorities and central government undertook many activities. The DCLG set up working groups to look at the areas raised by local government as barriers. Local authorities took part in around 34 pilots set by the NFA, an annual conference was set up, and an awards regime was established which eventually grew to include the whole public sector.

The NFA undertook an extensive engagement campaign with a national roadshow and events to publicise the work and garner support. It engaged CIPFA to provide a survey on FFL actions which began in 2012, and commissioned free tools and guides under the banner of FFL.

Following the abolition of the NFA in March 2014, most of its work was transferred into the National Crime Agency. Overseeing the delivery of the action plan associated with Fighting Fraud Locally remained the responsibility of the independent board. In October 2014, the Chartered Institute of Public Finance and Accountancy (CIPFA), which was already providing pro bono support by hosting the Fighting Fraud Locally web pages and providing several guides and tools, was asked by the independent board to take over the secretariat and begin research for the next iteration of the strategy.

The CIPFA Counter Fraud Centre now hosts Fighting Fraud and Corruption Locally, manages the secretariat and holds the Fighting Fraud and Corruption Locally Good Practice Bank.

### **Police Resources**

Local authorities collaborate with the Police where appropriate. The law enforcement response to fraud is led by the City of London Police, which is the national lead force for fraud. The City of London Police runs Action Fraud, the national reporting service for fraud and cyber-crime.

It is not only local authorities that are affected by changes in the landscape and a reduction in resources due to the need to curb public expenditure: other enforcement agencies are also facing reductions. It is the view of local authorities that police will have reduced resources to support local authorities on tackling local authority led fraud.

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Local authorities will therefore need to consider how they can achieve the results necessary by reconfiguring their approach to enforcement

### Whistle-blowing Arrangements

The best fraud fighters are the staff and clients of local authorities. To ensure that they are supported to do the right thing a comprehensive, management-led, anti-fraud and corruption culture needs to be maintained, including clear whistle-blowing arrangements.

These arrangements should ensure that staff and the public have access to a fraud and corruption whistle-blowing helpline, and should be kept under review.

The terms should conform to the British Standards Institute 2008 Whistle-blowing Arrangements Code of Practice as updated within the Code of Practice published in 2013 by the Whistle-blowing Commission set up by Public Concern at Work.

The Department for Business, Innovation and Skills, also recently published Whistle-blowing Guidance and a Code of Practice (March 2015) this helps employer's understand the law relating to whistle-blowing and provides practical advice for putting in place a robust whistle-blowing policy .

The NAO is available as a prescribed body to take calls from whistle-blowers and the NAO has good practice on its website.

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Whistleblowing arrangements help to provide employees of public bodies, and users of public services with confidence that wrongdoing or the misuse of public funds can be investigated by an independent and impartial party. This is all the more important where services are subject to considerable change and innovative ways of delivering those services are adopted.

The Head of the National Audit Office is a prescribed person for central government, and from 1 April will also be a prescribed person for local government – we take our responsibilities to provide an impartial and objective service extremely seriously, and draw on the lessons learned from our wider work, to support those who make reports to us.”

#### Sue Higgins

Executive Leader, National Audit Office

### The Transparency Code

DCLG published The Transparency Code on 31 October 2014. The aim is to strengthen transparency within local government. It also affords the opportunity for residents to see how money is spent. The section in respect of local authorities is also referred to in the UK Anti-Corruption Plan as an aid to making anti-corruption issues more transparent.

The Code sets out requirements for local authorities to report on their counter fraud work:

The Code legally requires local authorities to publish annually details of their counter fraud work, including information about the number of occasions they use powers to obtain information from specified bodies to help investigate cases of fraud, the number of staff investigating fraud cases and the number of fraud cases they have investigated.

Specifically, local authorities must publish the following information about their counter fraud work:

- number of occasions they use powers under The Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers
- total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud
- total number (absolute and full time equivalent) of professionally accredited counter fraud specialists
- total amount spent by the authority on the investigation and prosecution of fraud, and
- total number of fraud cases investigated.

The Code also recommends that local authorities publish details about the number of cases where fraud and irregularity has been identified and the monetary value for both categories that has been detected and recovered.

The above is an extract from the UK Anti Corruption Plan

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## Issues Raised Directly By Stakeholders

In addition to considering relevant policy and academic research, the foundations for this strategy were researched through a series of workshops, surveys, and face to face individual meetings.

There were many instances of good practice, collaborative working and examples of innovative use of data provided by participants.

Local authorities reported issues in the following areas:

### Counter Fraud Capacity

Many local authority practitioners reported that the capacity to tackle fraud and corruption was likely to be reduced, or had already been reduced, as a result of austerity-related local authority funding reductions.

In many cases practitioners also reported that the skilled investigation resource transferred to the Department for Work and Pensions Single Fraud Investigation Service (SFIS) had not been replaced, and some stated that after the SFIS transfer their authority would have no fraud team.

### Skills

Local authorities reported that their staff did not always have the skills or training to tackle fraud and corruption. Some local authorities stated that they would recruit new staff or transfer staff into fraud-related work post SFIS, but raised the concern that they did not have budgets to train their staff to tackle new areas.

### Culture

Some local authority practitioners reported that senior managers were finding it difficult to dedicate sufficient time to demonstrate their support for counter fraud activities due to the focus being on other priorities such as meeting budget savings targets and maintaining key services to residents.

This was considered to have a negative effect upon performance, and was associated with counter fraud work having a low profile and the benefits of counter fraud work not being fully appreciated.

## Collaboration

Local authority practitioners demonstrated an appetite for working more formally across local authority boundaries and with other agencies, departments, and the private sector; but reported a range of difficulties in securing progress.

Some examples of this were: counter fraud work not being consistently prioritised; lack of financial incentives to make the business case; a lack of understanding of data protection rules; and lack of funding.

They also reported an appetite for innovative use of data and wider data sharing, but had encountered barriers to this or made very slow progress.

Local authorities further reported that they found it hard to obtain police involvement in their cases and that they did not receive feedback on cases from crime reporting hotlines.

*“In times of austerity, collaboration is key. It is of increasing importance to consolidate the approach to fighting fraud and corruption across public services to better inform strategies and to gain a more comprehensive picture of the fraud landscape. We have created CIPFA’s Counter Fraud Centre to lead on creating a coordinated approach, as well as offering thought leadership and to fill the gaps led by others.*”

*Fraud is a pointless drain on resources emphasised by the need for local authorities to save every penny, but we are committed to helping authorities work together to tackle fraudulent activity, protecting the public pound.*

**Rob Whiteman**, CEO CIPFA

## Types of Fraud

Local authorities reported a wide range of fraud types. The main areas of fraud that were reported in Fighting Fraud Locally 2011 continue to feature as significant risks. However, there are also new fraud types emerging and some of these are more prevalent in particular parts of the country. It is clear that a one size fits all approach is not appropriate: local authorities will need to tailor their approach to their particular fraud risks.

### Known Fraud Risks Remaining Significant

**Tenancy** – Fraudulent applications for housing or successions of tenancy, and subletting of the property.

**Procurement** – Tendering issues, split contracts, double invoicing.

**Payroll** – False employees, overtime claims, expenses.

**Council tax** – Discounts and exemptions, council tax support.

**Blue Badge** – Use of counterfeit/altered badges, use when disabled person is not in the vehicle, use of a deceased person's Blue Badge, badges issued to institutions being misused by employees.

**Grants** – Work not carried out, funds diverted, ineligibility not declared.

**Pensions** – Deceased pensioner, overpayments, entitlement overstated.

**Schools** – Procurement fraud, payroll fraud, internal fraud.

**Personal budgets** – Overstatement of needs through false declaration, multiple claims across authorities, third party abuse, posthumous continuation of claim.

**Internal fraud** – Diverting council monies to a personal account; accepting bribes; stealing cash; misallocating social housing for personal gain; working elsewhere while claiming to be off sick; false overtime claims; selling council property for personal gain; wrongfully claiming benefit while working.

**Identity fraud** – False identity / fictitious persons applying for services / payments.

### Emerging / Increasing Fraud Risks

**Business rates** – Fraudulent applications for exemptions and reliefs, unlisted properties.

**Right to buy** – Fraudulent applications under the right to buy/acquire.

**Money laundering** – Exposure to suspect transactions.

**Insurance Fraud** – False claims including slips and trips.

**Disabled Facility Grants** – Fraudulent applications for adaptations to homes aimed at the disabled.

**Concessionary travel schemes** – Use of concession by ineligible person, including Freedom Passes.

**No recourse to public funds** – Fraudulent claim of eligibility.

**New Responsibilities** – Areas that have transferred to local authority responsibility e.g. Public Health grants, contracts.

**Commissioning of services** – Including joint commissioning, third sector partnerships – conflicts of interest, collusion.

**Local Enterprise Partnerships** – Voluntary partnerships between local authorities and businesses. Procurement fraud, grant fraud.

**Immigration** – Including sham marriages. False entitlement to services and payments.

**Cyber dependent crime and cyber enabled fraud** – Enables a range of fraud types resulting in diversion of funds, creation of false applications for services and payments.

Though uncommon, incidents of electoral fraud in the UK undermine wider public confidence in the electoral process and trust in the outcome of elections. Fraudulent electoral registration may also be linked to other types of financial or benefit fraud.

Electoral Registration Officers (EROs) and Returning Officers (ROs) are uniquely placed to identify incidents and patterns of activity that might indicate electoral fraud. In line with Electoral Commission guidance they should ensure mechanisms are in place to assess the risks and monitor indicators of possible electoral fraud.

It is essential that local authorities work in partnership with the police on any issues around registration and the planning for elections and share information relevant to identifying and preventing electoral fraud.

The ERO/RO should be in touch with the relevant police force's Single Point of Contact (SPOC) for electoral matters and agree the division of responsibilities and the approach for the ERO/RO to refer allegations of electoral fraud to the police where appropriate.

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The police are responsible for investigating allegations of electoral fraud and should keep the ERO/RO informed of the progress of cases.

The Electoral Commission has identified 17 local authority areas in the UK which have a higher risk of allegations of electoral fraud, where it recommended a sustained approach to tackle the risks. It is essential that the EROs and ROs for those areas maintain their focus on electoral fraud prevention.

The Government is completing the roll-out of individual electoral registration across Great Britain, which will help reduce the scope for fraud.

The individual nature of the new registration system, in combination with increased assurance of the identity of applicants, means that the register now has greater value as a tool for local authorities and the police to aid in the prevention and detection of crime, including other forms of fraud.

### Powers

In *Fighting Fraud Locally 2011*, local authorities reported that they did not have sufficient powers to tackle non benefit fraud and cited examples of this across their counter fraud activities. In the area of social housing fraud, the Department for Communities and Local Government dedicated resource to improving this situation and, in October 2013, The Prevention of Social Housing Fraud Act was introduced which enabled local authorities to acquire information by using new powers.

However, local authorities are still reporting that they do not have sufficient powers to tackle non benefit fraud. For example, local authorities reported having difficulty obtaining evidence from suppliers in procurement fraud investigations.

Further action is required to ensure that local authorities are able to deal with fraud effectively in all areas of their business.

### Good Practice Case study – Manchester City Council

Manchester was awarded DCLG tenancy fraud funding to work in partnership with Registered Social Landlords in the area including:

- Review their tenancy fraud processes and procedures
- Produce a tenancy fraud publicity toolkit containing template leaflets and posters
- Develop capacity through delivery of training packages to enable partners to: identify tenancy fraud; gather evidence in compliance with CPIA 1996;
- Provide PACE awareness training enabling social housing staff to work alongside the council counter fraud specialists.

Kate Sullivan, Tenancy Enforcement and Support Manager at Adactus Housing said:

“The Fraud Investigations team has assisted Adactus with complex investigations and has worked with us to create the environment of a true partnership. The investigations they have carried out have been in cases where, prior to the project, we had drawn a blank and had been unable to gather meaningful evidence to proceed with a case.

The team has welcomed an Adactus member of staff to shadow its officers, which has been a valuable learning opportunity for my team member and given an understanding on both sides of the constraints both teams face.”

### Barriers to Information Sharing

In *Fighting Fraud Locally 2011*, local authorities expressed frustration that they had difficulty obtaining information from government agencies and departments as well as from internal colleagues. They also provided examples of instances where they were not permitted to share data, even to tackle fraud.

A number of local authorities that subsequently set up hubs to collaborate and share information in line with recommendations in *Fighting Fraud Locally 2011* experienced difficulties over exchanging data and, even where they did not have difficulty,



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processes were lengthy. Without exception, at every workshop during research, this issue was raised; across different types of fraud and across different agencies.

### Incentives

During the development of Fighting Fraud Locally 2011, DCLG took on board issues raised about housing tenancy fraud and an incentive fund was created. Two tranches of funding were made available in 2009 and 2011 and the last tranche in 2015. This funding has enabled local authorities to set up bespoke counter fraud teams and to undertake data matching and other innovative measures.

Local authorities report that once this stream of funding expires, however, they will not be able to sustain activity in this area. The reason for this is that stopping a housing tenancy fraud rarely provides a cashable saving (tenants sub-letting their property are almost always very good rent payers) and it is difficult to identify sufficient financial benefit to support the business case to undertake counter fraud activity.

In December 2014, DCLG made available a one-off Counter Fraud Fund of £16m to support local authorities in tackling fraud in the period during which the SFIS is due to be implemented.

This fund received bids totalling around £36m, which included innovative ideas and proposed joint working across local authorities, central government and with private sector providers.

Many of the outcomes of this work will be seen during the period of this strategy. The interest and appetite for this initiative on the part of local authorities has not only resulted in many good proposals and mechanisms being put forward, but signals their strong commitment and goodwill to continue to tackle fraud.

Local authorities are still reporting that, apart from these one-off funds, it remains difficult to access funding to tackle fraud. The business case is often not clear cut, which makes it difficult for local authorities to fund initiatives on an invest-to-save basis, and in some instances the business case is frustrated by existing local government funding mechanisms.

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Councils need central government to set in place the right legal and financial frameworks so that they can tackle fraud and corruption effectively. This strategy offers the opportunity for central government to work with councils in protecting the public purse by providing appropriate powers, removing barriers to information sharing across government, and by providing the right financial incentives for councils to tackle fraud and removing disincentives. Councils should not be expected to fight fraud with one hand tied behind their back.”

**Ian O'Donnell**

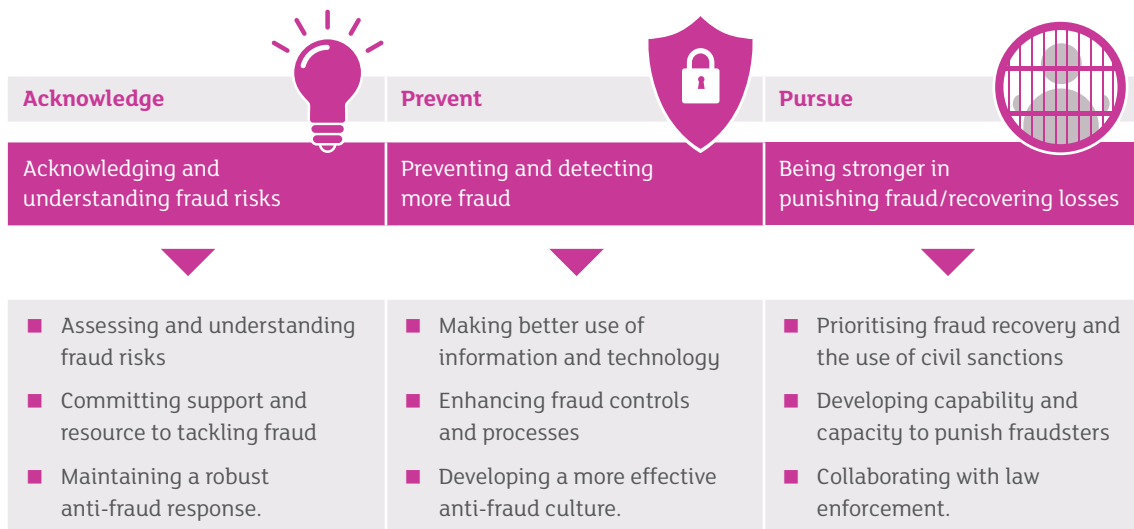
Executive Director of Corporate Resources,  
London Borough of Ealing



# Section 2: The Strategic Response

The principles of the strategic response to fighting fraud in local authorities remain unchanged from Fighting Fraud Locally 2011. These are set out in the first section below.

## The Principles - Acknowledge, Prevent and Pursue



Fighting Fraud Locally official NFA Board Slides

The changing context in which local government services are delivered, the increasing risk of fraud by motivated offenders, reduced local authority resources and associated changes to existing local control frameworks together create a pressing need for a new approach to tackling fraud perpetrated against local government.

Fighting Fraud and Corruption Locally recognises these challenges and the need for a cost effective way to reduce fraud. This strategy calls for a greater emphasis on prevention and the recovery of stolen money and highlights the need to create new arrangements to ensure that local authorities retain a resilient response to fraud based on the sharing of services and specialist resources.

Strong leadership will be required in order to achieve this, with greater use of technology and a stronger emphasis on collaboration. The starting point of the strategic response is to acknowledge the threat of fraud and the opportunities for protecting the public purse that exist. This acknowledgement must start at the top and lead to action.

While this document outlines the main areas of fraud risk across local government, each authority's risk profile will be different.

This strategy recommends that the starting point for each local authority is to perform its own risk assessment and fraud resilience check.

The second element of the strategy focuses on prevention. With investigative and police resources facing budget pressures, a counter fraud and anti-corruption strategy can no longer depend on enforcement activity.

Prevention is often the most efficient way to make savings and so what is called for is a radical realignment of counter fraud resources with greater investment in techniques, technology and approaches that will prevent fraud and corruption.

Stopping fraud and corruption from happening in the first place must be our aim. However, those who keep on trying may still succeed. A robust enforcement response is therefore needed to pursue fraudsters and deter others.



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Fraud is an acquisitive crime and the best way to deter offenders is to ensure that they are caught and do not profit from their illegal acts.

This strategy argues for a fundamental shift in culture to emphasise civil recovery and the more rigorous pursuit of losses.

## Turning Strategy into Action

### The Themes – Six Cs

The Companion to this strategy document sets out more information on how local authorities can ensure that their counter fraud response is comprehensive and effective.

Local authorities should consider their performance against each of the six themes that emerged from the research conducted.

These are:

- **Culture** – creating a culture in which beating fraud and corruption is part of daily business
- **Capability** – ensuring that the range of counter fraud measures deployed is appropriate to the range of fraud risks
- **Capacity** – deploying the right level of resources to deal with the level of fraud risk
- **Competence** – having the right skills and standards
- **Communication** – raising awareness, deterring fraudsters, sharing information, celebrating successes
- **Collaboration** – working together across internal and external boundaries: with colleagues, with other local authorities, and with other agencies; sharing resources, skills and learning, good practice and innovation, and information.

The Companion contains a section on each of these, with information on good practice and case studies to assist local authorities in strengthening their response and ensuring that it is fit for purpose.

### Fraud knows no boundaries – London Borough of Lewisham

A former housing officer who fraudulently hijacked the tenancy of a dead Lewisham tenant was ordered by the court to pay £74,000 after Lewisham Council was granted a compensation order. At an earlier court hearing, the housing officer had received a 21-month prison sentence while her husband had received a 12-month suspended prison sentence and was ordered to conduct 100 hours of unpaid community work.

Following the death of the original tenant in 2005, the tenancy officer had manipulated the council's records to take control of the property in Catford which she then sublet at a profit. The fraud was uncovered in 2009 after Lewisham Homes, the council's arm's length management organisation (ALMO) conducted a visit to the property as part of a tenancy-checking verification program and found that the original tenant was no longer resident.

Further checks by the council's fraud team revealed that a different person from the tenant was listed as liable for Council Tax at the property.

The housing officer and her husband had also provided false information to secure a tenancy in another borough fraudulently, which they also sublet to another tenant for a higher rent.

It is estimated that the actions of the rogue housing officer resulted in a combined loss of approximately £150,000 to the public purse.

## Areas of Focus

There are seven areas where a shift in activity will result in long term, sustainable improvement:

### 1. Leadership

**Showing leadership:** elected members, chief executives, finance directors and all those charged with governance should demonstrate explicit commitment to fighting fraud and corruption, and provide the necessary leadership.

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Counter fraud practitioners cannot operate effectively unless those at the top in local authorities champion counter fraud and corruption work and visibly promote the message that fraud and corruption will not be tolerated.

**Culture:** those at the top in local authorities should maintain a robust counter fraud and corruption culture with clear values and standards. Culture fundamentally affects all elements of counter fraud and corruption activity: prevention, detection, deterrence, investigation, sanctions and redress.

A key element is having sound whistle-blowing arrangements; communicating how to report fraud and corruption and creating an environment in which reports can be made without the fear of recrimination.

**Collaboration and co-ordination:** those at the top in local authorities should actively seek to co-ordinate their efforts in the fight against fraud and corruption. Local authorities should seek to break down barriers to collaboration and sharing with other local authorities, central government and other organisations.

**Communication:** having a robust communication policy, actively publicising initiatives and celebrating successes is integral to having an effective counter fraud culture as a visible demonstration of commitment and values.

## 2. Assessing and understanding the scope of fraud and corruption risks

**Assessing risks:** In order to continue to function effectively in a changing landscape post SFIS implementation, and to take account of the recommendations in the UK Anti-Corruption Plan, local authorities will need to make an assessment of their risks.

This will require an honest appraisal of risks and the resources required to tackle them and whether that can be done locally, with the support of the national agencies, or with neighbouring authorities.

**Measuring potential and actual losses:** local authorities should measure potential and actual losses on a regular basis in order to understand the scope of the challenge, assess the response required, and measure performance.

The impact of crime is not only financial: losses suffered from fraud can have a direct, adverse impact on those people who are in most need of support, and in some cases the reputational damage caused to a local authority can be serious and lasting.

**Horizon scanning:** in the fast-changing local authority landscape, local authorities should scan the horizon constantly for emerging risks. The Companion to this document details new and changing fraud areas that local authorities reported in the research for this strategy.

However, it is important that local authorities approach this task individually, as some risks are particular to individual local authorities (e.g. districts and counties face different risks), and some fraud risks differ geographically.

## 3. Making the business case

**Investing in counter fraud activity:** local authorities should pursue opportunities to invest in counter fraud and corruption activity in order to generate savings by preventing and recovering losses. Local authorities do not, as a rule explicitly budget for fraud losses (the exception to this is housing benefit, where subsidy losses are budgeted for). However, estimates of local authority losses demonstrate that there is a significant problem, and therefore a significant opportunity for local authorities.

Local authorities should seek to assess their potential losses and measure actual losses in order to make the business case for investing in prevention and detection. In many cases there is an existing business case based upon the experience of other local authorities. For example, the prevention and detection of fraud perpetrated in income areas such as council tax is now widespread and offers higher tax revenue which can be recovered through existing, efficient collection systems.

However, each local authority will need to make its own case as fraud risks will vary significantly depending on location, scope, and scale of activities.

**Fighting fraud and corruption is not only a financial issue:** fraud and corruption in local authorities are unacceptable crimes that attack funds meant for public services or public assets.

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The result is that those in genuine need are deprived of vital services. Fraud and corruption are often linked with other criminal offences such as money laundering and drug dealing. Local authorities have a duty to protect the public purse and ensure that every penny of their funding is spent on providing local services. More often than not, in doing so they are achieving wider benefits for the community.

**Preventing losses:** local authorities should set in place controls that will prevent fraudsters from accessing services and employment. It is nearly always more cost-effective to prevent fraud than to suffer the losses or investigate after the event.

The technology to establish identity, check documents, and cross-check records is becoming cheaper and more widely used. Controls should apply to potential employees as well as service users – e.g. if someone lies about their employment history to obtain a job they are dishonest and it may not be appropriate to entrust them with public funds, and in any case they may not have the training or qualifications to perform the job to the required standard.

**Recovering financial losses:** prompt and efficient recovery of losses is an essential component in the fight against fraud and corruption. In some cases local authorities can make use of their own income collection systems to recover losses – e.g. council tax, business rates, and housing benefits. In others, local authorities will need to make use of civil and criminal courts.

The Proceeds of Crime Act 2002 remains a powerful tool for local authorities; however, local authorities should strike the right balance, making the business case for prosecutions but not setting unachievable financial targets. Local authorities should continue to work with the courts to improve the speed of processing and develop case law supporting the successful application of recovery powers.

#### 4. Using resources more effectively

**Using the right resources:** local authorities should make use of the right number of properly skilled counter fraud and corruption staff, adopt best practice standards, make use of tools and technology, and generate economies of scale through collaboration.

In a changing environment where resources are

limited, where fraud types are constantly changing and where staff may be moving roles, it will be vital to ensure that these resources are kept up to date and that the response remains proportional to the threat.

**Professional competence:** post SFIS, it will be ever more important to have a common set of standards for those working in counter fraud and for them to have proper training and an understanding of the whole picture within counter fraud.

Fighting Fraud Locally 2011 recommended professionally accredited training. A vital element of any effective counter fraud strategy is the ability of the organisation to call upon competent, professionally accredited counter fraud specialists trained to the highest possible professional standards to investigate suspected fraud.

Local authorities need to be confident that evidence has been lawfully obtained and professionally presented, regardless of whether the anticipated outcome of an investigation is a disciplinary hearing, civil action or criminal proceedings.

#### 5. Collaborating to improve

**Sharing resources:** in the context of budget reductions and post SFIS many local authorities are faced with reduced counter fraud and corruption resources. Sharing resources and information can help mitigate the risks by ensuring that the response remains proportional and is properly skilled and equipped.

**Working together:** fraudsters do not respect boundaries of any type – they attack neighbouring local authorities, other agencies and commit other frauds. By working across boundaries local authorities will be better placed to detect the range of fraudulent activity carried out by individuals and gangs.

Local authorities already work with other agencies; the creation of multiple intelligence, data and investigative hubs opens up further opportunities to link up with other local counter fraud agencies – e.g. NHS Local Counter Fraud Specialists.

There are often links between frauds against local authorities and benefit frauds, immigration offences and shadow economy tax evasion, and there are already many examples of good practice and joint working where local authorities work in collaboration

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with local police, HMRC, DWP or other agencies. Some local authorities even have police officers seconded and physically located in the authority, while others have access to officers from other enforcement agencies, for example UK Visas and Immigration or Immigration Enforcement and as a result, are more able to detect and investigate fraud.

Local authorities should collaborate with law enforcement partners to understand and mitigate the risks of organised and serious frauds, raise awareness of the tactics used by organised criminals and where possible share fraud data to help prevent future frauds. And where possible share fraud data to help prevent future frauds. Where police investigative support into fraud is required, the fraud must be recorded with Action Fraud.

## 6. Using technology to tackle fraud

### Birmingham City Council Case Study – The value of data

Birmingham City Council makes extensive use of its data warehouse to identify fraud through data matching and data mining. By expanding the data warehouse to hold not only the Council's data, but that of neighbouring authorities and partner organisations, the Council has greatly enhanced its data analysis capability. The facility has now been embedded into frontline housing services to enable users to validate information provided on application forms at the point of receipt.

This provides greater assurance that housing tenancies are being awarded only to those in genuine need and that homes are only sold to those who are genuinely entitled to buy them. Furthermore, it has helped to identify former tenancy arrears of tenants who have been re-housed elsewhere, thereby helping in the collection of those debts.

**Data sharing:** for many years local authorities have funded and participated in the National Fraud Initiative (NFI); a periodic data matching exercise that identifies potential fraud cases for local authorities to investigate. Local authorities are now pursuing further opportunities to use their data to prevent and detect fraud, taking advantage of

changes in technology and in the appetite of other organisations to collaborate.

These include advanced data analytics, the availability of third party data, and channel shift within local authorities towards online customer contact. Data hubs offer a huge opportunity to work with and inform the wider counter fraud landscape, feeding into the work of the NCA and the Home Office and connecting into the wider architecture of other hubs.

**Prevention:** local authorities are using new technology to prevent fraud. The availability of relevant data when an application is made for local authority services can prevent fraudsters from obtaining access. Identity can be verified quickly and efficiently.

Technology is being used to check the validity of official documents, such as passports, with the originating government department, and is also being used to generate intelligence alerts, warning local authorities of fraud risks so that a proportional response can be set in place. Local authorities should continue to invest in technology that assists in preventing fraud and corruption.

**Sharing good practice:** local authorities should make use of good practice to achieve the best results. Within this strategy are examples of a number of local authorities that have begun to do this. The Companion to this strategy contains a checklist for local authorities, a detailed description of fraud types, and examples of good practice with information on where to find more.

As part of Fighting Fraud Locally 2011, the National Fraud Authority undertook research on good practice, legislation and procedure and produced a number of guides. The original research showed the need for a one stop shop for local authorities for good practice, and the guides, which cover recovery, case building and risks, were placed in the CIPFA Good Practice Bank. A number of local authorities have used these documents and they should now be updated where necessary and publicised anew.

The evidence collected for this new strategy shows that the one stop approach has worked and should be continued. A one stop shop for the whole of the public sector is now provided through the CIPFA Counter Fraud Centre website, where the Fighting Fraud and Corruption Locally page can

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be accessed free of charge. The London Counter Fraud Partnership has existed since 1998. It is a partnership of all the enforcement agencies involved in tackling fraud in London including local authorities, NHS, Housing Associations and the Metropolitan Police.

This partnership has produced numerous pieces of good practice and fraud prevention documents which are available free within the CIPFA Counter Fraud Centre website. The Metropolitan Police runs a webpage that covers trends in fraud including mandate and vishing/phishing scams and measures to prevent fraud including advice and where to get support. A number of other organisations also offer good practice information which can be accessed by local authorities.

### Case Study – Dudley Metropolitan Borough Council Code of Practice

Dudley MBC has Codes of Conduct for employees and members which set out the high standards expected of them. These are also intended to relay certain messages to all suppliers as there is a growing expectation that all service providers in local government should adhere to the same principles of being open and transparent when dealing with colleagues, residents and partners.

In developing their Suppliers' Code of Practice they aimed to reinforce good working practices and to stamp out fraud, bribery, corruption and unacceptable business practices. Staff who buy in goods and services on behalf of the authority and all suppliers are required to work to the guidelines in the Code of Practice. All active suppliers have received an email announcing the launch of the Code and showing where the Code is available on the council website. The Code includes useful contacts if people want to report problems to the council and reinforces the availability of a Fraud Hotline operated by Audit Services. Audit Services also intends to approach key suppliers to obtain feedback and ask for written assurance that they comply with the Code.

Dudley MBC's leaflet Beating Fraud is Everyone's Business, which sets out guidelines for employees, managers and members, is available on the CIPFA website.

## 7. Tackling Corruption

The UK Anti-Corruption Plan requires a response from local authorities. Areas in the plan that local authorities should pay attention to are:

- Working more closely with the NCA and other law enforcement agencies
- Instituting a public awareness campaign
- Putting in place confidential reporting arrangements for whistleblowers and responding effectively to reports of corruption
- Preparing corruption risk assessments across all areas of business
- Procurement and the European Public Procurement Directives in respect of the exclusion of suppliers.

Areas in the plan that are specific to local authorities are:

- The CIPFA Counter Fraud Centre, which will promote measures and provide tools and services to the public sector in this area. The CIPFA Counter Fraud Centre is offering e-learning on anti-corruption and whistle-blowing and health checks on anti-corruption measures
- Funding which has been made available by DCLG to support local authorities' efforts to tackle fraud
- The Transparency Code
- Working more closely with the Home Office in respect of local partnerships and the way in which these interact
- The research, development and publication of Fighting Fraud and Corruption Locally.

# Section 3: Delivery Plan

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## Recommendations

### General recommendations

1. A working group from local authorities should examine and devise a standard and common methodology for measuring fraud and corruption within local authorities. Once it has been agreed, local authorities should use the standard and common measure of estimated levels of fraud and corruption.

2. A working group from local authorities should be established to look at the area of powers, incentives and information barriers to:

- Examine areas where barriers exist
- Gather evidence
- Look at achieving quick wins
- Place examples of good practice in the Fighting Fraud and Corruption Locally Good Practice Bank.

3. A working group from local authorities should be established to look at the area of fraud and corruption enablers with a view to preventing more fraud and corruption.

4. There should be an annual report for Fighting Fraud and Corruption Locally which will provide more detail of progress and developments in areas like procurement.

5. DCLG should work with local authorities and the CIPFA Counter Fraud Centre (which host Fighting Fraud and Corruption Locally) to acknowledge good practice and should share useful case studies to ensure that there is an appreciation by central government of achievements at local level.

6. DCLG should give consideration to the provision of future incentives to help local authorities to tackle housing fraud.

7. In relation to procurement fraud, a working group should be established, including subject matter experts and relevant interested parties as well as local authority counter fraud staff, to:

- Investigate and collate good practice in this area and place this in the Fighting Fraud and Corruption Locally Good Practice Bank

- Create a procurement fraud map and define the stages at which procurement fraud can happen in a local authority: highlighting low, medium and high potential risks, to inform risk awareness training for the future. This should include grant fraud where it crosses over.

- Support the implementation of the UK Anti-Corruption Plan by including corruption in procurement in the procurement fraud map

- Work with the London Counter Fraud Partnership to tailor the guidance they have created to the specific needs of local authorities

- Include in the Powers and Penalties Guide a list of powers and potential sanctions relevant to procurement fraud

- Work with the local authorities that are running pilots in order to learn lessons and communicate them to others

- Explore the possibility of cartels and mechanisms to detect them.

### Recommendations for local authorities

8. There should be a structured programme on fraud and corruption awareness for elected members and senior managers.

9. Local authorities should undertake up-to-date fraud and corruption awareness programmes and use the free resources developed by local authorities that are available in the Fighting Fraud and Corruption Locally Good Practice Bank.

10. Local authorities should collaborate where it is appropriate to do so and should place examples of useful outcomes in the Fighting Fraud and Corruption Locally Good Practice Bank and use this as a conduit to exchange information with each other.

11. Local authorities should profile their fraud and corruption risks using the section on risks from the Fighting Fraud and Corruption Locally Companion document as a starting point.

12. Local authorities should ensure that they have the right resources in place by having made an assessment of the risks on fraud and corruption which should be reported to the Audit Committee or similar.



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- 13.** Senior officers within local authorities should ensure that officers working in the counter fraud team should be provided with appropriate accredited training.
- 14.** Senior officers within local authorities should ensure that officers who work in areas where they might encounter fraud and corruption have appropriate training.
- 15.** Local authorities should continue to work together on counter fraud hubs or, should investigate the benefits of joining hubs, and should share information where possible to help each other increase resilience to fraud and corruption and establish best practice.
- 16.** Local authorities should participate in data technology pilots to improve their efforts to detect and prevent fraud and corruption.
- 17.** Local authorities should publicise and celebrate successes. Press stories should be collated on the Fighting Fraud and Corruption Locally Good Practice Bank and, where possible, publicity should be endorsed and promoted by DCLG.
- 18.** Local authorities should make an assessment using the Fighting Fraud and Corruption Locally Companion Checklist, increasing awareness of the UK's Anti-Corruption Plan, make themselves aware of NCA advice, ensure that staff are trained on anti-bribery and corruption, and report this to their Audit Committee together with actions to meet the criteria set out in the Plan.
- 19.** Local authorities should use the free CIPFA Code of Practice on Managing the Risk of Fraud and Corruption to ensure a common standard.
- 20.** Local authorities should make sure that they have in place robust reporting procedures including whistle-blowing and that these include assessment through the BSI or Public Concern at Work and that staff are trained in this area.
- 21.** Local authorities that do not have their own housing stock should consider working with their housing partners, in return for nomination rights, to prevent and detect social housing fraud.
- 22.** Where appropriate local authorities should consider participating in the Tenancy Fraud Forum.

- 23.** Local authorities should work with partners on relevant procurement projects and pilots and disseminate information as appropriate.
- 24.** Local authorities should look at insider fraud and consider using the Internal Fraud Database at CIFAS following the London Borough of Ealing pilot.
- 25.** Local authorities should horizon scan and explore new areas, e.g. cyber and identity issues and explore new methods to detect fraud, e.g. behavioural insights.
- 26.** Local authorities should use the Fighting Fraud and Corruption Locally Companion Checklist to ensure that they have the right counter fraud and anti-corruption measures in place and should report the results of this to their Audit Committee and the External Auditor.

## Framework for Delivery

To support the delivery of this strategy appropriate governance arrangements should be set in place to oversee the implementation of recommendations and the maintenance of the Fighting Fraud and Corruption Locally resources for local authorities.

A board will be established to ensure activity takes place and to provide senior stakeholder support.

The day to day management and hosting of the Fighting Fraud and Corruption Locally web page, survey, and secretariat sits with the CIPFA Counter Fraud Centre and is provided on a pro bono basis. This arrangement is working effectively.

## Deliverables

The FFCL Board will need to ensure that progress in implementing the recommendations in this strategy is monitored and that an annual report is provided and published setting out what has been achieved and what remains to be done, so that local authorities and other stakeholders have clear visibility of how the strategy has improved outcomes.

# Thank you

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## The Fighting Fraud and Corruption Locally Board is:

- Ian O'Donnell (Chair) – London Borough of Ealing
- Bevis Ingram – LGA
- Andrew Hyatt – Royal Borough of Kensington and Chelsea
- Simon Lane – Former London Borough of Brent
- Mike Clarkson – Mazars
- John Baker – Moore Stephens
- Rachael Tiffen – CIPFA Counter Fraud Centre
- Ben Stoneman – DCLG
- Nick Pellegrini – DCLG

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- Ben Stoneman – DCLG
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\*\*

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Produced by:

# Fighting Fraud & Corruption

LOCALLY



## The Companion

2016 - 2019

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This document is intended to be a companion to the Fighting Fraud and Corruption Locally Strategy 2016-2019.

It is aimed at those in local authorities who undertake work in the counter fraud area. It contains information on the research for the FFCL Strategy on main risks and the counter fraud landscape. A number of themes emerged in the research and those have been outlined in this document.

The FFCL Companion contains good practice and a checklist for local authorities to use as part of making sure they have the right processes and resources in place.

**The FFCL board encourages local authority practitioners to use this checklist.**

# Tackling the main fraud risks – good practice

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Many local authorities are already saving money by tackling fraud; looking beyond benefit fraud to tackle other issues such as housing tenancy and council tax fraud. There are many examples of good practice and innovative pilots in local authorities which, if adopted more widely, would lead to immediate savings.

A summary of the key fraud risks faced by local authorities, and some examples of good practice in tackling these types of fraud, are outlined in this section. These are based on the research carried out for this document.

By collaborating effectively, local authorities can make use of existing powers and tackle fraud across geographical boundaries.

The following excellent case study demonstrates the benefits of collaboration, and that fraud does not respect either physical boundaries or boundaries in relation to fraud types, and also shows effective use of The Proceeds of Crime Act (POCA).

“

As a chief executive, I believe in the importance of understanding and acknowledging fraud risks at the top of the organisation. As such, I regularly review the risks in my council to ensure that there is a transparent and tangible commitment from the top.

Prevention and deterrence of fraud is as important as investigation and prosecution. But fighting fraud requires more than the adoption of good practice. It requires our knowledge, expertise and determination to tackle this serious problem.

I would therefore encourage all chief executives to prioritise pro-active counter fraud measures across all services.”

**Rob Leak**

Chief Executive, Enfield

## Fraud knows no boundaries – London Borough of Lewisham

A former housing officer who fraudulently hijacked the tenancy of a dead Lewisham tenant was ordered by the court to pay £74,000 after Lewisham Council was granted a compensation order.

At an earlier court hearing, the housing officer had received a 21-month prison sentence while her husband had received a 12-month suspended prison sentence and was ordered to conduct 100 hours of unpaid community work.

Following the death of the original tenant in 2005, the tenancy officer had manipulated the council's records to take control of the property in Catford which she then sublet at a profit.

The fraud was uncovered in 2009 after Lewisham Homes, the council's arm's length management organisation (ALMO) conducted a visit to the property as part of a tenancy-checking verification program and found that the original tenant was no longer resident.

Further checks by the council's fraud team revealed that a different person from the tenant was listed as liable for council tax at the property.

The housing officer and her husband had also provided false information to secure a tenancy in another borough fraudulently, which they also sublet to another tenant for a higher rent

It is estimated that the actions of the rogue housing officer resulted in a combined loss of approximately £150,000 to the public purse.

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## Social Housing fraud

Social housing fraud is wide-ranging but includes fraudulent applications for housing or successions of tenancy, subletting of the property, and fraudulent applications under the right to buy/acquire.

There has been an increased focus on social housing fraud in recent years but local authorities should ensure that they continue to tackle this area effectively. Local authorities that do not have their own housing stock should work with their housing partners, in return for nomination rights, to prevent and detect social housing fraud.

This will ensure that more properties for families in genuine need are made available. Good housing provision has been found to have a positive impact on education, health and the social care needs of a community, so the wider potential benefits to hard-working families are important.

The Department for Communities and Local Government (DCLG) made some funding available to assist local authorities in tackling housing fraud, but this funding stream finished in March 2015. Consideration should be given to the provision of future incentives because building the business case to tackle housing fraud is not straightforward.

Thorough checks on applications for housing, successions and mutual exchanges must be undertaken. These stages provide key opportunities to ensure that those not entitled to social housing are prevented from accessing this valuable resource.

The Local Government Association (LGA) offered local authorities the opportunity to bid for funding to undertake work on housing tenancy fraud. Three bids were successful and received £27,500 each. The results from the pilots were encouraging:

The total value of the properties recovered through the pilot is £1.62 million. This is comprised of 7 properties recovered from Huntingdonshire, 14 from Three Rivers and 69 from Gloucestershire with each property recovered being assumed to save £18k. For each of the pilots there were additional savings in housing benefit.

Activities undertaken included fraud awareness campaigns on buses, amnesties, and training.

There are often links between social housing fraud and other types of fraud. Every fraudster needs a home or at least an address to operate from.

Benefit fraud is commonly linked with tenancy fraud, so local authorities and SFIS must share data on suspect cases and any investigations under way.

Applications for other services within the local authority, such as school admissions can often reveal a tenancy that has been sublet. Effective data sharing networks both within and between authorities can facilitate the detection of such cases.

Local authorities should also ensure that they are making best use of recent legislation. The Prevention of Social Housing Fraud Act 2013 (PoSHFA) has created two new criminal offences. First, where the tenant sublets or parts with possession of a property or ceases to occupy it knowing that it is a breach of tenancy, a £5,000 fine can be imposed.

The second offence is where the tenant dishonestly, in breach of tenancy, sublets without consent and ceases to occupy it as his/her only or principal home. This offence is punishable by a two-year jail sentence and/or a fine of up to £50,000.

The Act also contains provisions that enable a court to make “unlawful profit orders” that require the tenant to pay back any profits from the unauthorised sub-letting (regardless of whether or not the landlord has incurred a loss).

Furthermore, regulations have been made that give local authorities the power to compel certain listed organisations such as banks, building societies and utility companies to provide them with data that is relevant to a social housing fraud investigation. The National Anti-Fraud Network provides a PoSHFA enquiry service which local authorities should consider using to facilitate these enquiries.

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## Case Study Manchester City Council

Manchester was awarded DCLG tenancy fraud funding to work in partnership with Registered Social Landlords in the area including:

- Review tenancy fraud processes and procedures
- Produce a tenancy fraud publicity toolkit containing template leaflets and posters
- Developing capacity through delivery of training packages to enable partners to identify tenancy fraud; gather evidence in compliance with CPIA 1996; providing PACE awareness training enabling social housing staff, to work along side the council counter fraud specialists.

When asked about the joint working with Manchester City Council, Kate Sullivan Tenancy Enforcement and Support Manager at Adactus Housing recently said: “The Fraud Investigations team has assisted Adactus with complex investigations and has worked with us to create the environment of a true partnership.

The investigations they have carried out have been in cases where, prior to the project, we had drawn a blank and had been unable to gather meaningful evidence to proceed with a case. The team has welcomed an Adactus member of staff to shadow it’s officers, which has been a valuable learning opportunity for my team member and given an understanding on both sides of the constraints both teams face.”

Where financial investigators are available, their use on social housing fraud cases should be encouraged to maximise the recovery of the proceeds of the crime.

There has recently been an increase in cases of detected Right to Buy Fraud. Protecting the Public Purse reported that the number of cases had increased nearly five-fold between 2009/10 and 2013/14. Rigorous checks should be made to ensure that only genuine applications for the right to buy/ acquire are processed. Not only is this type of fraud financially attractive, with potential discounts of up to £102,700, but if undetected it permanently deprives that local authority or registered social landlord of that property for future use.

## Birmingham City Council Case Study – Right to Buy Fraud

Birmingham City Council successfully prosecuted a woman who fraudulently claimed a 70 per cent right to buy discount to buy her council house, while living in a second home that she had owned for over 10 years.

The tenant, who had rented the council property for 34 years, was actually living at another home she had bought, and was renting out the council house.

The fraud came to light after the woman paid cash for her council property. Checks by the counter fraud team found that she was on the electoral roll and in receipt of benefits at a different address, from where she had also claimed a council tax single person discount. She had failed to declare her ownership of the second property when she completed her Right to Buy application.

She pleaded guilty at court and received a 10 week custodial sentence suspended for 18 months, together with an 18 month supervision order. The court ruled that the whole value of the property, and not just the discount, had been defrauded. An application has been made by the council under POCA to recover the loss.

## The Tenancy Fraud Forum

The Tenancy Fraud Forum (TFF) is a not for profit, free organisation aimed at those who wish to combat tenancy fraud in the social housing sector. Its objective is to engage all social landlords (local authorities and housing associations, for example) to work together collaboratively to detect and combat tenancy fraud.

TFF was launched at DCLG in April 2012 and was supported by The Right Hon Grant Shapps MP. The Forum has now expanded to include several regional groups that meet on a regular basis to discuss matters such as data sharing, joint working, dissemination of good practice and advice on how to identify and tackle tenancy fraud.

Their inaugural conference was held in November 2014 and was attended by 148 delegates.

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The free regional and London meetings are also attended by guest speakers who present on such topics as unlawful profits, investigation techniques and how to draft notices for subletting.

The Executive Committee of TFF comprises social landlords as well as the Chartered Institute of Housing.

### **Council Tax fraud**

In April 2013 local authorities introduced their own council tax support schemes after the national scheme was abolished. The new localised schemes provide those on low incomes with a discount on their council tax.

Local authorities need to be mindful when transferring staff to SFIS that they remain appropriately resourced to tackle council tax support fraud. As with the old national scheme, the number of residents claiming council tax support is likely to remain similar, therefore the risks of fraud stay within localised schemes.

It is therefore important that local authorities continue to do as much as possible to reduce the risk of fraudulent discounts and exemptions being claimed.

Local authorities have done significant work to combat single person discount fraud. Housing investigation teams are now working with council tax teams when recovering sublet properties as teams are finding that some properties have been sublet to more than one person while a single person discount was still in place.



### **Royal Kensington and Chelsea – Techniques to make savings**

The use of external companies to data match single discount claims against credit reference data has become an annual exercise for some authorities. Over the last three years, the Royal Borough of Kensington and Chelsea has engaged the services of Datatank to review its council tax claims and has saved £376,000 in the first year and £250,000 in following two years.

The council, for a minimal cost of £3,000, sent mailshots to known single person discount applicants giving them the opportunity to disclose their circumstances voluntarily. This enabled them to re-bill those applicants who responded enabling the local authority to recoup £65,000.

Local authorities need to be mindful of the issues of using data sources to detect and prevent council tax fraud as data matching may also uncover those who are avoiding liabilities.

Incorrect student discount applications made by those in further education continue to incur lost income for local authorities. Both investigation teams and council tax teams should consider taking preventative measures to reduce incorrect applications such as sending mail shots to existing applicants advising them to disclose their status voluntarily.

Local authorities could potentially reduce incorrect student discount claims and should ensure that systems are appropriate to record the details of what is required to validate genuine need.

### **National Non Domestic Rates (NNDR)**

National Non Domestic Rates are also known as business rates. Counter fraud activity in this area has been limited in the past.

However, there is now an incentive to tackle business rates fraud and evasion.

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Areas of risk for fraud and evasion are:

- Small business rates exemptions
- Charitable exemptions
- Discounted properties
- Empty properties
- Illegal billboards
- Extensions to properties
- Unoccupied relief.
- Unlisted business premises

Some of these may be linked to other types of irregular activity such as phoenixing or company fraud. Local authorities should make use of Trading Standards and Planning teams, and employ a financial investigator to recover assets where enforcement notices are breached and criminal activity can be proved. The financial gain can be classified as criminal gain.

Under the business rates retention arrangements introduced on 1 April 2013, the local authority keeps a proportion of the business rates paid locally. This provides a direct financial incentive to tackle fraud in this area.

There are few examples of local authorities undertaking proactive drives in this area and there are no measurement figures to put this in context other than the size of business rates collection which is £25.7bn before reliefs. In Protecting the Public Purse 2014 only 84 cases were reported with a value of £1.2m.

However, a number of local authorities are undertaking projects as part of the Counter Fraud Fund bids and one Credit Reference Agency is undertaking work to establish a business rates hub. It is hoped that these initiatives will report back in time for the FFCL End of Year Report.

### Procurement fraud

In the last Annual Fraud Indicator (AFI) produced by the National Fraud Authority (NFA) in 2013, procurement fraud was estimated at £876m. Although there have been initiatives since then to look further into the nature and scale of procurement fraud in local authorities, to date there are no new figures available to replace those included in the AFI.

The Home Office has recently conducted a project on procurement fraud in local authorities. In partnership with the LGA, CIPFA and the National Crime Agency, it conducted four workshops around the UK.

The aim was to understand more about what form procurement fraud takes in local government, how public procurement processes are being exploited and gather good practice to counter procurement fraud.

Additional research on procurement fraud has been conducted for this Strategy as part of the workshops and surveys conducted by the CIPFA Counter Fraud Centre.

Local authorities reported that procurement can be complex and can also encompass a range of areas spanning the whole period from agreeing a project to contract monitoring, extensions and re-letting. Local authorities also reported that this type of fraud can be difficult both to detect and to investigate. In some cases procurement fraud can be linked to grant fraud or classified as grant fraud.

Procurement processes are vulnerable because there are multiple ways to commit fraud, some of which are price fixing, bid rigging, double invoicing etc. Local authorities are vulnerable to being exploited by organised crime groups.

There is, however, much good practice available, as well as some tools and guidance. The Chartered Institute of Procurement and Supply's specialists offer e-learning in this area. The CIPFA Counter Fraud Centre has its Good Practice Bank but also has wider examples – free awareness PowerPoint presentations and guidance on various aspects of procurement fraud. June 2015 the LGA published a guide for procurement practitioners on managing the risk of procurement fraud.

### Blue Badge fraud

Blue Badges are issued to those with disabilities in order that they can park nearer to their destination, often free of charge. The scheme also exempts the vehicle from the London Congestion Charge and some toll schemes including the M6 Toll and the Severn Bridge.

These exemptions and the added convenience make the misuse of Blue Badges attractive to those



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seeking to abuse the scheme. The Annual Fraud Indicator 2013 estimated that 20% of Blue Badges were abused at an annual cost to society of £46m.

The value of a Blue Badge was estimated by the Audit Commission as £500 per year but may have a higher value dependent on the level of use. Misuse also deprives the genuinely disabled of convenient parking which prevents them going about their normal business.

The most common Blue Badge frauds are:

- Use of counterfeit/altered badges
- Use when the disabled person is not in the vehicle
- Use of a deceased person's Blue Badge
- Badges issued to institutions being misused by employees.

Misuse is often perpetrated by relatives or friends of the disabled person. In the case of badges issued to institutions, these should only be used when the disabled person is with the vehicle. Unfortunately there have been cases of staff using these when running errands.

Recent legislation (The Disabled Persons' Parking Badges Act 2013) enables enforcement officers to inspect and retain a badge without police presence if they suspect the badge is fake, cancelled or being misused.

Councils should ensure that they use these new powers to ensure that Blue Badges are used only by those with a genuine need.

## Schools

During the research, local authorities raised the issue of schools fraud. This continues to be an area of various types of frauds since the publication of FFL 2011. Schools, in common with other organisations, experience all kinds of fraud including, among others, procurement fraud and recruitment or insider fraud.

Given that a poor control environment provides the opportunity for – and may inevitably lead to – fraud, a key issue for schools to consider is the extent of autonomy given by the governing body to the head teacher and other staff involved in financial decisions. The CIPFA Counter Fraud Centre has produced Five Steps to Countering Fraud in Academies.

## Fraud Assessment Checklist for Schools

In May 2013, the NFA and Deloitte hosted a one-off workshop attended by an impressive range of local authorities to explore the nature of fraud risks in schools and identify best practice in managing the risks effectively.

The workshop highlighted several areas of financial irregularity and fraud, particularly within the procurement to pay cycle but also extending to recruitment and pay. Building upon the findings of the workshop, Mazars has developed a health check guide for schools containing case studies of detected fraud and a self-assessment School Fraud Risk Health Check which is available free on the CIPFA Counter Fraud Centre website:

### Head Teacher in £7,000 Fraud

A head teacher who raided more than £7,000 worth of funds set aside for children at a West Midlands school has been given a 10-month prison sentence suspended for two years.

The Court heard that as part of her role as head teacher, she was allowed to order items on behalf of the school. In a number of transactions, she visited websites to order items and printed off web pages that detailed the cost of what she said she had 'ordered' so she could claim the money back.

However, the prosecutor told the court that the orders never actually processed past the 'proceed to checkout stage' on the websites and that the goods never arrived. In one transaction, the head teacher obtained money from a school fund allocated for activities, presents and Christmas and Easter treats for pupils.

The head teacher must carry out 240 hours unpaid work and repay her remaining debt to the school as well as £1,200 court costs.

## Internal Fraud

FFL 2011 acknowledged that any employee might perpetrate fraud against his or her employer, and that the delegation of responsibility to local authority employees brings about its own inherent fraud risks.

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The Strategy also identified that two of the strongest defences against employee and internal fraud were: proper and adequate vetting and a strong management-led anti-fraud culture to deter employees from committing fraud in the first place.

It recommended that managers should be made aware of their role in preventing and identifying employee fraud, ensuring clear controls and separation of duties.

More recently the Audit Commission, in its final publication *Protecting the Public Purse 2014*, reported that during 2013/14 local Councils identified nearly 1,500 cases of employee fraud, causing £8.4m in losses. It is therefore clear that while local authorities are working hard to fight employee fraud, the problem has not been eradicated.

More preventative action is needed. Types of employee fraud are wide-ranging and can include misuse of time and resources, fraudulent claims for allowances and expenses, failure to register or declare conflict of interests or the acceptance of gifts and hospitality, as well as the manipulation of finance and payroll systems.

It also includes staff pre-employment fraud, where false information is given in order to gain employment.

Successful high profile prosecutions reported in the media during 2014 included, among others, the following types of fraud perpetrated against local authorities by employees: procurement fraud; diverting council monies to a personal account; accepting bribes; stealing cash; deliberately misallocating social housing to friends and family for personal gain; working elsewhere while claiming to be off sick; false overtime claims; stealing council property and selling it on for personal gain; wrongfully claiming benefit while working.

Internal fraud can be related to conflicts of interest, acceptance of gifts and hospitality and where no revolving door policies exist. There is a need for a good knowledge of anti-bribery and anti-corruption measures and to have the right policies in place in respect of gifts, hospitality. Insider fraud can now be e-enabled and many services and functions are digitalised.

Austerity measures, and the continuing downward pressure on local authority budgets, mean that local authorities have diminishing resources and a reduced internal capacity to investigate fraud and corruption. This makes prevention all the more important.

### Case Study – Dudley Metropolitan Borough Council Code of Practice

Dudley MBC has Codes of Conduct for employees and members which set out the high standards expected of them. These are also intended to relay certain messages to all suppliers as there is a growing expectation that all service providers in local government should adhere to the same principles of being open and transparent when dealing with colleagues, residents and partners.

In developing its Suppliers' Code of Practice Dudley aimed to reinforce good working practices and to stamp out fraud, bribery, corruption and unacceptable business practices. Staff who buy in goods and services on behalf of the authority and all suppliers are required to work to the guidelines in the Code of Practice.

All active suppliers have received an email announcing the launch of the Code and shown where the Code is available on the council website. The Code includes useful contacts if people want to report problems to the council and reinforces the availability of a fraud hotline operated by Audit Services.

Audit Services also intends to approach key suppliers to obtain feedback and ask for written assurance that they comply with the Code.

Dudley MBC's leaflet *Beating Fraud is Everyone's Business*, which sets out guidelines for employees, managers and members, is available on the CIPFA website.

It is widely accepted that fraudsters move from one employer to another. When the previous Strategy was published, there was no system in place for local authorities to share information on those sacked or sanctioned for fraud.

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The Strategy recommended that local authorities should strongly consider using the Cifas Internal Fraud Database that shares data on those sacked or sanctioned for fraud, theft, bribery or corruption to help organisations to protect themselves from internal fraudsters. It was noted that this system has the secondary benefit of deterring fraudsters from applying for positions with local authorities in the first place.

Despite that recommendation, as this publication goes to print, the only local authority that so far participates in the Cifas Internal Fraud Database is London Borough of Ealing. While a number of local authorities have written into their anti-fraud, bribery and corruption policies a need for ‘adequate vetting’, in most cases this remains undefined. Without such definition, risks remain and local authorities are encouraged to look at this more carefully.

Immigration checks and Disclosure and Barring Service (DBS – formerly CRB) checks will not be sufficient to identify a candidate who has previously been dismissed or sanctioned for fraud, bribery or corruption and this is a critical omission. More detailed guidance on vetting is provided in *Slipping through the Net: Staff Vetting Guide for Local Authorities* (published in 2012). Research into *The True Cost of Insider Fraud* was undertaken by the Centre for Counter Fraud Studies in 2013. Both are available on the CIPFA and Cifas websites.

FFCL continues to recommend that local authorities should strongly consider using the Cifas Internal Fraud Database, both to protect themselves from employee fraudsters, and to deter such individuals from applying to them. The Database also has the additional advantage that it allows participants to check against the Home Office’s list of ‘disqualified persons’ (individuals who do not have leave to be in the UK).

The CIPFA Counter Fraud Centre is keen to bring local authorities and Cifas together so that the database can become more involved in helping local authorities – through sharing data – prevent infiltration and provide an effective deterrent to internal fraud.

The Centre has also alerts and publications to encourage closer working. The UK Anti-Corruption Plan will also help to bring greater collaboration and consistency in anti-corruption activity across the public and private sectors.

### Case Study: Inappropriate Reference

A candidate listed two references on his application, as requested. Both were for short-term temporary posts. The candidate had also held a recent long-term permanent post which he had left due to ‘voluntary resignation’ but had not used this as a reference.

Enquiries with this employer revealed that the candidate had been dismissed from the long-term post for gross misconduct.

### Case Study: False Reference

A candidate was forwarded by an agency for a temporary position. When asked, the agency forwarded references.

Checks with former employers revealed that they had not provided the references submitted by the agency. In one case the name of the referee was spelt incorrectly and in all cases the referees had not even been contacted until after the references had been submitted.

A complaint was made to the agency and an internal disciplinary led to the recruitment consultant being dismissed.

## Personal budgets

A personal budget is the sum allocated to enable an individual to meet his/her own social care needs. Social care service users receive their personal budgets by way of a direct payment. Abuse of the system can occur as an overstatement of needs through a false declaration, by multiple claims across authorities, from third party abuse – for example, by a delegated budget holder – or posthumously, where the service user has died and payments continue and are collected fraudulently.

Personal budgets remain open to the risk of fraud as the emphasis is to provide support on customer based needs, reliant on trust and self-declaration.

The implications of not having appropriate and proportionate controls in place are still sometimes not fully understood by those tasked with administering personal budgets, assessing the support required and delivering care packages.

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Local authorities are responding to funding reductions by adopting a more rigorous and robust approach, to ensure that funds are correctly provided to the right people.

Personal budgets can present several issues if the initial assessment process is not managed correctly and can lead to clients overstating their needs, a lack of supporting medical evidence, vague support plans, incorrect spend on care provision, difficulty in monitoring spend and no escalation process when queries arise over the continuation of payment or incorrect payment of the personal budget.

When fraud or abuse within personal budgets occur, authorities are faced with the dilemma of whether to continue to provide a caring service, or to stop payment and/or to deliver enforcement action. Often, when enforcement is enacted, criminal action is not pursued because personal budget contracts and agreements lack any signed legal declaration as to how the budget should be used or the consequences of not doing so.

In addition, due to inadequate contracts and weak supplier relationship contract management protocols, local authorities can be left powerless and unable to terminate contracts with contracted care homes and carers when fraudulent activity is identified.

Recovery action on incorrectly obtained personal budgets also tends to be limited due to no formal recovery process being in place.

### Case Study: Manchester City Council

Manchester City Council is committed to recovering money obtained through financial abuse of personal budgets.

Transferring responsibility for recovery of agreed contribution and overpayments to the dedicated Corporate Recovery team together with the operation of a robust yet sympathetic recovery policy has led to significant recovery of incorrectly used funds.

Authorities are also at risk of indirectly supporting tax avoidance where there are no conditions set around whom a service user can appoint to provide his or her care package or how they should be paid. In addition, authorities may also be putting their clients at risk by inadvertently supporting the provision of carers and support providers who are not registered with the Care Quality Commission, as personal budget users are at liberty to choose whom they engage contractually to provide their care support.

Authorities need to be mindful that further changes to personal budgets – including the introduction of children’s care packages – will present new risks.

As personal budgets are required to be paid into a separate bank account, if the client subsequently transfers the money into another account, the local authority loses any audit trail of how the budget is spent or whether it has been used appropriately.

Clearly, more guidance is needed to assist in mitigating the risk of fraud and abuse in personal budgets and social care payments. Some local authorities are already taking innovative steps to address such risks.

Essex County Council has worked closely with its social work teams and has put the following measures in place:

- A risk assessment process that specifies when to conduct a personal budget financial review
- The introduction of anti-fraud trained social workers to enable them to have a good understanding of personal budgets, implement strong support plans and to report issues
- Improved communication channels between social workers and carers to ensure that care provision matches the care plan and personal budget agreements
- Care plans and personal budget reviews, which are conducted face to face with the client and carers
- Combined joint visits with social workers and review team staff are conducted to review the financial arrangements in place.

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### Case Study – Manchester City Council

Care packages and other associated welfare related benefits can involve high value payments over the course of a year. A social worker became suspicious that an individual in receipt of support funding had overstated their level of need. A subsequent investigation by counter fraud specialists from the council and DWP identified a number of irregularities resulting in overpayments in excess of £100,000 of public funds. The suspect no longer receives personal budget funding or Disability Living Allowance (DLA) and the case has been referred to the Crown Prosecution Service.

### No recourse to public funds

Families that have no recourse to public funds such as social security benefits and social housing may still be able to seek assistance from local authorities while they are in the process of applying to, or appealing, a decision by the Home Office on their application. Section 17 of The Children's Act places a duty on local authorities to assess and provide financial and housing support to children in need. The duty applies to all children whose families are not excluded from support under Schedule 3 of The Nationality, Immigration and Asylum Act. The financial burden of this requirement rests with the local authority.

Social services departments have begun to improve their control frameworks for assessing eligibility. Local authorities have acknowledged this risk and are starting to work together to tackle this problem. Further work needs to be undertaken in this area, including developing robust procedures and more data sharing to ensure resilience and consistency across boroughs.

### Case Study – South East London

Five local authorities in South East London, led by the London Borough of Lewisham, have been successful in bidding for DCLG Counter Fraud Fund monies to finalise and implement new assessment processes which will embed robust counter fraud controls in front line decision-making. The funding will also support the development of a dedicated case management system with built-in fraud controls and data sharing functions.

### Identity assurance

As both central government and local government move increasingly towards online delivery of services, the need for secure and robust identity assurance becomes paramount. Budgetary restrictions within local government mean that the drive towards online delivery is accelerating.

With the susceptibility to fraud of online channels, local authorities will need to collaborate not only with each other, but also with central government to ensure that their systems are integrated and as resilient as possible to fraud.

### Other risk areas

In this Strategy we have referred to the most common risk areas in detail. We are aware, however, that the risks of fraud and corruption that a local authority is exposed to are many and diverse including;

- Money laundering – exposure to suspect transactions
- Insurance fraud – including slips and trips
- Disabled Facility Grants – adaptations to homes aimed at the disabled
- Concessionary travel schemes – including Freedom Passes
- Areas that have transferred to local authority responsibility e.g. Health
- Commissioning of services – including third sector partnerships
- Local Enterprise Partnerships – voluntary partnerships between local authorities and businesses
- Immigration – including sham marriages
- Cyber and e-enabled fraud.

Local authorities should be alive to the rapidly changing environment of fraud and should continuously horizon scan for new and developing fraud risks.

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## The Changing Landscape

### The Context

The landscape surrounding counter fraud has changed rapidly over the past three years. A number of organisations that were at the forefront of tackling fraud strategically have experienced change. Some have been abolished, and new agencies and organisations have emerged.

This presents both challenges and opportunities. In order to adapt to these changes, and to get the best from them, local authorities will need work together and work collaboratively with the new players in this sphere. More than ever there is a need to keep up to date and become involved in wider initiatives.

Local authorities themselves may well be suffering cuts or adjustments to resources and may also be affected by other changes such as reduced police resources or the effects of cuts in budgets elsewhere. A brief overview of the changing landscape is set out below to show the new context in which local authorities are operating as they strive to ramp up the fight against fraud. To understand the problems it is necessary to understand the landscape.

### The National Fraud Authority (NFA)

The NFA (in existence from October 2008 until March 2014) had a number of objectives, namely:

- To protect the public by overseeing the implementation of Fighting Fraud Together – the last national counter fraud strategy. Linked to Fighting Fraud Together was Fighting Fraud Locally: the Local Government Counter Fraud Strategy (FFL2011)
- To lead and co-ordinate the activities arising from the strategy set out in Fighting Fraud Together
- To measure the scale and breakdown of the cost of fraud to the UK by means of the Annual Fraud Indicator
- To deliver the Action Fraud service, the national reporting centre for fraud and internet crime.

The concept of a national fraud strategy arose as a result of an earlier piece of work under the auspices of the NFA entitled A Fresh Approach to Combating Fraud in the Public Sector – a 'Report by the Smarter Government Public Sector Fraud Taskforce'. This report put forward a number of

suggestions in relation to counter fraud activities in local authorities.

As a result, the NFA took forward a piece of work examining the nature of local authority fraud and, following this, in discussion with the Local Government Association, it was decided the first Local Government Fraud Strategy: Fighting Fraud Locally (FFL 2011) should be produced. The NFA was responsible for researching, drafting and hosting FFL 2011 in addition to setting up pilots and monitoring the success of them. The NFA also facilitated relationships between local authorities and other enforcement agencies and the private sector. It integrated FFL 2011 with the wider strategy set out in Fighting Fraud Together.

After the closure of the NFA in March 2014, the management of FFL reverted to local authorities to take forward under the oversight of the FFL Board. The hosting and day to day operations of FFL now sits with the CIPFA Counter Fraud Centre.

### The Audit Commission

It was announced during 2010 that, at a future unspecified date, the Audit Commission would be abolished. Subsequently, The Local Audit and Accountability Act 2014 made it possible for the Audit Commission to close, in line with government expectations, on 31 March 2015. The Audit Commission's counter fraud work covered two specific areas, set out below.

**The National Fraud Initiative (NFI):** This has been running since 1996. It is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. This includes local councils, police authorities, fire and rescue authorities as well as central government departments and a number of private sector bodies.

Since its inception the NFI has helped identify fraud, error and overpayment in England, bringing the UK total since its launch in 1996 to £1.17bn.

Over the last year the NFI portfolio has expanded to offer additional services which help participating organisations to better target both fraud prevention and detection.

For fraud detection the NFI now offers a new flexible matching service that sits alongside the established two yearly national data matching. The NFI flexible matching service allows organisations to match data



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to verify existing claimants/tenants/employees as frequently as they need to.

#### **The Audit Commission's Counter Fraud Team:**

This has undertaken annual surveys of local authorities, fraud briefings and produced an annual report, Protecting the Public Purse, which set out details of the amount of detected fraud, warned of fraud risks and promoted best practice

Following the closure of the Audit Commission in March 2015, the NFI operations will transfer to the Cabinet Office.

#### **The National Crime Agency (NCA)**

Established in October 2013, the NCA has the mandate and powers to bring the full weight of law enforcement to bear in cutting serious and organised crime. This includes tackling fraud and corruption across the UK and beyond. It operates a number of distinct operational commands, with one – the Economic Crime Command (ECC) – having a specific focus on fraud. The ECC's remit includes fraud, intellectual property crime, identity crime and counterfeit currency.

The ECC works by sharing knowledge and intelligence across the counter fraud community and is establishing intelligence hub architecture to support this.

The NCA, and the ECC in particular, is beginning work with local authorities to provide support in terms of organised threats relating to fraud and corruption. Local authorities are keen to work with the NCA to help to improve the UK's resilience to fraud.

The NCA's Economic Crime Command also has a role in anti-bribery and anti-corruption and is the point of contact for serious and organised criminality. Further information is in the anti-corruption section.

#### **The CIPFA Counter Fraud Centre**

In July 2014, CIPFA launched its new Counter Fraud Centre for all public services. This provides counter fraud tools, training and other facilities for the public services, including local government. While owned by CIPFA, the Counter Fraud Centre has an external Advisory Board which acts as a sounding board.

This Board reflects the wider senior group of stakeholders including Directors from the ECC, the National Audit Office and local authority Chief Executives.

CIPFA has been responsible for hosting the FFL Good Practice Bank for some years and this has been moved into a dedicated area for local authorities within the Counter Fraud Centre. The Centre is working to support the creation of a professional career ladder for those involved in the counter fraud area, and as such, has created bespoke accredited training towards the Accredited Counter Fraud Specialist qualification which also gives CIPFA Affiliation.

There is also e-learning across fraud areas. The aim is to establish a common standard and support a change in culture for local authorities and links their users to others working within the counter fraud discipline.

CIPFA also offers counter fraud benchmarking and from April 2015 a counter fraud survey called CIPFA Counter Fraud and Corruption Tracker (CfFaCT) will be including some questions which reflect the former Audit Commission Survey.

The CIPFA Counter Fraud Centre seeks to create an active network of professionals as well as alerts, good practice and directories for those who subscribe. It aims to facilitate cross sector working and sharing of good practice and to bridge the capacity and other gaps left for local authorities after the creation of SFIS, the abolition of the NFA and the Audit Commission. The Centre also hosts FFL, is secretariat to the FFL Board and provides support on the Strategy.

The Government's new UK Anti-Corruption Plan names the CIPFA Counter Fraud Centre as providing tools and services on anti-corruption for local authorities.

#### **The National Anti-Fraud Network**

The National Anti-Fraud Network (NAFN) provides a range of services to support the work of local authority departments. With a large local authority membership and over 10,000 users the organisation is widely recognised as provider of data and intelligence to the local government community.

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These include online access to credit referencing agencies and an overnight service for current vehicle keeper details from the DVLA.

NAFN provides regular bulletins and intelligence alerts on developing threats that have been identified by members and partners as well as acting as a disseminating body for several bodies including the National Crime Agency, National Fraud Intelligence Bureau, CIPFA, LAIOG and Financial Fraud Action UK.

### Single Fraud Investigation Service (SFIS)

The coalition Government's new strategy for tackling fraud and error within welfare benefits established the Single Fraud Investigation Service (SFIS) in 2013. The new SFIS has consolidated the benefit/tax credit fraud investigation teams across the Department for Work and Pensions (DWP), local authorities and HM Revenue and Customs with the aim of delivering a single investigative organisation through the DWP's Fraud and Error Service.

From July 2014 those local authority investigation staff – including managers and support staff deemed to be predominantly involved in the investigation of welfare benefits – began transferring to the new organisation working under a single joined up policy and operational procedure, enabling the organisation to investigate the totality of welfare benefit fraud. This transfer process is due to be completed in March 2016.

Under SFIS, local authorities will no longer have the remit to investigate housing benefit and council tax benefit frauds but will retain responsibility to identify suspected benefit fraud to SFIS and will retain responsibility for preventing and detecting suspected fraud and delivering council tax reduction schemes and any related frauds within the schemes.

There is a risk that the exchange of information and joint working between SFIS and local authority investigators will be reduced because neither organisation will have the remit to prosecute offences spanning frauds that fall within the other's scope.

While the creation of SFIS has already begun to strengthen the fight against welfare benefit fraud, the transfer of local authority fraud staff to the new organisation has left some local authorities at risk of not having sufficient resources available to

tackle other non-benefit, corporate and local frauds affecting their own organisation and residents.

Local authorities should consider reviewing how remaining teams will be financed and resourced, revisit their fraud risk registers and strategy for tackling non welfare benefit related fraud. This provides the opportunity for innovative thinking on joint working with other authorities, data sharing and engaging external organisations to develop products to assist in tackling those frauds that present an unquantified loss.

### Proceeds of crime and recovery

The Proceeds of Crime Act 2002 (POCA) remains a crucial and powerful tool for local authorities to use to recover money lost through fraud. Many local authorities have trained financial investigators and collaborate closely with local police teams, with other internal teams such as Trading Standards and with legal teams to maximise resources to take money out of criminal activity.

The progress made so far is now potentially at risk. A reduction in local authority resources means that, to reduce costs, some organisations are undertaking less prosecution work which restricts the ability to take action to recover the proceeds of crime.

In addition, the transfer of housing benefit and council tax benefit investigations to SFIS further reduces the potential source of financial investigations. This could present a risk as there may not be sufficient work available for those financial investigators who remain in local authorities to maintain their accreditation. Some innovative solutions to this are suggested in this Companion.

Local authorities should strike the right balance when looking at money recovered from POCA, making a business case for prosecutions but not setting unachievable financial targets and the moral argument should be considered as part of this.

In addition, obtaining a confiscation order does not always result in money being recovered quickly and financial investigators are not always told when cases are forwarded to the enforcement court. Further work is required when a person absconds and the whole confiscation enforcement process starts again if he or she is found. There is the added complication that the court system is under strain which means that initial hearing dates may not



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be available for many months. When proceeds of crime cases do progress to being heard, there appear to be instances where further development of case law is needed so that the powers can be successfully applied.

The Home Office has made changes to POCA through the Serious Crime Act 2015, which received Royal Assent on 3 March. These changes relate primarily to the enforcement of confiscation orders, and should ensure that orders are enforced more quickly through the courts.

The Home Office is also looking to commence the power for magistrates' courts to make confiscation orders under £10,000. Dedicated forums and organisations involved in asset recovery work and legislation should continue to provide feedback on any problems encountered to enable the continued improvement of this important criminal finances recovery mechanism.

Local authority financial investigators are using innovative approaches to combat some of the problems encountered when using the legislation and the effects of resource reductions resulting from local authority budgetary constraints.

These include:

- Working closely with other internal departments such as trading standards and planning enforcement
- Combining resources with local police payback teams
- Promoting and tendering their financial investigation resource to third parties and other local authorities
- Undertaking training in cash seizures and enacting the powers available to bring the proceeds of crime back into the authority.

The NCA Proceeds of Crime Centre is under legal obligation within POCA to monitor and regulate the use of POCA powers. It is responsible for training, accrediting and assessing the continued professional development of those authorised to use the powers. As such it needs to consider whether the training delivered could be redesigned to take into account civilian usage of the powers rather than being focused on the use of a police officer.

The Metropolitan Police's Serious and Organised Crime Command has successfully collaborated with financial investigators from several London local authorities. There are currently nine Metropolitan Police Criminal Finance Teams set up as hubs; 4 in the north, 4 in the south and one central team; that are instrumental in training and mentoring several local authority investigators working together to tackle serious and organised acquisitive crime.

The focus of this relationship is to recover assets and ensure that criminals do not benefit from criminal activities.

### The Police Response to Fraud

Although local authority investigators may face problems with the usage and administration of financial investigative powers, there have been many high profile successes since FFL 2011.

Credit should be given to groups such as the Financial Investigator Forum which has been at the forefront of sharing information and best practice on how to maximise the Act to recover money. Publicity on recovery can help deter and prevent fraud.

The London Borough of Enfield won a Fighting Fraud Award for their work on asset recovery, a former FFL 2011 pilot, and has a number of good examples of recouping the losses from fraud.

“One of the difficulties in the entirely appropriate principle of multi-agency partnerships in prevent and pursuit lies in not being certain what the other agencies will actually be able to contribute to the overall strategic objectives. Policing in austerity is undergoing changes that are not predictable at present, and for relatively low priority cases involving LAs, the general strains on financial crime policing make reliance on their involvement in substantial investigations unwise.

So without some heavier agreements in place, we may need to rely more on resilience (under Protect and Prepare) than on after-the-fact pursuit of offenders.

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**Prof Michael Levi** – Cardiff University

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## Overarching Themes

During the research several themes emerged that councils may find useful to base their activities around. The themes that have emerged from the research fall into the following areas:

- Culture
- Capability
- Competence
- Communication
- Capacity
- Collaboration

There are many good examples of local authorities undertaking campaigns, raising awareness both internally and externally and also publicising success in ways designed to prevent fraud and deter fraudsters.

From the research undertaken for this Strategy, it appears that communication and a better understanding of roles and responsibilities could strengthen awareness further across local authorities and assist in the 'tone from the top' (see Rec 6 and 7). This in turn may help to bring about a change in culture, aside from fraud awareness campaigns internally.

Local authorities would like the support of central government to tackle fraud. This should include praising local authorities and openly acknowledging their proactive work in this area and celebrating success.

Whilst the principles of Acknowledge, Prevent and Pursue show what needs to be done, the themes cover the areas of ways in which the principles can be achieved.

### Culture

Creating a culture in which beating fraud and corruption is part of daily business is a key component of fighting fraud.

This theme sits across all the elements of countering fraud and corruption: prevention, detection, deterrence, investigation, sanctions and redress.

This list is not exhaustive, but actions should include ensuring that:

- Culture involves a robust and consistent tone from the top
- Fraud awareness training is provided for senior staff and elected members so that roles and responsibilities are clear
- The whistle-blowing arrangements for fraud and corruption are publicised and that it is communicated clearly that referrals will be acted upon
- Reports to elected members cover numbers of cases actioned and trends
- The policy of consistent and fair action is publicised – so that it is clear that something will happen to fraudsters
- Members of the public have trust in the counter fraud team, will report cases and see they have value for money
- The counter fraud team is viewed as a function with integrity and professionalism and a 'go-to' place for advice and support
- Practitioners within the local authority work with the counter fraud team and view counter fraud activity positively
- There are clear policies (e.g. anti-bribery and corruption, declarations of interest) that are applied consistently across the authority
- Local authorities should work internally to fraud-proof new policies and procedures.

“As Tri-borough Head of Fraud I see the importance of creating an antifraud culture that sits across all our organisations and also is messaged to the agencies we work with such as housing providers. Across the three councils we ensure that our actions impress a holistic approach to countering fraud and make it part of our day to day business

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#### Andy Hyatt

Tri Borough Head of Fraud RBKC,  
Hammersmith & Fulham and Westminster

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## Collaboration

Local authorities have shown since FFL 2011 that they understand and appreciate the value of collaboration. This progress needs to be built upon and rewards will follow.

The areas covered and the benefits of collaboration are many:

- Dealing with different types of fraud together is more holistic
- Cases can be taken through a process once, with all parts of the crime dealt with together
- It is more cost effective for all agencies to take action together
- Working across the local authority means that fraud enablers may be highlighted
- Working across the local authority means that detecting one type of fraud may lead to another being uncovered
- Local authorities already work with other agencies. The creation of multiple intelligence, data and investigative hubs opens up opportunities to link up with other local counter fraud agencies e.g. NHS Local Counter Fraud Specialists
- Local authorities should seek out opportunities to share resources, work across boundaries, share skills and spread learning and innovation on counter fraud and corruption to mitigate the consequences of cuts and other changes
- There are also opportunities to work with national agencies for example through the Home Office, CIPFA Counter Fraud Centre and National Crime Agency
- Collaboration can support a change in culture.

“Coming to terms that your local authority may be the victim of fraud can be difficult. Fraud affects our reputation, services and the public funds that we are here to safeguard. Fraud can often be hidden and we need to play a role in uncovering it. Being proactive is key to uncovering fraud.

Working together strengthens our efforts. In our authority we have set about a number of initiatives not alone but working with our partners and national agencies to show the fraudsters that we mean business.

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### Janet Senior

Executive Director Resources  
and Regeneration Lewisham Council

### Birmingham City Council Case Study – Multi Agency Working cleared

Birmingham City Council demonstrated the value of working with other agencies to tackle an organised fraud and bring the perpetrators to justice. Initial enquiries made by the council’s Benefit Counter Fraud Team through the National Anti-Fraud Network (NAFN), established that the Home Office also had an interest in these individuals.

The two organisations, along with the Department for Work and Pensions (DWP), subsequently set up a joint operation as it quickly became apparent that the individuals, all from the same family, were involved in making fraudulent benefit claims, false applications for leave to remain, and a fraudulent mortgage application.

The investigation identified fraudulent benefit claims amounting to £85,000 and over 30 fraudulent applications for leave to remain in the UK made on behalf of non-EU citizens. False information was provided in support of a mortgage application to fund the purchase of a property that was then used to house family members whose rent was paid through housing benefit.

The investigation culminated in six individuals being convicted, two of whom received custodial sentences. Following sentencing, POCA commenced and confiscation orders totalling £380,000 were secured against two of the defendants.

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## Capacity

In order to continue to function effectively post SFIS implementation, and to take account of the recommendations in the UK Anti-Corruption Plan, local authorities will need to make an assessment of their risks.

This will require an honest appraisal of risks and the resources required to tackle them and whether that can be done locally, with the support of the national agencies or with neighbouring authorities.

Work to ensure the correct capacity will include:

- A new assessment of the risks of fraud and corruption (post SFIS)
- Using the FFCL Checklist
- Understanding and acknowledging that they may have risks
- Appropriate measurement and a common methodology.

## Capability

After establishing the right resources it is essential for local authorities to ensure that they have the right capabilities. In a changing environment where resources are limited: and where fraud types are constantly changing and where staff may be moving roles, it will be vital to ensure that they have the resource in place.

This can include:

- Having a fraud response plan
- Anti money laundering and similar policies
- Reporting procedures
- Having the right powers and access to the right people
- Using appropriate technology
- A costed plan that can support relevant activity

Post SFIS, it will be ever more important to have a common set of standards for those working in counter fraud and for them to have proper training and an understanding of the whole picture within counter fraud.

## Competence

This covers skills and standards. FFL 2011 recommended professionally accredited training. A vital element of any effective counter fraud strategy is the ability of the organisation to call on competent, professionally accredited counter fraud specialists trained to the highest possible professional standards to investigate suspected fraud.

Authorities need to be confident that evidence has been lawfully obtained and professionally presented, regardless of whether the anticipated outcome of an investigation is a disciplinary hearing, civil action or criminal proceeding.

“To respond to the continuing threat of fraud, it is essential that organisations have access to specialist counter fraud capabilities, able to conduct reactive investigations effectively, and advise on preventative and deterrent measures to minimise risk. The Counter Fraud Professional Accreditation Board (CFPAB) was set up with the active support of government ministers in 2001 to establish and maintain professional standards in the delivery of a portfolio of professional training courses in the field of counter fraud.

The CFPAB oversees the provision of accredited training in both the private and public sector, and to date has issued over 14,000 accreditations to candidates who have completed sector specific academically accredited counter fraud courses.

At the core of all CFPAB accredited courses is the legislative and practical knowledge needed to ensure that counter fraud activity is conducted lawfully and to a standard that will enable redress through either the civil or criminal courts.

**John Rosenbloom,**  
Chair of Counter Fraud  
Professional Accreditation Board

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### Collaborative Initiative: Protecting the Vulnerable Against Fraud

A number of local authorities are working in collaboration with Cifas – the UK’s fraud prevention service – to use its Protective Registration service to safeguard vulnerable individuals in their care against identity fraud and financial abuse. Cifas Protective Registration is designed to protect individuals who are at particular risk of identity theft, or who have already been victims, leaving them open to their details being used fraudulently by a third party to obtain credit or products and services.

The service provides extra checks on any financial applications made in the individual’s name, either to confirm that the application is genuine or to stop attempts to defraud the individual. Protective Registration for the Vulnerable – which is provided free to participating local authorities – is specifically designed for clients who are subject to a court order of protection under The Mental Capacity Act 2005 and are not able to request financial or other services (such as credit, loans, passports and bank accounts).

Appointed guardians – such as the Appointee or Court Deputy – may apply for Protective Registration for vulnerable individuals in their care. The person’s details are then held securely and confidentially on the Cifas database. When requests for credit or other services are made in the person’s name to a Cifas member organisation, an alert is issued so the provider will be aware of the circumstances of the individual and can take action. This service is already being used by local authorities in Birmingham, York, Gloucester and Islington, and discussions are proceeding with eight more.

### Case Study

A long established customer of a bank came into the branch accompanied by their ‘social worker’. The gentleman wanted to switch his bank account from a savings account to an account he could access with a cash card.

The bank ran his details through Cifas and matched on a Protective Registration for the Vulnerable case. The bank contacted Cifas for advice, who in turn contacted the local authority. The local authority advised Cifas that this situation could not be genuine, as no social worker would accompany one of their clients to a bank and that any change in financial products would come from the local authority and not from the individual himself.

Cifas relayed this information back to the bank and also provided the local authority with the name of the individual so that they could carry out welfare checks.

### Communicate

Having a robust communication policy and celebrating and publicising what you do and your successes is integral to having an effective counter fraud culture. It is not just about publicity campaigns. A key part of the Acknowledge principle of FFL is to recognise the issue and put in place a plan to deter and catch fraudsters.

This work cannot be done in isolation by communication teams or counter fraud teams. While local authorities should assess risks and put together action plans, these should be shared in a timely fashion with the audit committee and with leadership teams. This includes raising awareness across the whole local authority of the need to identify fraud and corruption and guidance on how to do so. Specific awareness raising is essential for those in areas of work particularly at risk of fraud and corruption, and publicity campaigns should also be directed at citizens.

It also includes having sound whistle-blowing procedures, communicating how to report fraud and corruption and creating a culture where reports can be made without the fear of recrimination.

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Another essential element is to ensure that those who process and create systems are aware of where and how frauds have happened and are able to close the vulnerability gaps. This requires joined up working and making the counter fraud culture part of daily business.

For counter fraud teams, this holistic approach may help in decisions on resources, and may lead to better referrals or support from senior officers and elected members.

This can include working together with other agencies or departments and tackling issues that may have a wider impact or may affect other local authority objectives.

### Awareness Raising Toolkit

In February 2013, the Spot It, Stop It fraud awareness toolkit was launched. The toolkit provided a suite of resources needed to run a local campaign and can be found within the counter fraud tools on the CIPFA website. To date, there have been over 410 downloads.

There are many good examples of local authorities undertaking campaigns, raising awareness both internally and externally and also publicising success in ways designed to prevent fraud and deter fraudsters.

From the research undertaken for this Strategy, it appears that communication and a better understanding of roles and responsibilities could strengthen awareness further across local authorities and assist in the 'tone from the top' (see Rec 6 and 7). This in turn may help to bring about a change in culture, aside from fraud awareness campaigns internally.

Local authorities would like the support of central government to tackle fraud. This should include praising local authorities and openly acknowledging their proactive work in this area and celebrating success.

### Launch of Fraud Awareness Campaign – Praising LAs

On 8 November 2012 the Tri-Borough (Royal Borough of Kensington and Chelsea, London Boroughs of Hammersmith and Fulham, and Westminster City Council) launched a month long fraud awareness campaign to pilot the internal and external publicity campaign toolkits developed by the NFA.

Hosted by the Royal Borough of Kensington and Chelsea, and chaired by Nicholas Hellen, Assistant Editor of The Sunday Times, the audience heard from a number of speakers including Baroness Hanham, Parliamentary Under Secretary of State and Cllr Sir Merrick Cockell, Leader of Royal Borough of Kensington and Chelsea and Chair of the Local Government Association (LGA), who all encouraged local authorities to promote fraud awareness as a key step in preventing and deterring fraud.

The pilots covered all areas of fraud, but had a specific housing fraud element. Housing fraud can be closely connected to other types of fraud, so the councils were keen to ensure that all links were identified.

Therefore, for this pilot the three councils used Action Fraud, the national reporting centre for fraud and internet crime. This means that all fraud reports would be channelled into the National Fraud Intelligence Bureau (NFIB) overseen by the City of London Police, the national lead force for fraud.

This would mark the first time that local authorities had used Action Fraud and the NFIB in this way.

# Further reading

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**National Fraud Authority:** *Annual Fraud Indicator, June 2013*

**National Fraud Authority:** *Good practice publication*  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/206552/nfa-annual-fraud-indicator-2013.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206552/nfa-annual-fraud-indicator-2013.pdf)

**National Fraud Authority, The Local Government Fraud Strategy:** *Fighting Fraud Locally, 2011*  
<https://www.gov.uk/government/publications/fighting-fraud-locally-the-local-government-fraud-strategy>

**Cabinet Office:** *Eliminating Public Sector Fraud, June 2011*  
<http://www.cabinetoffice.gov.uk/sites/default/files/resources/eliminating-public-sector-fraud-final.pdf>

*Tackling Fraud and Error in Government* – A report of the Fraud, Error and Debt Taskforce, February 2012  
<https://www.gov.uk/government/publications/tackling-fraud-and-error-in-government-a-report-of-the-fraud-error-and-debt-taskforce>

**Cabinet Office:** *Applying Behavioural Insights to Fraud, Error and Debt, February 2012*  
<https://www.gov.uk/government/publications/fraud-error-and-debt-behavioural-insights-team-paper>

**Cabinet Office:** *Local Authority Review: Citizen Online Identity Assurance, September 2012*  
<https://www.gov.uk/government/publications/local-authority-review-citizen-online-identity-assurance/local-authority-review-citizen-online-identity-assurance>

**The Cabinet Office:** *Evaluation of Data Matching Pilots 2011, March 2012*  
<https://www.gov.uk/government/publications/cabinet-office-evaluation-of-data-matching-pilots-2011>

*Smarter Government*  
<http://www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/our-work/smarter-government-report>

**HMG:** *Local to global: an organised crime strategy, July 2011*  
<http://www.homeoffice.gov.uk/publications/crime/organised-crime-strategy?view=Binary>

**The Home Office:** *Serious and Organised Crime Strategy, October 2013*  
<https://www.gov.uk/government/publications/serious-organised-crime-strategy>

**National Crime Agency:** *National Strategic Assessment of Serious and Organised Crime 2014, May 2014*  
<http://www.nationalcrimeagency.gov.uk/publications/207-nca-strategic-assessment-of-serious-and-organised-crime/file>

**Home Office and DBIS:** *UK Anti-Corruption Plan, December 2014*  
<https://www.gov.uk/government/publications/uk-anti-corruption-plan>

**CIPFA:** *Code of Practice on Managing the Risk of Fraud and Corruption, 2014*  
<http://www.cipfa.org/-/media/files/publications/reports/cipfa%20code%20of%20practice%20on%20managing%20the%20risk%20of%20fraud%20and%20corruption.pdf>

**Audit Commission:** *Protecting the Public Purse, 2014 and 2013* (and previous editions)  
<http://www.audit-commission.gov.uk/counter-fraud/protecting-the-public-purse-reports/>

**National Fraud Authority:** *Procurement Fraud in the Public Sector, October 2011*  
<http://www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/our-work/procurement-fraud-public-sector?view=Binary>

**Department for Communities and Local Government:** *Local Government Transparency Code 2014, October 2014*  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/360711/Local\\_Government\\_Transparency\\_Code\\_2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/360711/Local_Government_Transparency_Code_2014.pdf)

**Department for Communities and Local Government:** *Tackling Unlawful Tenancies and Occupancy: Good Practice Guidance for Social Landlords, November 2009*  
<http://www.communities.gov.uk/documents/housing/pdf/1396431.pdf>



# The FFCL Checklist

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A local authority is self-regulating in respect of counter fraud. It should aim to show that it undertakes realistic self-assessment and has identified and understands the major risks. It should acknowledge the problems and put in place plans which can demonstrate that it is taking action with visible outcomes. It should aim to create a transparent process and report the results to the corporate management team and those charged with governance.

The following guide is a suggested voluntary checklist, describing a standard that a local authority can measure itself against to create an effective counter fraud and corruption culture and response:

- The local authority has made a proper assessment of its fraud and corruption risks, has an action plan to deal with them and regularly reports to its senior Board and its members.
- The local authority has undertaken an assessment against the risks in *Protecting the Public Purse: Fighting Fraud Against Local Government (2014)* and has also undertaken horizon scanning of future potential fraud and corruption risks.
- There is an annual report to the audit committee, or equivalent detailed assessment, to compare against FFCL 2016 and this checklist.
- There is a counter fraud and corruption strategy applying to all aspects of the local authority's business which has been **communicated** throughout the local authority and acknowledged by those charged with governance.
- The local authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.
- The risks of fraud and corruption are specifically considered in the local authority's overall risk management process.
- Counter fraud staff are consulted to fraud proof new policies, strategies and initiatives across departments and this is reported upon to committee.
- The local authority has put in place arrangements to prevent and detect fraud and corruption and a mechanism for ensuring that this is effective and is reported to committee.
- The local authority has put in place arrangements for monitoring compliance with standards of conduct across the local authority covering:
  - codes of conduct including behaviour for counter fraud, anti-bribery and corruption
  - register of interests
  - register of gifts and hospitality.
- The local authority undertakes recruitment vetting of staff prior to employment by risk assessing posts and undertaking the checks recommended in *FFCL 2016* to prevent potentially dishonest employees from being appointed.
- Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and business. This is checked by auditors and reported to committee.
- There is a programme of work to ensure a strong counter fraud **culture** across all departments and delivery agents led by counter fraud experts.
- Successful cases of proven fraud/corruption are routinely publicised to raise awareness.
- There is an independent whistle-blowing policy which is monitored for take-up and can show that suspicions have been acted upon without internal pressure.
- Contractors and third parties sign up to the whistle-blowing policy and there is evidence of this. There should be no discrimination against whistle-blowers.
- Fraud resources are assessed proportionately to the risk the local authority faces and are adequately resourced.
- There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the local authority's business and includes activities undertaken by contractors and third parties or voluntary sector activities.



- 
- Statistics are kept and reported by the fraud team which cover all areas of activity and outcomes.
  - Fraud officers have unfettered access to premises and documents for the purposes of counter fraud investigation.
  - There is a programme to publicise fraud and corruption cases internally and externally which is positive and endorsed by the council's communication team.
  - All allegations of fraud and corruption are risk assessed.
  - The fraud and corruption response plan covers all areas of counter fraud work:
    - prevention
    - detection
    - investigation
    - sanctions
    - redress.
  - The fraud response plan is linked to the audit plan and is communicated to senior management and members.
  - Asset recovery and civil recovery is considered in all cases.
  - There is a zero tolerance approach to fraud and corruption which is always reported to committee.
  - There is a programme of proactive counter fraud work which covers risks identified in assessment.
  - The fraud team works jointly with other enforcement agencies and encourages a corporate approach and co-location of enforcement activity.
  - The local authority shares data across its own departments and between other enforcement agencies.
  - Prevention measures and projects are undertaken using data analytics where possible.
  - The local authority actively takes part in the NFI and promptly takes action arising from it.
  - There are professionally trained and accredited staff for counter fraud work. If auditors undertake counter fraud work they too must be trained in this area.
  - The counter fraud team has adequate knowledge in all areas of the local authority or is trained in these areas.
  - The counter fraud team has access (through partnership/other local authorities/or funds to buy in) to specialist staff for:
    - surveillance
    - computer forensics
    - asset recovery
    - financial investigations.
  - Weaknesses revealed by instances of proven fraud and corruption are scrutinised carefully and fed back to departments to fraud proof systems.



# Glossary of Acronyms

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**AFN** – Annual Fraud Indicator

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/206552/nfa-annual-fraud-indicator-2013.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206552/nfa-annual-fraud-indicator-2013.pdf)

**CFPAB** – Counter Fraud Professional Accreditation Board

<http://www.port.ac.uk/institute-of-criminal-justice-studies/counter-fraud-professional-accreditation-board/>

**CIFAS** – UK's Fraud Prevention Service

<https://www.cifas.org.uk/>

**CIPFA** – Chartered Institute for Public Finance and Accountancy

<http://www.cipfa.org/services/counter-fraud-centre>

**CIPS** – Chartered Institute of Procurement and Supply

<http://www.cips.org/en-GB/>

**ECC** – Economic Crime Command (part of National Crime Agency)

<http://www.nationalcrimeagency.gov.uk/about-us/what-we-do/economic-crime>

**DCLG** – Department for Communities and Local Government

<https://www.gov.uk/government/organisations/department-for-communities-and-local-government>

**FFL** – Fighting Fraud Locally

**FFL2011** – Fighting Fraud Locally – The Local Government Fraud Strategy 2011

<https://www.gov.uk/government/publications/fighting-fraud-locally-the-local-government-fraud-strategy>

**FFL2016** – Fighting Fraud and Corruption Locally – The Local Government Fraud and Corruption Strategy 2016

**LGA** – Local Government Association

<http://www.local.gov.uk/>

**LGA** – National Crime Agency

<http://www.nationalcrimeagency.gov.uk/>

**NFA** – National Fraud Authority (abolished in 2014)

<https://www.gov.uk/government/organisations/national-fraud-authority>

**NFI** – National Fraud Initiative

<http://www.audit-commission.gov.uk/national-fraud-initiative/>

**NFIB** – National Fraud Intelligence Bureau

<https://www.cityoflondon.police.uk/advice-and-support/fraud-and-economic-crime/nfib/Pages/default.aspx>

**NNDR** – National Non-Domestic Rates (Business Rates)

<https://www.gov.uk/government/collections/national-non-domestic-rates-collected-by-councils>

**POCA** – Proceeds of Crime Act

<http://www.legislation.gov.uk/ukpga/2002/29/contents>

**PoSHFA** – Prevention of Social Housing Fraud Act 2013

<http://www.legislation.gov.uk/ukpga/2013/3/contents/enacted>

**SFIS** – Single Fraud Investigation Service

<https://www.gov.uk/government/collections/single-fraud-investigation-service>

**SOLACE** – Society of Local Authority Chief Executives

<http://www.solace.org.uk/>

**TFF** – Tenancy Fraud Forum

<http://www.tenancyfraudforum.org.uk/>

# Thank you

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## The Fighting Fraud and Corruption Locally Board is:

- Ian O'Donnell (Chair) – London Borough of Ealing
- Bevis Ingram – LGA
- Andrew Hyatt – Royal Borough of Kensington and Chelsea
- Simon Lane – Former London Borough of Brent
- Mike Clarkson – Mazars
- John Baker – Moore Stephens
- Rachael Tiffen – CIPFA Counter Fraud Centre
- Ben Stoneman – DCLG
- Nick Pellegrini – DCLG

The development of this strategy was overseen by a task and finish group commissioned by the board, whose members were:

- Charlie Adan – Chief Executive, Barbergh and Mid Suffolk District Council
- Ian O'Donnell (Chair) – Executive Director of Corporate Resources, London Borough of Ealing
- Bevis Ingram – Senior Adviser, Finance, LGA
- Ben Stoneman – DCLG
- Nick Pellegrini – DCLG
- Rachael Tiffen – Head of Faculty, CIPFA Counter Fraud Centre and Governance Faculty
- 3 Local Authority representatives
  - John Rosenbloom, former Manchester City Council
  - Stuart Limb, Leicester City Council
  - Kevin Campbell-Scott, Southwark Council
- Secretariat – Olivia Coates, CIPFA Counter Fraud Centre Project Manager

## The Fighting Fraud Locally Board wishes to thank:

- Andrea Hobbs
- Anna Atkinson
- Colin Sharpe
- Duncan Warmington
- Enfield Council
- Essex Council
- George Sexton
- Helen Peters

- James Flannery
- John Rosenbloom
- Karen Bellamy
- Katrina Robinson
- Les Bradshaw Dudley MBC
- Lewisham Council
- London Councils
- Manchester City Council
- Mark Astley
- Martin Crowe
- Mike Clarkson
- National Audit Office (NAO)
- Paul Bicknell
- Paul Bradley
- Paul Rock
- Phil Sapey
- Professor Mike Levi
- Professor Alan Doig
- Public Concern at Work
- Ray Joy
- Royal Borough of Kensington and Chelsea
- Rob Whiteman
- Simon Bleckly
- Simon Dukes
- Zoe Neal

## Special thanks go to:

### The researchers and drafters:

- Kate Beddington-Brown
- Leslie Marshall
- Carol Owen
- Rachael Tiffen

The Board wishes to thank Ian O'Donnell for chairing the Fighting Fraud Locally Board 2011-2016

\*\*

And all those who attended the workshops, provided feedback or responded to surveys and who took up the actions after Fighting Fraud Locally 2011.



Produced by:



The Chartered Institute of  
Public Finance & Accountancy

## 2016-19 Checklist

A local authority is self-regulating in respect of counter fraud. It should aim to show that it undertakes realistic self-assessment and has identified and understands the major risks. It should acknowledge the problems and put in place plans which can demonstrate that it is taking action with visible outcomes. It should aim to create a transparent process and report the results to the corporate management team and those charged with governance.

**You are encouraged to use this checklist to measure your counter fraud and corruption culture and response.**

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- The local authority has undertaken an assessment against the risks in Protecting the Public Purse: Fighting Fraud Against Local Government (2014) and has also undertaken horizon scanning of future potential fraud and corruption risks.
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- There is a programme of work to ensure a strong counter fraud culture across all departments and delivery agents led by counter fraud experts.
- There is an independent whistle-blowing policy which is monitored for take-up and can show that suspicions have been acted upon without internal pressure.

Supported by:

## 2016-19 Checklist

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- Contractors and third parties sign up to the whistle-blowing policy and there is evidence of this. There should be no discrimination against whistle-blowers.
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- The counter fraud team has adequate knowledge in all areas of the local authority or is trained in these areas.
- The counter fraud team has access (through partnership/ other local authorities/or funds to buy in) to specialist staff for:
  - surveillance
  - computer forensics
  - asset recovery
  - financial investigations.
- Weaknesses revealed by instances of proven fraud and corruption are scrutinised carefully and fed back to departments to fraud proof systems.

### Good Practice Bank

Visit: [www.cipfa.org/fightingfraudlocally](http://www.cipfa.org/fightingfraudlocally) to register for free access to the Fighting Fraud and Corruption Locally online resources.

### Sharing your good practice

Email: [counterfraudcentre@cipfa.org](mailto:counterfraudcentre@cipfa.org) to share your examples of recent prosecutions, campaigns or tactics with other local authorities via the Good Practice Bank.

Supported by:



**CIPFA COUNTER  
FRAUD CENTRE**

# CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD



## AUDIT COMMITTEE: 19 September 2016

### PUBLISHED SCRUTINY LETTERS

## REPORT OF CORPORATE DIRECTOR RESOURCES

**AGENDA ITEM: 11**

### Reason for this Report

1. At its pre-meeting on the 27 June 2016, members requested that Published Scrutiny Letters be considered when setting the Committee's agenda.
2. This report has been prepared to provide Audit Committee members with the Correspondence Logs relating to the five Scrutiny Committees. This will provide members with the opportunity to determine any letters that they wish to consider further at the Audit Committee meeting on the 29 November 2016.
3. Members will also be provided with copies of any correspondence between the Chair of Audit Committee and the Chairs of Scrutiny Committees.

### Background

4. The item will either be called "Correspondence" (as in the case of Children and Young People, Environmental and Economy & Culture Scrutiny Committees), or covered in a broader "Committee Business" item (as in the case of Policy Review & Performance and Community & Adult Services Scrutiny Committees). All of these are available from the Council's website

### Issues

5. The last set of Correspondence items for Scrutiny Committees is as follows:
  - Community and Adult Services Scrutiny Committee (July 2016)
  - Policy Review and Performance Scrutiny Committee (June 2016)
  - Economy and Culture Scrutiny Committee (June 2016)
  - Children and Young People Scrutiny Committee (June 2016)
  - Environmental Scrutiny Committee (May 2016)
6. Correspondence between the Chair of Audit Committee and the Scrutiny Chair for Economy and Culture can be found in Appendix A.
7. In determining which (if any) pieces of correspondence should be considered at the 29 November 2016 meeting then consideration needs to be taken of the Audit Committee Terms of Reference.



8. This is the first time that Scrutiny items of correspondence have been formally collated and reported to Audit Committee members and this will now be a standing item on all future Audit Committee meetings.

### **Reasons for Recommendations**

9. To consider the correspondence and determine which require further consideration at the Audit Committee meeting to be held on the 29 November 2016..

### **Legal Implications**

10. There are no legal implications arising from this report.

### **Financial Implications**

11. There are no financial implications arising from this report.

### **Recommendations**

12. To note and identify any items of correspondence that need to be put on the Agenda for the 29 November 2016

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**  
**Date: 19 September 2016**

The following appendices are attached:

*Appendix A – Correspondence between Chairs of Audit Committee and Scrutiny Committee*  
*Appendix B – Published Scrutiny Letters Correspondence Logs (5 items)*

**My Ref:** AUD/IA/JB  
**Date:** 08 June 2016

Councillor Rod McKerlich (Chair)  
Economy & Culture Scrutiny Committee  
City of Cardiff Council  
County Hall  
Atlantic Wharf  
Cardiff, CF10 4UW



**County Hall**  
Cardiff,  
CF10 4UW  
Tel: (029) 2087 2087

**Neuadd y Sir**  
Caerdydd,  
CF10 4UW  
Ffôn: (029) 2087 2088

Dear Councillor McKerlich

**Re: Delivering with Less: Leisure Services**

At its meeting on the 22 March 2016, the Audit Committee received the Wales Audit Office's national report 'Delivering with Less: Leisure Services'. The report was published on 3<sup>rd</sup> December 2015, which sought to identify the current position and some indicators of good practice.

WAO's comments and recommendations cover the following areas:

1. Public sector ownership and management of leisure provision is changing with the transfer of services and assets to other models of operation, however, decisions have not always been based on robust information
2. Despite a reduction in facilities, budgets, staff numbers and council subsidy for leisure services, the continued impact of austerity presents a risk to the continued provision of services
3. Councils are meeting rising demand for leisure services, but scrutiny and oversight of performance is not always effective

The report concluded that council approaches to delivering leisure services focus on addressing immediate financial challenges, rather than taking a longer-term strategic approach to future provision.

The Audit Committee felt it important to bring the report to the attention of the Economy and Culture Scrutiny Committee, to provide it with an opportunity to consider the WAO report as part of its scrutiny of ADM's. The WAO report contains an End-to-End Options Appraisal Flowchart relating to ADM's, which you may find of interest.

I have included with this letter a copy of the WAO report, along with an Audit Committee report prepared by Christine Salter, Corporate Director Resources.

If you would like to discuss this matter further, please do not hesitate to contact me.

Yours sincerely

**Ian Arundale**  
**Chair of Audit Committee**  
**City of Cardiff Council**

Enc: WAO National Report - Delivering with Less: Leisure Services  
Report of Corporate Director Resources

cc: Christine Salter, Corporate Director Resources  
Ian Allwood, Head of Finance  
Nathan Swain, Principal Scrutiny Officer

**PLEASE REPLY TO:** C/O Internal Audit, Room 344, The County Hall, Cardiff, CF10 4UW. Tel: (029) 2087 2809  
internalaudit@cardiff.gov.uk or email: arundale@btinternet.com



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## Children and Young People Scrutiny Committee Correspondence Report summary 2015 - 16

Committee date	Recipient	Subject	Response Required	Response date	Response received	Future Action
12 January 2016	Cllr Lent	Social Services and Well Being Act (Wales) 2014	Concern that the Governance did not reference scrutiny  Addition resources will be required to implement the Act	15 March 2016	Revision of the governance structure to include reference to the involvement of scrutiny	Regular progress reports being presented to Committee
15 March 2016	Cllr Lent	Quarter 3 performance	Further monitoring reports on the level of social worker vacancies  A training session on the new performance indicators  A briefing paper on the accommodation of youth offending service and looked after children service	17 May 2016	Details of the Level of social worker vacancies and the number and spend on workers  Agreement to support a training session for both Adult and Children's Committee  Project plan in place to support a move to an appropriate building	Continue to monitor  Training to be arranged on 7 July  Further briefing to be issues



<b>Committee date</b>	<b>Recipient</b>	<b>Subject</b>	<b>Response Required</b>	<b>Response date</b>	<b>Response received</b>	<b>Future Action</b>
19 April 2016	Cllr Merry	Education and Consortium Delivery Plans 2016-2018	<p>A copy of the completed Education Department plan to be sent to all members</p> <p>The future Youth Service report to include additional information on the structure of the service, operational focus and budget</p> <p>Provide details of the 2016/17 funding for the Welsh immersions units and the EMTA service</p> <p>The consortium keeps Committee up to date on plans to undertake more services on behalf of Cardiff.</p>	20 May 2016	Letter has been noted and the information will be provided in due course	Receive further reports in June / July
17 May 2016	CSSIW – Pam Clutton	Inspection report on Cardiff's Children's Services	<p>Thank you letter for the honest and open assessment of Cardiff.</p> <p>Committee agreed to receive the resultant action plan</p>		N/A	

Committee date	Recipient	Subject	Response Required	Response date	Response received	Future Action
17 May 2016	Cllr Merry	Cabinet proposals – Meadowbank School	<p>Before closing the school and assessment of the following must be undertaken:</p> <p>Cardiff wide strategy, is developed, consulted on and implemented.</p> <p>An assessment of current support is undertaken, and is determined to be fit for purpose.</p> <p>The views of all head teachers on the impact is sought and assessed. discussions are held with the school and appropriate third sector organisations the school's expertise is promoted as a centre of excellence or as a training centre.</p> <p>Ensure that the Council continues to provide early specialist intervention.</p>		Awaiting response	To receive a further report providing the consultation outcome

<b>Committee date</b>	<b>Recipient</b>	<b>Subject</b>	<b>Response Required</b>	<b>Response date</b>	<b>Response received</b>	<b>Future Action</b>
17 May 2016	Councillor Lent	Quarter 4 performance of children's service	Briefing on the new performance measures Copy of the relevant action plan that includes the 19 recommendations from the inspection report	31 May 2016	The recommendations have been incorporated in to the Directorates delivery plan The letter explains each of the actions that have been included in the delivery plan.	Continue to monitor performance
17 May	Councillor Merry	Estyn inspection letter and Quarter 4 performance report	A copy of the action plans covering the areas that the Estyn letter highlighted. Details of the plans to improve the admissions procedure across all schools. A copy and briefing on the Cardiff 2020 – Aiming for Excellence to be presented to the 14 June Committee meeting A breakdown, by number of reasons for pupils to be needs;  A briefing and actions focussing on the “wider capped points score” and Level 2 threshold.			



<b>Committee date</b>	<b>Recipient</b>	<b>Subject</b>	<b>Response Required</b>	<b>Response date</b>	<b>Response received</b>	<b>Future Action</b>
17 May 2016	Estyn – Clive Phillips	Estyn Inspection letter	Thank you letter for the honest and open assessment of Cardiff.  Committee agreed to receive the resultant action plan		N/A	

### Inquiry Letters

<b>Outcome Letter date</b>	<b>Recipient</b>	<b>Subject of Investigation</b>	<b>Key Findings and Recommendations</b>	<b>Response date</b>	<b>Response received</b>	<b>Future Action</b>
16 July	Cllr Magill	School Governors	Effectiveness of the Governing Body  Support for Governing Bodies  Training of Governors	19 October 2015, received 15 March 2016	All recommendations accepted, one not excepted relating to the transfer of governors support services to the consortium	To continue monitoring

## APPENDIX A – CASSC Correspondence Schedule, as at 29 June 2016

Date Sent	Sent to	Topic	Comments and Recommendations Made	Date reply received	Response Received
18 May 2016	Cllr Elsmore	<b>Directorate Delivery Plans</b>	<ul style="list-style-type: none"> <li>• <i>Recommendation – that an ‘at a glance’ summary be provided, on page 16 of the Social Services Delivery Plan before the detail of action plan.</i></li> <li>• <i>Recommendation - that the Social Services Plan clearly identifies the top priorities that have to be achieved.</i></li> <li>• <i>Recommendation – that further thought be given to the content of the potential impact column on Page 47 of the Social Services Plan.</i></li> <li>• <i>Recommendation – that the Social Services Plan be amended to make it clear which actions are being taken to address the following areas for improvement identified by the CSSIW: quality of residential care; and the timeliness of reviews for older people.</i></li> <li>• <i>Recommendation – that further details on the other performance tools used in Adult Social Services – such as the Directorate Dashboard and consideration by senior managers – be referenced in the Plan.</i></li> <li>• <i>Recommendation – that the performance milestones provided on Page 23 for the action ‘work to make Cardiff a recognised Dementia Friendly City by March 2018’ be elaborated.</i></li> <li>• <i>Seek clarification – regarding whether or not a review of advice services should be included as an action in the Communities</i></li> </ul>	14 June 2016	<p><b>Response Received</b>  <b>Thank Members for constructive comments.</b></p> <ul style="list-style-type: none"> <li>• <b><i>Corporate project to improve Delivery Plans so ‘it would be premature for us to change the structure of the corporate template until this work is completed.’</i></b></li> <li>• <b><i>Corporate Plan identifies the top priorities – the Delivery Plan has to incorporate all statutory responsibilities</i></b></li> <li>• <b><i>Accept that the Plan should be strengthened with regard to CSSIW area for improvement ‘quality of residential care’ and the plan will be reviewed accordingly. Not accepted re ‘timeliness of reviews for older people’ as improvements already made.</i></b></li> <li>• <b><i>Further reference will be made to the dashboard in the performance section.</i></b></li> <li>• <b><i>Accept that dementia friendly milestones ‘are vague and this is because the creation of our</i></b></li> </ul>

Date Sent	Sent to	Topic	Comments and Recommendations Made	Date reply received	Response Received
		<b>Syrian &amp; Afghan resettlement schemes</b>	<p><i>Delivery Plan.</i></p> <ul style="list-style-type: none"> <li>• <i>Accept the Director of Communities, Housing and Customer Services offer to provide an explanatory note on the details of how the homelessness targets were decided.</i></li> <li>• <i>Note that there will be a 24 hour emergency helpline.</i></li> <li>• <i>Critical to manage messages regarding these schemes to avoid confusion and misunderstanding.</i></li> <li>• <i>Request further briefing as part of work programming process.</i></li> </ul>		<p><i>specific dementia action plan is in its infancy. I would be pleased to share the action plan with CASSC once ready. In the meantime I welcome any Member suggestions of particular actions that we need to consider in the action plan.'</i></p> <ul style="list-style-type: none"> <li>• <i>It is right that a review of advice services should be included as an action – details provided in letter of this.</i></li> <li>• <i>Explanation of homelessness targets provided in letter..</i></li> </ul>
18 May 2016	Cllr Hinchey	<b>Directorate Delivery Plans Template</b>	<ul style="list-style-type: none"> <li>• <i>Members are pleased to see that the template has enabled a clear thread to be visible from our partnership and corporate plan commitments through to the actions in the Delivery Plans.</i></li> <li>• <i>Members have concerns that the application of the template may be too rigid in other areas, thus meaning that Delivery Plans may not meet the needs of the Directorates.</i></li> <li>• <i>Request whether it is possible for Joseph Reay to lead a review of the template for Directorate Delivery Plans so that the template for 2017/18 delivers fit-for-purpose Plans. As part of this review, Members ask</i></li> </ul>	<b>8 June 2016</b>	<p><b>Response Received</b>  <b>Thanks for letter and comments:</b>  <b>'The Performance and Governance programme, which sits within the Council's Organisational Development Programme, contains a Business Planning project.... A key element of this will be the review of the Council's Directorate Delivery Plan framework and approach</b></p>

Date Sent	Sent to	Topic	Comments and Recommendations Made	Date reply received	Response Received
			<p><i>that more guidance be given to including appropriate performance measures in Delivery Plans, to ensure that outcomes are included and that other measures – input, process and output – are included where needed to monitor declining/ bad performance or to track commercially important information.</i></p>		<p><b>and Members’ comments will be fed into this work.’</b></p>
18 May 2016	Cllr De’Ath	<b>Directorate Delivery Plans Community Safety</b>	<ul style="list-style-type: none"> <li>• <i>Raise concern regarding the lack of wording and actions directly referencing community safety, community cohesion and tackling human trafficking in [these] Plans. Members can see that several actions in the plans we considered contribute to these areas – for example safeguarding actions, city centre management and night time economy actions, recommissioning of domestic violence services, and other actions detailed under the outcome heading ‘People in Cardiff are safe and feel safe’. However, none of these actions capture the overarching role the Council has in contributing to crime and disorder reduction and promoting community safety and community cohesion.</i></li> <li>• <i>Consensus seems to be that these should have been referenced in the Resources Delivery Plan, under the relevant section on partnerships. Members therefore request that the omissions be addressed by the addition of appropriate references to the role of the Council as outlined above.</i></li> </ul>	<b>28 June 2016</b>	<p><b>Response Received</b>  <b>Welcomed feedback from Committee. ‘Resources Directorate Delivery Plan now contains Directorate Action to:</b>  <b>Drive forward the Council’s community safety work programme through robust partnership arrangements to help make Cardiff safer, reduce crime and disorder and promote community cohesion.</b>  <b>Milestones for this action will be used to give details about the wide range of activity that takes place.. around the Community Safety agenda.’</b></p>

Date Sent	Sent to	Topic	Comments and Recommendations Made	Date reply received	Response Received
10 June 2016	Cllr Derbyshire	<b>Bringing empty private sector properties back into use</b>	<ul style="list-style-type: none"> <li>• <i>Appreciate officer's candour in explaining reasons for dip in performance</i></li> <li>• <i>Pleased to hear protocol will be developed regarding how to deal with empty private sector properties.</i></li> <li>• <i>Note that the above will include resolving resources required and determining an appropriate target for performance indicator PSR/004.</i></li> <li>• <i>Members feel it would be useful to undertake a cost/benefit analysis regarding work to deal with empty private sector properties – this should help establish appropriate level of resources and should help determine appropriate target.</i></li> <li>• <i>Members ask to be kept informed of progress in resolving above.</i></li> <li>• <i>Members wish to know how many empty properties are currently being dealt with and how many were dealt with in 2015/16, with regard to PSR/004.</i></li> <li>• <i>Members thank officers for preparing the Briefing Report on the HMO Licensing Schemes.</i></li> </ul>		<b>No response required</b>
10 June 2016	Cllr Elsmore	<b>Cabinet Response to Information, Advice and Assistance Inquiry</b>	<ul style="list-style-type: none"> <li>• <i>Members are disappointed at the tone of the Cabinet Response – Members feel a more constructive tone could have been taken, giving credit where there has been learning from the Inquiry.</i></li> <li>• <i>Note that the Director of Social Services stated he took 2 things from the Inquiry – the need to move from a medical model and the finding of the survey that many respondents were unclear how to access information, advice and assistance services.</i></li> </ul>		<b>No response required</b>

Date Sent	Sent to	Topic	Comments and Recommendations Made	Date reply received	Response Received
10 June 2016	Cllr Elsmore	<b>Quarter 4 performance report</b>	<ul style="list-style-type: none"> <li>• <i>Thanks to officers for providing additional information requested prior to the meeting, which usefully helped to focus discussion at the meeting</i></li> <li>• <i>Members wish to receive indicators for discretionary disabled adaptation grants below £3K and for both short term voids and longer term voids.</i></li> <li>• <i>Members recommend that staff and contractors be reminded of their responsibilities to follow the agreed process to close an emergency repair once it is made safe.</i></li> </ul>		<b>Response Awaited</b>

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**COMMITTEE BUSINESS AND CORRESPONDENCE – INFORMATION REPORT**

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**Background**

1. This report provides an overarching Committee Business Report, and includes the correspondence update schedule. Following Committee meetings, the Chair writes a letter to the relevant Cabinet Member or senior officer, summing up the Committee's comments, concerns and recommendations regarding the issues considered during that meeting. The letter usually asks for a response from the Cabinet Member to any recommendations made and sometimes requests further information.

**Committee Meeting Correspondence**

**14 January 2016**

2. A reply has been received to the letter written to the Cllr Bradbury following Members consideration of the Summer Reading Challenge, Adult Community Learning and Stakeholder views on the Budget Proposals. The reply was received on 23 March 2016 and can be viewed via the following link - <http://goo.gl/6d40iW> (pages 11 – 13)

**15 February 2016**

3. At this meeting the Committee considered the areas of Draft Corporate Plan 2016-18 and Budget Proposals 2016/17 that fall under the Committee Terms of Reference. Letters were written to the following Cabinet Members:



- Economic Development, City Operations and Communities, Housing and Customer Services – Cllr Bradbury.
- City Operations – Cllr Derbyshire.
- Corporate Overview – Cllr Hinchey.

The following replies have been received to the letters listed above:

- Cllr Bradbury – reply received 25 February 2016.
- Cllr Derbyshire – reply received 25 February 2016.

These letters are published on the Council's website and can be accessed via the following link - <http://goo.gl/O5mMr6>

#### **17 March 2016**

4. At this meeting the Committee considered the following items, with letters written to the relevant Cabinet Members and stakeholders:

- Tourism Strategy, Cardiff Capital Region City Deal – Cllr Bale.
- Quarter 3 Performance – Cllr Bradbury.

The following replies have been received to the letters listed above:

- Cllr Bale – reply received 31 May 2016.

These letters are published on the Council's website and can be accessed via the following link - <http://goo.gl/v2XScs>

#### **7 April 2016**

5. At this meeting the Committee considered the following items, with a letter written to the relevant Cabinet Member regarding them:

- Directorate Delivery Plans of Economic Development, City Operations and Communities, Housing and Customer Services – Cllr Bradbury.

- Communities, Housing and Customer Services Directorate Delivery Plan – Cllr De’Ath.
- Economic Development Directorate Delivery Plan – Cllr Bale.

The following replies have been received to the letters listed above:

- Cllr Bale – reply received 19 May 2016.
- Cllr Bradbury – reply received 31 May 2016.

These letters are published on the Council’s website and can be accessed via the following link - <http://goo.gl/RAUWpU>

## **12 May 2016**

6. At this meeting the Committee considered the following items, with a letter written to the relevant Cabinet Member regarding them:

- Business Improvement District, Economic Development Q4 Performance – Cllr Bale.
- Business Improvement District, Economic Development Q4 Performance – Cllr Bradbury.
- Cardiff Central Market – Cllr Hinchey.

These letters are published on the Council’s website and can be accessed via the following link - <http://goo.gl/UTghH5>

## **Legal Implications**

7. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct legal implications. However, legal implications may arise if and when the matters under review are implemented with or without any modifications. Any report with

recommendations for decision that goes to Cabinet/Council will set out any legal implications arising from those recommendations. All decisions taken by or on behalf of the Council must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. Scrutiny Procedure Rules; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its taxpayers; and (h) be reasonable and proper in all the circumstances.

### **Financial Implications**

8. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct financial implications at this stage in relation to any of the work programme. However, financial implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any financial implications arising from those recommendations.

### **Recommendation**

The Committee is recommended to:

- Review the responses received to the recent letters sent by the Committee and refer any questions or concerns to the relevant Cabinet Member or Director.

**David Marr**

**Interim Monitoring Officer**

**3 June 2016**

## CORRESPONDENCE UPDATE – INFORMATION REPORT

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### Background

1. Following most Committee meetings, the Chair writes a letter to the relevant Cabinet Member or officer, summing up the Committee's comments and recommendations regarding the issues considered during that meeting. This cover report provides a record of those letters and any other correspondence received since the previous Committee meeting.

### Issues

2. At the Environmental Scrutiny Committee meeting on the 19 April 2016 Members considered the following item:
  - Draft Directorate Delivery Plan 2016 -2018: City Operations Directorate
3. After the meeting the following letter was sent by the Chair of the on behalf of the Committee:
  - A letter to both Councillor Bob Derbyshire, Cabinet Member for the Environment and Councillor Ramesh Patel, Cabinet Member for Transport, Planning & Sustainability following the meeting on the 19 April 2016 – attached as **Appendix 1**.
4. Since the last correspondence report the following replies have been provided to a letter written on behalf of the Environmental Scrutiny Committee. These are listed below:
  - A reply to the letter sent to Councillor Daniel De'Ath, Cabinet Member for Safety, Engagement & Democracy following the Environmental Scrutiny Committee meeting on 3 March 2016 – attached as **Appendix 2**.

## **Legal Implications**

5. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct legal implications. However, legal implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any legal implications arising from those recommendations. All decisions taken by or on behalf of the Council must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. Scrutiny Procedure Rules; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its taxpayers; and (h) be reasonable and proper in all the circumstances.

## **Financial Implications**

6. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct financial implications at this stage in relation to any of the work programme. However, financial implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any financial implications arising from those recommendations.

## **RECOMMENDATIONS**

7. The Committee is recommended to note the content of the letters contained in **Appendices 1 & 2.**

**David Marr**

**Interim Monitor Officer**

**11 May 2016**

## Policy Review and Performance Scrutiny Committee

Correspondence update 2015 - 16

Committee date & topic	Recipient	Comments/ concerns/ information requested	Response received	Response	Future Action
<b>8 March 2016</b>					
Corporate Assessment Follow On Report 17 March 2016	Cllr Phil Bale, Leader	<p>Will factor the regulators view that corporate enablers, such as Performance, Human Resources, the Council's use of its Assets, and Scrutiny require further improvement into its future work programming.</p> <p>Would like clarification as to whether the WAO will be undertaking a further review.</p> <p>Will monitor engagement with middle management as the staff engagement programme is refreshed to improve consistency.</p>	12 April 2016	<p>Unclear whether WAO will undertake a further formal review visit or will monitor the Council's implementation of the Statement of Action during 2016/17.</p> <p>Welcome opportunity to bring ODP revised proposals in advance of formal consideration by Cabinet in June 2016</p>	

**Correspondence Monitoring Sheet**

**Appendix 1**

		<p>Wish to undertake pre-decision scrutiny of the refreshed proposals for performance monitoring arrangements planned for Cabinet before the summer recess.</p> <p>Very concerned about the number of vacant seats on scrutiny committees and is keen to establish how the Council can improve commitment to scrutiny amongst elected Members to sustain a stable and consistent membership across all five scrutiny committees.</p> <p>Wish to stress that Members of all scrutiny committees have been involved in an increasing number of cross cutting scrutiny inquiries over recent years.</p> <p>Looks forward to considering the Council's response to the Corporate Assessment Follow On, and would be grateful for an indication of timescales.</p>		<p>Scope for Performance Management refresh to be considered alongside the Q4 Performance Report in May 2016</p> <p>Committee may wish to scrutinise progress in implementing the Statement of Action 6 months on in the autumn.</p>	
<p>Quarter 3 Performance 17 March 2016</p>	<p>Cllr Hinchey</p>	<p>Agree further progress is required in respect of asset management, and look forward to a report on this matter before the summer recess;</p> <p>Will continue encouraging the</p>	<p>No response requested</p>		

**Correspondence Monitoring Sheet**

**Appendix 1**

		<p>presentation of information that would improve the illustration of trends in performance;</p> <p>Urge that in refreshing performance reporting arrangements the performance information needs of all five scrutiny committees are considered;</p> <p>Feel that for completeness, performance reports could more effectively close the loop by including a performance statement and a mitigating action;</p> <p>Consider there is an opportunity to improve the internal sharing of strategic expertise across Directorates;</p> <p>Point out that staff and agency costs are running ahead of budget at Quarter 3.</p>			
<p>Draft Strategic Equality Plan 18 March 2016</p>	<p>Cllr De'Ath</p>	<p>Urge the Council to start working more strategically with partners on equalities matters;</p> <p>Encourage the maintenance of strong links between the central equalities team and Directorates.</p>	<p>No response required</p>		



**Correspondence Monitoring Sheet**

**Appendix 1**

		<p>Encourage that Directorates are required to report annually on equalities, to enable the central equalities team to provide Members with an annual collective view of progress that enables the Committee to test how effectively the Council is delivering its Strategic Equality Plan.</p> <p>Will factor into future work programming a fuller exploration of the challenge of ensuring the Council's workforce reflects its community.</p> <p>Feels it would be useful to produce a concise one side A4 document for staff, that summarises the 7 equalities objectives.</p>			
<b>12 April 2016</b>					
Resources Delivery Plan 27 April 2016	Cllr Hinchey	<p>Request an opportunity for pre-decision scrutiny of the temporary, casual and agency workforce strategy.</p> <p>Request previous three years data of the number of employees that have taken voluntary severance and subsequently been re-appointed to Cardiff Works.</p> <p>Request details of the gender and</p>	Awaited		

**Correspondence Monitoring Sheet**

**Appendix 1**

		<p>ethnic origin balance amongst the Council's senior management grades.</p> <p>Suggest an action related to staff morale within the HRPS element of the 2016/17 Resources Directorate Delivery Plan.</p>			
<p>Economic Delivery Plan 27 April 2016</p>	<p>Cllr Bale</p>	<p>Request greater clarity on the split of property maintenance responsibilities, and the relationship between the Economic Development Directorate and the Resources Directorate;</p> <p>Consider that the Council's workforce needs to fairly reflect its community, and will therefore monitor and feed this into its work programming discussions for 2016/17;</p> <p>Will be pleased to have sight of the Corporate Asset Management Plan setting priorities in relation to supporting and investing in the Estate, for pre decision scrutiny;</p> <p>From a property perspective the Committee would like to see the Council drive value from cultural events, rather than take an ADM route;</p> <p>Considers that the informality of</p>	<p>Not requested</p>		

**Correspondence Monitoring Sheet**

**Appendix 1**

		international policy and twinning arrangements should be an opportunity for more activity, particularly of an economic nature			
Communities, Housing & Customer Services Delivery Plan 27 April 2016	Cllr Hinchey	Wishes to re-visit C2C when it next considers customer service, prior to holding a full Scrutiny Committee at Wilcox House;  Feel strongly that an improvement opportunity exists to notify Members when their outstanding enquiries have been closed.	No response requested		
Governance and Legal Services Delivery Plan 27 April 2016	Cllr De'Ath	Will monitor corporate ownership of the Welsh Language Standards;  Will monitor benchmarking activity within the Governance & Legal Services Directorate;  Suggest future re –consideration of the scrutiny Performance Indicator.	12May 2016	CIS will be main monitoring compliance tool; 174 standards will appear against Directorates; Specific standards allocated to relevant Manager; Welsh Language Co-ordinators and champions will update CIS; Bi-lingual Cardiff will oversee; Overdue actions will be discussed at management team meetings; Non-compliance reported quarterly to Bi-lingual Cardiff Member Working Group; Annual Monitoring report to Full Council in June.  Directorate section heads asked to consider opportunities for benchmarking.  Range of scrutiny evaluation activities to conclude 15/16 municipal year.	

**Correspondence Monitoring Sheet**

**Appendix 1**

<p><b>10 May 2016</b></p>					
<p>Performance Management Refresh 16 May 2016</p>	<p>Cllr Hinchey</p>	<p>Wish to ensure that at the end of Quarter 1 2016/17 Scrutiny will be able to establish whether there are areas of concern for the Council ;</p> <p>Will be pleased to participate in the co-design of a balanced scorecard;</p> <p>Welcome representation on a members working group;</p> <p>Agree the Head of Performance would benefit from liaising with all scrutiny Chairs to explore the performance needs of the other Scrutiny Committees;</p> <p>Keen to ensure that where PI's are published by multiple partners/authorities the structure of PI's the Council settles on allows a read across;</p> <p>Wishes to highlight the need for the City Dashboard to assist us in our statutory role of holding the new Public Services Board to account.</p>	<p>Not requested</p>		

**Correspondence Monitoring Sheet**

**Appendix 1**

<p>Local Authority Trading Company – Commissioning &amp; Procurement 16 May 2016</p>	<p>Cllr Hinchey</p>	<p>The Committee is unclear what form staff recognition will take having heard that reward will be considered in the wider context of commercialisation;</p> <p>Re-iterates the need for those staff involved to be using a specialist commercial time recording programme, rather than a Council-designed spreadsheet;</p> <p>Re-iterates the importance of factoring all overheads into the financial projections;</p> <p>Re-iterates that appropriate accountancy arrangements must be put in place;</p> <p>Reserve the right to have sight of Cabinet reports and to request briefings on the company’s progress if appropriate.</p>	<p>Not requested</p>		
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## Audit Committee Action Plan

(Updated following meeting held on 27 June 2016)

Minute No. /Agenda No.	Actions	Timeline	Action Owner
<b>Finance (Budget)</b>			
AN4.1 23.03.15	Audit Committee to receive a report highlighting how the Committee can add value, on behalf of the Council, in setting the Budget.	Ongoing as part of financial update comments	C Salter
MN5 22.03.16	<b>Accounting Policies Update</b> A report be presented to the Committee later in the year providing an update on progress on the task of valuing the infrastructure asset.	29.11.16	C Salter/ R Green
27.06.16	<b>Financial Update</b> The Committee would welcome clarification of the position regarding the continual overspends in the Social Services Directorate.		C Salter/T Young
27.06.16	<b>Draft Statement of Accounts / AGS 2015-16</b> 1. Subject to the comments received in respect of the 2015/16 draft Statement of Accounts as set out above, note that these Accounts are to be signed by the Corporate Director Resources and submitted for external audit and public inspection;		C Salter
	2. Note that the Audited Statement of Accounts for 2015/16 will reviewed by this Committee in September 2016, prior to being presented to Council;	19.09.16	C Salter
	3. The Corporate Director Resources present a report on changes to the management arrangements for Welsh Pension Funds to the next meeting of the Committee.	19.09.16	C Salter
27.06.16 (pre-meeting item)	<b>Finance Updates</b> When setting the Audit Committee Agenda, published scrutiny letters to be considered.	Standing Item completed	C Salter/ G Nurton/
27.06.16	<b>Financial Resilience (WAO)</b> Chris Pugh provides members with information relating to which directorate delivery plans did not link to the Medium Term Financial Plan (MFTP). The information to be circulated to all Members of the Committee via email.	05.09.16 Completed 05.09.16	C Pugh
<b>Governance &amp; Risk Management</b>			
MN31 30.11.15	<b>Constructing Excellence Wales on Bldg. Maintenance Framework and Action Plan</b> That Internal Audit follow-up on the action plan and the work on the future framework arrangements has been completed and is on the work programme for March 2017.	28.03.17	I Allwood
27.06.16	<b>Audit Committee Annual Report 2015-16</b> That the Audit Committee Annual Report 2015/16 be approved for consideration by Council.	To be taken to Council 29.09.16	Chair
<b>Wales Audit Office (WAO)</b>			

Minute No. /Agenda No.	Actions	Timeline	Action Owner
MN10 22.03.16	<b>Improvement Plan of Work &amp; Annual Financial Audit Outline</b> WAO be requested to collate further benchmarking data.	24.01.17	Janet McNicholas
MN9 22.03.16	<b>Corporate Assessment Update</b> The Head of Performance be invited to attend a future meeting of the Audit Committee		J Reay
MN9 22.03.16	The Chief Executive be invited to attend Audit Committee in 6 months to discuss alignment between the Organisational Development Programme and Medium Term Financial Plan;	24.01.17	CEO
MN9 22.03.16	WAO be invited to provide input from a WAO perspective in 6 and 12 months' time.	24.01.17 & July 17	N Jenkins
<b>Treasury Management</b>			
<b>Internal Audit</b>			
	<b><u>Value for Money</u></b>		
MN55 01.02.16	The Audit Manager provide a further report on VFM studies to Audit Committee at its meeting in December 2016, and consider benchmarking with others on agency spend and standby and give further consideration to the possible introduction of business cases for standby arrangements.	29.11.16	Audit
MN34 30.11.15	The Audit & Risk Manager to consider whether a random check of 'High/Satisfactory' school CRSA's should be undertaken.	2016-17 Plan	Audit
27.06.16	<b>Progress Update</b> Audit section provide further details of the carried over recommendations from audits, at the next meeting of the Committee.	29.11.16	S Powell
27.06.16	<b>Internal Audit Annual Report</b> Members suggested that investigation data on dismissals and registrations could be given context e.g. a comparison with the prior year figure. Taken on board for future years.	Completed	I Allwood/ S Powell
27.06.16	<b>Internal Audit Plan 2016-17</b> In respect of the ADM projects, Members requested that sufficient time be set aside in the Audit Plan to provide assurance that ADM targets are being met. Taken on board.	Completed	I Allwood/ S Powell
<b>Progress Reports &amp; Value for Money Studies</b>			
MN8a 22.03.16	<b>Delivering With Less: Leisure Services</b> The Economy and Culture Scrutiny Committee be requested to consider the WAO report 'Delivering with Less: Leisure Services' as part of its scrutiny of alternative delivery models. Letter sent 13.06.16 and presented to Audit Committee 19.09.16.	Completed	Chair/ I Allwood
<b>Outstanding Actions</b>			
AN10.2 22.06.15	<b>Education – Governance</b> The Director of Education to provide a further briefing on school balances.	19.09.16	N Batchelar

Minute No. /Agenda No.	Actions	Timeline	Action Owner
MN16 22.03.16	Audit and Risk Manager stated that the Director of Education will attend to discuss school deficits.	19.09.16	N Batchelar
MN57 01.02.16	An update will be provided at the Committee's meeting in March on the VFM exercise on supply teachers.	19.09.16	N Batchelar / Audit
AN10.2 22.06.15	<b><u>Director Strategic Planning &amp; Highways – Response to Internal Audit Report</u></b> That the Committee receives a further progress report in six months.	19.09.16	Audit
<b>Work Programme</b>			
MN22 16.09.15	That the WAO reports expected for 2015-16 be added to the work programme.	When available	Audit
MN16 22.03.16	An Audit Committee Self-Assessment Workshop will take place in September.	19.09.16	Committee Members
<b>Matters Arising</b>			
<b>Items of Interest for Members</b>			



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# DRAFT Audit Committee Work Programme 2016-17

Key: One-off Items

Topic	Monday 27.06.16 at 10.30am (CR4)	Wednesday 19.09.16 (Workshop 12.30-1.30pm) at 2pm (CR4)	Tuesday 29.11.16 at 2pm (CR4)	Tuesday 24.01.17 at 2pm (CR4)	Tuesday 28.03.17 at 2pm (CR4)	Tuesday 20.06.17 at 2pm (CR4)
<b>Wales Audit Office</b>	Corporate Assessment Update	Corporate Assessment Update	Corporate Assessment Follow On	Corporate Assessment Follow On	Corporate Assessment Follow On	Corporate Assessment Follow On
	Annual Improvement Report <i>(Deferred to Sept)</i>				Annual Financial Audit Outline (to include revised statement of responsibilities)	Annual Improvement Report
	Regulatory Programme Letter/ Update Performance Audit Work & Fees 2016-17	Audit of Financial Statement Report for City of Cardiff Council (ISA260)				Regulatory Prog. Update & Fee information '17-18
		Audit of Financial Statement Report - Cardiff & Vale of Glamorgan Pension Fund (ISA260)				
		Annual Improvement Report			Cardiff & Vale Pension Fund Audit Plan	
	Report Progress Updates	Report Progress Updates	Report Progress Updates	Report Progress Updates	Report Progress Updates	Report Progress Updates
<b>Treasury Management</b>	Performance Report	Performance Report	Performance Report	Performance Report	Performance Report	Performance Report
		Annual Report	Half Year Report	Strategy '17-18	Treasury Mgmt Practices	
<b>Finance</b>	Financial Update including Resilience Issues	Financial Update including Resilience Issues	Financial Update including Resilience Issues	Financial Update including Resilience Issues	Financial Update including Resilience Issues	Financial Update including Resilience Issues
	Draft Statement of Accounts for '15-16 (including the AGS)	Draft Statement of Accounts for '15-16 (including the AGS)			Draft Statement of Accounts/AGS & report any changes in accounting policy	Draft Statement of Accounts '15-16 (including the AGS)
		Audit of the Financial Stat't Report – Cardiff & Vale of Glamorgan Pension Fund (ISA260)				
		Welsh Pool Pension Fund Governance Aspects				
	WAO Tracker/Other Studies	WAO Tracker/Other Studies	WAO Tracker/Other Studies	WAO Tracker/Other Studies	WAO Tracker/Other Studies	WAO Tracker/Other Studies
<b>Internal Audit</b>		Progress update (to include Benchmarking & Comparative Data Matching)	Half Yearly Progress Report	Progress Update	Progress Update	Progress Update
	Internal Audit Annual Report '15-16	Progress Update (Highways Audit Feedback)			Audit Strategy '17-18	Internal Audit Annual Report '15-16
		VFM Exercise – Supply Teachers				
<b>Governance and Risk Management</b>	Audit Committee Annual Rep. '15-16		Audit /Scrutiny Protocol	Audit Committee Annual Report Discussion	Audit Committee Draft Annual Rep. '16-17	Audit Committee Annual Rep. '16-17
	Senior Management Assurance Statement Review – Feedback			Senior Management Assurance Statement Review	Draft Annual Governance Statement	Senior Management Assurance Statement Review - Feedback
				AGS '16-17 Action Plan (Mid-Year)		
	Corporate Risk Register (Year-End)	Risk Management Update	Corporate Risk Register (Mid-Year)			Corporate Risk Register (Year-End)
			Self-Assessment Feedback/Action Plan		Audit Committee Self -Assessment Feedback/Action Plan	
			Audit Committee Annual Self-Assessment Review '16-17			

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Operational matters / Key risks	Director of Education – Annual Report on Governance (including Balances) & Deficits in Schools (Deferred to Sept.)	Director of Education - Annual Report on Governance (including Balances) & Deficits in Schools	Wellbeing & Future Generations – Monitor Impact & Risks	Building Maintenance Framework		
		Director City Operations – Response to Internal Audit Report (Highways Payroll Follow up Review)		Chief Executive – Alignment between the ODP and Medium Term Financial Plan		