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AGENDA

Pwyllgor	PWYLLGOR ARCHWILIO
Dyddiad ac amser y cyfarfod	DYDD MAWRTH, 8 MEDI 2020, 2.00 PM
Lleoliad	CYFARFOD O BELL TRWY MS TEAMS
Aelodaeth	Hugh Thomas (Cadeirydd), Gavin McArthur, David Price Cynghorwyr Cunnah, Goodway, Howells, Lister, McKerlich, Simmons, Singh a/ac Williams

1 Ymddiheuriadau am Absenoldeb

Derbyn ymddiheuriadau am absenoldeb.

2 Datgan Buddiannau

I'w gwneud ar ddechrau'r eitem agenda dan sylw, yn unol â Chod Ymddygiad yr Aelodau.

3 Cofnodion *(Tudalennau 3 - 10)*

I gadarnhau bod cofnodion cyfarfod 28 Gorffennaf 2020 yn gywir.

4 Cyllid

4.1 Diweddariad Ariannol gan gynnwys Materion Gwydnwch

4.2 Datganiad Cyfrifon Drafft 2019/20 a Diweddariad Archwilio *(Tudalennau 11 - 212)*

Yn cynnwys:

- Datganiad Cyfrifon Drafft 2019/20 ar gyfer Cyngor Caerdydd gan gynnwys Awdurdod Harbwr Caerdydd a Chronfeydd Ymddiriedolaeth
- Datganiad Cyfrifon Drafft 2019/20 ar gyfer Cronfa Bensiwn Caerdydd a Bro Morgannwg

5 Archwilio Cymru

5.1 Diweddariad ar Gynnydd Gweithgarwch/Adroddiad Archwilio Cymru *(Tudalennau*

213 - 216)

EGWYL - 3.00pm

- 5.2 Adroddiad Gwrth-dwyll Cenedlaethol: 'Cod Ein Gêm - Mynd i'r Afael â Thwyll yng Nghymru' (*Tudalennau 217 - 290*)
- 6 **Archwiliad Mewnol**
- 6.1 Adroddiad Gwrth-dwyll Blynyddol 2019/20 (*Tudalennau 291 - 324*)
- 7 **Rheoli'r Drysorlys**
- 7.1 Adroddiad Perfformiad (*Tudalennau 325 - 330*)
- 7.2 Adroddiad Blynyddol (*Tudalennau 331 - 362*)
- 8 **Camau Gweithredu Heb eu Cyflawni** (*Tudalennau 363 - 364*)
- 9 **Gohebiaeth** (*Tudalennau 365 - 368*)
- 10 **Diweddariad ar y Rhaglen Waith** (*Tudalennau 369 - 370*)
- 11 **Materion Brys (os o gwbl)**
- 12 **Dyddiad y cyfarfod nesaf.**

Caiff y cyfarfod nesaf ei gynnal ar 17 Tachwedd 2020

Davina Fiore

Cyfarwyddwr Llywodraethu a Gwasanaethau Cyfreithiol

Dyddiad: Dydd Mercher, 2 Medi 2020

Cyswllt: Graham Porter, 02920 873401, g.porter@caerdydd.gov.uk

Bydd y cyfarfod hwn yn cael ei recordio â'r bwriad o'i ddarlledu ar wefan y Cyngor yn ddiweddarach. Bydd y cyfarfod cyfan yn cael ei recordio, ac eithrio pan fo eitemau cyfrinachol neu eitemau a eithrir. Caiff copi o'r cyfarfod ei gadw yn unol â pholisi cadw data'r Cyngor. Os ydych yn gwneud sylw yn y cyfarfod hwn, ystyrir eich bod wedi cydsynio i gael eich ffilmio a/neu eich recordio.

Os oes gennych gwestiynau ynghylch gwe-ddarlledu cyfarfodydd, cysylltwch â'r Gwasanaethau Pwyllgorau trwy ffonio 02920 872020 neu e-bostio [Gwasanethau Democrataidd](#)

AUDIT COMMITTEE

28 JULY 2020

Present: Independent Members: David Hugh Thomas (Chairperson)
David Price

Councillors Cunnah, Howells, Lister, McKerlich and Williams

1 : APPOINTMENT OF CHAIRPERSON AND DEPUTY CHAIRPERSON

RESOLVED – That D. Hugh Thomas be appointed as Chairperson and Gavin McArthur be appointed Deputy Chairperson.

Note - For this meeting only, in order to anticipate any potential technical activities David Price was appointed as Deputy Chairperson

2 : APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Goodway and Simmons, and from Gavin McArthur.

The Chairperson noted that Councillor Goodway was unable to make the meeting but wanted to offer a warm welcome to him as a new member of the Audit Committee.

3 : DECLARATIONS OF INTEREST

The following declarations of interest were received:

Councillor Williams	Item 5.1	Owner of a property in Westgate Street which is included in air quality improvement measures
Councillor Williams	Item 6	Employed by BCB International. BCB International supplies the Council and its partners with Personal Protective Equipment.

4 : MINUTES

Councillor Williams declared a personal interest in this item as he is the owner of a property in Westgate Street which is included in air quality improvement measures.

The minutes of the meeting held on 21 January 2020 were agreed as a correct record.

RESOLVED:

1. The report from the Director of PTE on the monitoring of particulate matter to be re-circulated, and Members to consider if any further information is required.

This document is available in Welsh / Mae'r ddogfen hon ar gael yn Gymraeg

5 : INTERNAL AUDIT

(a) Internal Audit Annual Report 2019/20

Chris Pyke (Audit Manager) provided Members with an outline of the Internal Audit Annual Report 2019/20, noting that it was an account of the last financial year; it outlined the responsibilities of the Audit Committee and the Annual report was appended at Appendix A. Section 1 and 2 provided the background, review and annual audit opinion; Section 3 related to work performance and Section 4 related to Quality Assurance and Improvements.

A Member asked if there were any special arrangements in place for internal audit due to Covid-19. The Audit Manager explained that the onset of Covid-19 had a significant impact at the very latter part of the financial year; looking beyond the financial year 2019/20, there are further significant risks given the very different environment we are operating within. In the first financial quarter, audit resources applied a number of the 100 audit days allocated to Covid-19 related consultancy and advice to review resilience and controls in key areas, as management adapted to the crisis. Covid-19 will have a bearing on what is looked at in the Audit Plan, with some new areas included in the plan, and some areas which are undoubtedly affected by Covid-19 which were planned, such as audit of Governance arrangements and Incident Management and Business Continuity. Covid-19 has impacted income received, and how we procure, and there needs to be a focus on the here and now through ongoing audits in these areas, as well as providing assurance on the recent administration of Business Grants on behalf of Welsh Government.

A Member made reference to the benchmarking with core cities and the productive and unproductive costs/days which did not seem a fair comparison. The Audit Manager agreed to check the core cities comparative 'chargeable' benchmarking value, and to correct in the event of a typo.

It was agreed that Audit Committee receive a confidential briefing in respect of 'fly tipping'.

RESOLVED: to note the report.

1. The Audit Manager to check the core cities comparative 'chargeable' benchmarking value, and to correct in the event of a typo.
2. Audit Committee to receive a confidential briefing in respect of 'fly tipping'.

(b) Internal Audit Charter and Plan 2020/21

The Audit Manager provided Members with an overview of the Internal Audit Charter and Plan 2020/21. A summary of the report was outlined and Members' attention was drawn to the adjustments noted in paragraph 11. It was noted that the Auditors' were not at normal capacity and the overall level of the plan which can be delivered will be lower than previous years, mainly at service area level. Priority will be given to completing fundamental system audits, governance and other assurance audits, and key thematic studies.

RESOLVED To:

This document is available in Welsh / Mae'r ddogfen hon ar gael yn Gymraeg

- I. Approve the Internal Audit Charter and Audit Committee Terms of Reference 2020/21
- II. Approve the Internal Audit Plan, 2020/21

(c) Audit and Investigation Team - Progress Update 2020/21

The Audit Manager provided Members with an update of the Audit and Investigation Team – Progress 2020/21. A summary of the report was outlined with particular attention drawn to delays, impacts and resources and that Performance Indicators would be reset on that basis.

A Member asked if they should be concerned about the amount of audits and unsatisfactory recommendations in relation to Waste Management. The Audit Manager agreed that there has been a lower level assurance in this service area, and a comparatively weaker control environment in that area. Members were reminded that the Corporate Director had been clear in their attendance at Audit Committee that ongoing improvements were required, and the Audit Manager advised that conversations with management were open and effective. The area was being looked at with a higher level of frequency in agreement with senior management, given the ongoing need for assurance in this area. Members were reminded that there is a follow up regime for any unsatisfactory opinions. Management have been responding positively to recommendations, but there will be a need to see the necessary improvements through the follow up review.

RESOLVED: to note the report.

6 : FINANCE

(a) Financial Update (including Resilience Issues)

Councillor Williams declared a personal interest in this item as he is employed by BCB International. BCB International supplies the Council and its partners with Personal Protective Equipment

Chris Lee provided Members with a verbal financial update with a brief overview with regards to Covid-19. Members were reminded that the Cabinet Report on 11 June set out the Council's response to the pandemic. The first quarter had seen urgent decisions made under general delegations and there were funding mechanisms to claim monies back. It was noted that Covid-19 funding would not be everlasting and cannot be presumed going forward so will need close scrutiny.

Members were informed of the position in respect to claiming additional covid related expenditure and at the end of the first quarter expenditure this was circa. £22.5 million which included PPE, Free School Meals, Support for Care Providers, meaning a significant draw down from Welsh Government, the total of this would be reclaimed, £9.5 million had been received so far and a further claim for June had been submitted on 15 July and a response was being awaited.

There had been mitigation in the form of steps being taken through measures such as furloughing of staff. However, there was inevitable income loss through sources such as Cultural Venues, Catering, Parking and Traffic offences.

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Delayed income such as land charges, planning fees and rental income had also been experienced and concern was expressed that these areas required monitoring and management to ensure that they did not become lost income over the longer term. Claims on income loss had been submitted for the period in the last 2 weeks.

Chris Lee gave an overview of the Quarter 2 position and stated that analysis was ongoing internally, there were many challenges such as TTP, restart of schools, Social Care funding and Council Tax Reduction Scheme and Benefits; amongst others.. Moving forward and from an Audit perspective, a report would be brought to the next meeting on the Statement of Accounts 2019/20 which would note the Covid-19 impact in March. Cabinet would be receiving a report in the autumn updating the Month 4 position which would include spend, updated MTFP, WG funding, assumptions and update on settlement (if known).

RESOLVED: to note the report.

7 : GOVERNANCE & RISK MANAGEMENT

(a) Audit Committee Annual Report 2019/20

Members were provided with a brief overview of the Audit Committee Annual Report 2019/20 and questions or comments were invited.

A Member made reference to page 13 of the report and that it reflected the Audit Committee's concerns about the actions and speediness of actions on poor audit outcomes in Schools. Members referred to the Audit Committees expectations with regards to regular updates on School Governance. It was noted that schools are under increased pressure currently but it was important not to lose sight of the significant shortcomings that had been identified and were now compounded by Covid-19. Members did not wish to wait too long before they received a report from the Director of Education and Lifelong Learning.

The Chairperson shared the same concerns and noted there was currently an appointment process for a new Director, who would be in post in the latter part of the year. The Chairperson considered that the matters needed to be pursued anyway, within the constraints of the change of leadership and stressed that he wanted to establish a constructive relationship with the new Director from the outset.

The Audit Manager explained that in terms of internal audit all schools would be required to complete a control risk self-assessment later in the autumn term, which would be followed up with audit testing. There is a need to allow schools to reopen and function safely before any direct audit engagement, but the approach would be considered, and audit staff may not be able to physically visit schools this financial year. Members were happy with the approach outlined.

RESOLVED: to note the report.

1. Audit Committee to engage with the Director of Education and Lifelong Learning as part of its work programme.

(b) Draft Annual Governance Statement 2019/20 (inc. y/e senior management assurance statements)

This document is available in Welsh / Mae'r ddogfen hon ar gael yn Gymraeg

Ian Allwood (Head of Finance) outlined the Draft Annual Governance Statement to Members. Members' attention was drawn to paragraph 6 in the report in relation to Covid-19 and Paragraph's 14-18 in relation to the Senior Management Statement.

The Chairperson made reference to the mixed themes in paragraph 8 and sought assurance that things could be improved going forward. The Head of Finance explained that some exam questions for assurance have been changed due the Covid-19 environment and there had been changes in terms of service delivery. It is intended to make changes to the assurance questions and to move with further confidence in the autumn.

RESOLVED: to note the report.

(c) Corporate Risk Management (Year-End)

Ian Allwood (Head of Finance) outlined the Corporate Risk Management (Year-End) report to Members.

Members noted the 216 risks that had been identified and that 8 risks remained escalated to SMT as outlined in the report at paragraph 9.

Members also noted that the Risk Register now included an aggregated section on Climate Risk and working papers on this were available to Members is requested.

Members were advised that risks identified as a result of Covid-19 and those shaped by Covid-19, would be included in the risks in the Quarter 1 report.

Members noted that the UK had a planned exit from the EU on the 31 December 2020 and work was continuing to ensure any impacts to Cardiff would be navigated appropriately.

A Member asked if all the Quarter 1 reviews had been completed and Officers advised that they have been completed and that many risks were identified as a result of Covid-19.

A Member made reference to the fast moving situation with the pandemic and asked if any thought had been given as to whether quarterly reporting was currently appropriate. Officers explained that prior to the pandemic, SMT met on a weekly basis but, at the beginning of the pandemic this became daily and currently it was 3 times per week. The management of risks as challenges arose were / are discussed regularly with Directors having the opportunity to raise concerns and risks in those meetings. Officers are informed that Directorates are regularly informing their risk registers. Members asked if the Quarter 1 report could include a flavour of the additional energy and effort, frequency and process that was now needed. Officers felt that the Risk Methodology used allowed SMT and service areas to react to and track risks appropriately and this can be covered in the next report.

A Member considered it could be useful to have an idea of how the framework has supported SMT in these additional challenges, and asked if Officers have considered changing the Risk Register to show ways to do things better. Officers explained that COVID-19 was not a risk in itself but more of environment in which we have to navigate risks within it; adding that risk management seemed to be more natural as it was responding to the impacts of the pandemic.

RESOLVED: to note the report.

8 : WALES AUDIT OFFICE

This document is available in Welsh / Mae'r ddogfen hon ar gael yn Gymraeg

Tudalen 7

(a) Annual Audit Plan

Phil Pugh (Audit Wales) outlined the Annual Audit Plan to Members.

Members' attention was drawn to Audit of Financial Statements and the key risks that have been identified at the planning stage.

Key points throughout the report were referenced and Members were asked to note that there was 1 potential conflict of interest in the Audit Team, in that an employee of Cardiff Council is a friend and former colleague of Phil Pugh's; all other members of the team are independent and it was considered that appropriate arrangements were in place to ensure no risk.

A Member sought clarification on costs across the Audit team and considered it would be useful for a breakdown of costs to be included in the report on an annual basis.

RESOLVED that

- I. Audit Wales to provide a breakdown of the budgeted staffing levels and costs which make up their audit fee for the Committee meeting on 8 September 2020 and for this to be included in the Annual Audit Plan report going forward.
- II. The report be noted.

(b) Cardiff & Vale Pension Fund Audit Plan

Phil Pugh (WAO) outlined the Cardiff & Vale Pension Fund Audit Plan to Members.

Members' attention was drawn to the key items listed in paragraph 10 of the report. Members discussed the make of the Audit Team and Fees as noted in paragraph 20 of the report.

RESOLVED that

- I. Audit Wales to provide a breakdown of the budgeted staffing levels and costs which make up their audit fee for the Committee meeting on 8 September 2020.
- II. The report be noted.

(c) WAO Activity/Report Progress Update

Samantha Clements (WAO) provided Members with update on WAO Activity and Report Progress.

Members' attention was drawn to the changes due to Covid-19. It was noted that Waste Management Recycling and Financial Sustainability reports has already been issued. The report on budget pressures in Social Services had been withdrawn due to the increasing pressures with Covid-19, but would be revisited as part of assurance and risk assessment work in the autumn.

It was noted that the 2019-20 Annual Improvement report which was a compilation of key findings, would be published in the autumn.

For 2020-2021, the first three items were in relation to the Local Government Measure Act and the first 2 constitute certificates; the Improvement Plan certificate was issued in May; the Annual Performance Report is scheduled for October; the Annual Improvement Report relating to next year will happen in around a year's time.

Members were advised of the three main pieces of work within the Assurance and Risk Assessment Plan which were being focussed on due to the pandemic as being Recovery Planning, Financial Sustainability and Modernisation of the Workforce.

The final change to the plan for 2020-21 was the Covid-19 learning project was outlined to Members. This project would take information from lots of sources, use the sense maker tool, find notable practices and share lessons of learning. Links would be provided to Members.

RESOLVED: to note the report.

9 : OUTSTANDING ACTIONS

Members and Officers discussed the Coastal Risk Management recommendations and the approach taken by the Directorate. Members considered that it can be closed for now in terms of work programming but as Audit Committee considers the Risk Register quarterly, they can re-engage and re-work programme in due course if need be.

RESOLVED: that.

1. A future risk management update, to provide more information on the operation of risk management practices in the current environment.

10 : WORK PROGRAMME UPDATE

The Work Programme was outlined to Members. It was noted that due to the current pandemic there was limited capacity to operate as business as usual and that some matters will be dealt with outside of Committee; Senior Officer Assurance was needed on this.

RESOLVED: to note the work programme.

11 : URGENT ITEMS (IF ANY)

None received.

12 : DATE OF NEXT MEETING - 8 SEPTEMBER 2020

The meeting terminated at 4.10 pm

Mae'r dudalen hon yn wag yn fwriadol



CARDIFF COUNCIL CYNGOR CAERDYDD

AUDIT COMMITTEE:

8 September 2020

DRAFT STATEMENT OF ACCOUNTS 2019/20

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 4.2

Reason for this Report

1. The Audit Committee Terms of Reference sets out their responsibility for Financial Reporting:
 - To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
 - To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts
2. The CIPFA Audit Committee Guidance (2018) sets out the details of core knowledge and application of knowledge.

Details of core knowledge	Area of application of knowledge
Understanding of good financial management principles	Reviewing the financial statements prior to publication
Role of the Chief Finance Officer (CFO)	Receiving the external audit report and opinion on the financial audit
Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them	Reviewing both internal and external audit recommendations relating to financial management and controls
	Reviewing how the role of the CFO is met

3. This report has been prepared to provide Audit Committee Members with an opportunity to review and provide comments on the draft 2019/20 Statement of Accounts of:
 - Cardiff Council including Cardiff Harbour Authority - **Appendix 1**
 - Cardiff and the Vale of Glamorgan Pension Fund - **Appendix 2**
4. The accounts were signed by the Responsible Finance Officer on 15 June and 17 July respectively and are currently the subject of external audit.

Background

5. The Local Government (Wales) Measure 2011 identifies the review of the Council's Statement of Accounts as a specific function of the Audit Committee.
6. The Statement of Accounts are complex and must meet a number of requirements. They are prepared in accordance with a Code of Practice developed by the Chartered Institute of Public Finance and Accountancy (CIPFA), legislative and Companies Act requirements where relevant.

Preparation and publication of the Statement of Accounts:

- is a statutory requirement
- aims to provide a true and fair view of the Council's financial position
- provides accountability – Electors, tax and rent payers, pensioners, those charged with governance, funders, employees etc.
- allows comparison / benchmarking across organisations
- allows comparison across financial years
- allows for consolidation for Whole of Government Accounts
- allows interested parties to review and raise questions to Council and its auditor

Issues

7. The Council's statement of accounts includes:
 - narrative report
 - accounting policies
 - core financial statements
 - disclosure notes to the accounts
 - supplementary statements including Housing Revenue Account, Trust Funds, Cardiff Harbour Authority and also group accounts which consolidates the position to include the unaudited financial position of Cardiff City Transport Services Limited (Cardiff Bus).
8. Notes included in the Council's Statement of Accounts, either as a result of legislative or accounting requirements, include:
 - disclosures on financial instruments (financial assets and financial liabilities)
 - capital expenditure and financing
 - remuneration and
 - reserves and provisions.
9. Committee have previously been provided with a document prepared by CIPFA – Understanding Local Authority Financial Statements. This is a background paper which may assist members of Audit Committee and other users to understand the format of the accounts.

Changes in the 2019/20 Draft Accounts

10. CIPFA continues to encourage Councils to streamline wording and the content of accounting policies, some of which may have been in place for a number of years. We continue to do so in terms of improved presentation and readability, also simplification where feasible in order to prepare for earlier deadlines in future years.

11. The main changes in the 2019/20 code issued by CIPFA related to the treatment of:
 - Transfers of Investment Property
 - Foreign Currency Transactions and Advance Consideration
 - Financial Instruments: Prepayment features with Negative Compensation

These are either not relevant or deemed not to have a material impact on the accounts or financial performance.

12. It was recognised that these are complex documents and to support members in undertaking their scrutiny role, audit committee members were provided with the opportunity of an extended period of time to review and comment on the statements in the same way as last year, between 17 July and 14 August 2020, providing circa 4 weeks for members to review the documents.

Changes in Regulations as a result of Covid 19

13. Regulations in respect to the signing and approval of the 2019/20 Accounts were extended nationally as a result of COVID 19. Deadline for draft accounts to be prepared and signed by Responsible Finance Officer was moved to 30 August 2020 from 15 June and for the accounts to have been audited and published by 30 November 2020 instead of 15 September. These timescales in respect to preparation and audit of accounts timescales were highlighted by Audit Wales in their Audit Plan for 2019/20.
14. In order to allow a period for both Council and the external audit team to manage risk, it was accepted that approval of the Accounts by Council by 15 September 2020 was not possible, so the target for approval for audited accounts was set to October 2020 in conjunction with Audit Wales. Recognising the challenges of shrinking deadlines for the signing and audit of the accounts in future years, finance officers wanted to retain their targeted date for signing and submission for audit of the Council's accounts by 15 June 2020.

Review of approach to amending misstatements identified during the audit

15. The Council's historic practice has been that all misstatements identified during the audit have been amended. Most, if not all changes post audit are accounting amendments only, that have no impact on the level of Council Tax or rent payable and very often would be self-adjusting in future years.
16. There is a significant cost in terms of time and resource compared to the benefit of amending some misstatements, which would not change the user of the accounts understanding of the financial position and performance of the Council.
17. Whilst all misstatements would continue to be reported as part of the auditor's report, consideration will be given to not all misstatements being amended, an approach consistent in other local authorities and in accordance with Audit Wales Guidance – **Appendix 3**. Misstatements below a materiality level will only be amended following an assessment as to the impact on the accounts and the reader of the accounts using the Council's judgement as to materiality and cost versus benefit of making the change.

Progress since signing of the draft accounts

18. Following signing of the Accounts by the Responsible Finance Officer, the sections below highlight the key activities to date:
- The accounts were sent to Audit Wales on 15 June for Cardiff Council including Cardiff Harbour Authority; and 17 July for the Cardiff and the Vale of Glamorgan Pension Fund
 - The accounts for Cardiff Council were published on the Council's website together with a public notice of inspection period of 20 working days from 15 July 2020.
 - The draft accounts were circulated to members of the Committee to undertake their responsibilities
 - Council officers have responded to and continue to respond to queries raised by the Audit Wales team
 - Residents will have the opportunity to question the auditor on 01 September in line with the requirements set out in the Public Notice of Audit

External Audit Update

19. The external auditor will provide a verbal update to committee on progress of the audit including the following:
- Impact of Covid 19 on audit approach
 - Key issues arising from the audit to date
 - Proposed timetable for completion of the audit and issue of Audit Reports for relevant bodies.

Next steps

20. The Council working with the auditor continues to aim for approval of relevant financial statements by Full Council at its meeting of 22 October 2020 and for these to be published thereafter. This timetable however does not align with scheduled Audit Committee meetings.

In order to discharge the Committees responsibilities in relation to the external auditor's report, arising from the audit of the accounts, it is proposed that Audit Wales reports in relation to the financial Statements will be circulated to Committee electronically. This is the same approach adopted in relation to the draft financial statements. If the audit report raises significant concerns then a meeting of the Audit Committee would be held to discuss the audit findings.

Legal Implications

21. No direct legal implications arise from this report.

Financial Implications

22. No direct financial implications arise from this report.

RECOMMENDATIONS

23. That Audit Committee:

- 1 Note the 2019/20 Draft Statement of Accounts for Cardiff Council including Cardiff Harbour Authority and Cardiff and the Vale of Glamorgan Pension Fund.
- 2 Note that the audited Statements will, prior to being presented to Council, be sent electronically to the Committee in October along with the final audit reports for comment.
- 3 Note the Audit Wales progress in respect to the external audit of the 2019/20 statements and provide comments in relation to the update to be provided.

CHRISTOPHER LEE

Corporate Director Resources
8 September 2020

The following web links and attachments are attached:

Appendix 1 - Unaudited Draft Statement of Accounts 2019/20 – Cardiff Council including, Cardiff Harbour Authority and Trust Funds

Appendix 2 - Unaudited Draft Statement of Accounts 2019/20 – Cardiff and Vale of Glamorgan Pension Fund

Appendix 3 - Audit Wales Misstatement Flow Chart

Background Papers

Understanding Local Authority Financial Statements (CIPFA – 2016)

Mae'r dudalen hon yn wag yn fwriadol



Draft Statement of Accounts 2019/20

The County Council of the City and County of Cardiff



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Narrative Report by Council's Statutory Finance Officer



Introduction

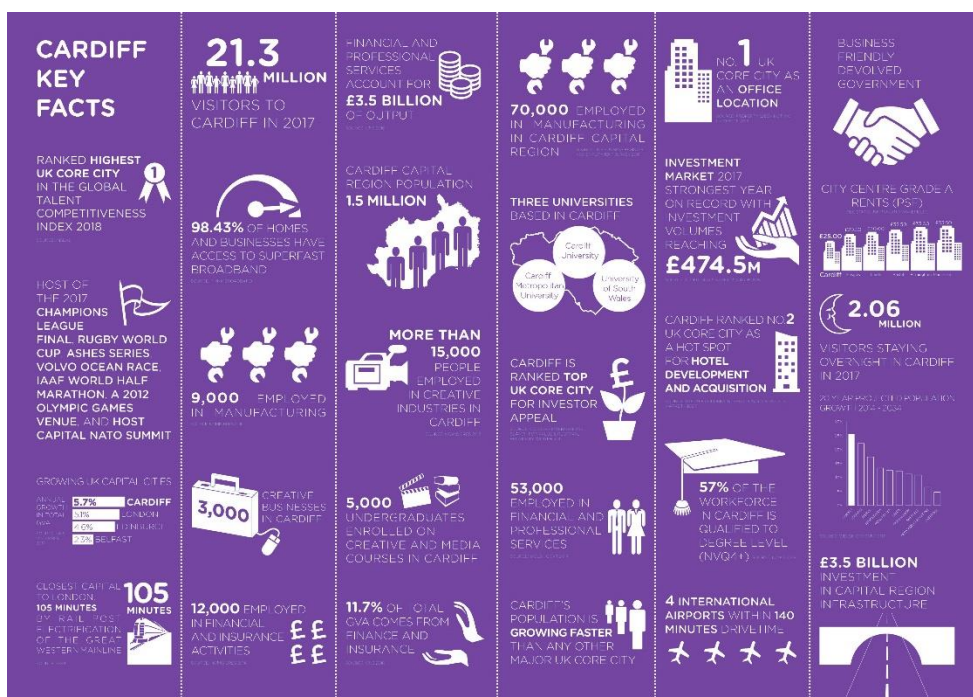
This report presents the 2019/20 Statement of Accounts for the County Council of the City and County of Cardiff (the Council). It sets out our financial performance for the past year and is prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Our City

Cardiff is the Capital City of Wales, covering an area of 140 square kilometres. It is the 11th largest city in the United Kingdom with a population of 367,000 living in approximately 151,000 homes. It is an economic, cultural and political capital city. A city of strong and safe communities, great schools and universities, creative, talented, and welcoming people.

In the ten years from 2008 to 2018, Cardiff’s population grew by 9.5%, or 31,500 people, and this growth is set to continue, with the Welsh capital projected to be one of the fastest-growing major British cities. Over the next twenty years the capital city is set to see a larger growth in population than the other 21 Local Authorities in Wales put together. As well as those living in the city, nearly 100,000 people, over one third of the City’s workforce commute to Cardiff every day from across the city region. That so many people are choosing to live and work in Cardiff is good news, but it will put a strain on our city’s infrastructure and additional demands on the range of public services we deliver.

Like all cities, Cardiff has its challenges and health, social and economic inequalities exist within the city. In fact, if the ‘Southern Arc’ of Cardiff was considered a single Local Authority, it would be identified as the most deprived in Wales. Economic success has brought pressures such as congestion, air pollution and a demand for affordable housing. The Council has declared a Climate Emergency, recognising the conclusions of the Intergovernmental Panel on Climate Change. A revised One Planet Cardiff strategy will set out the Council’s aspiration and begin a city-wide conversation about what more the Council, the city and residents could be doing to tackle the Climate Emergency.

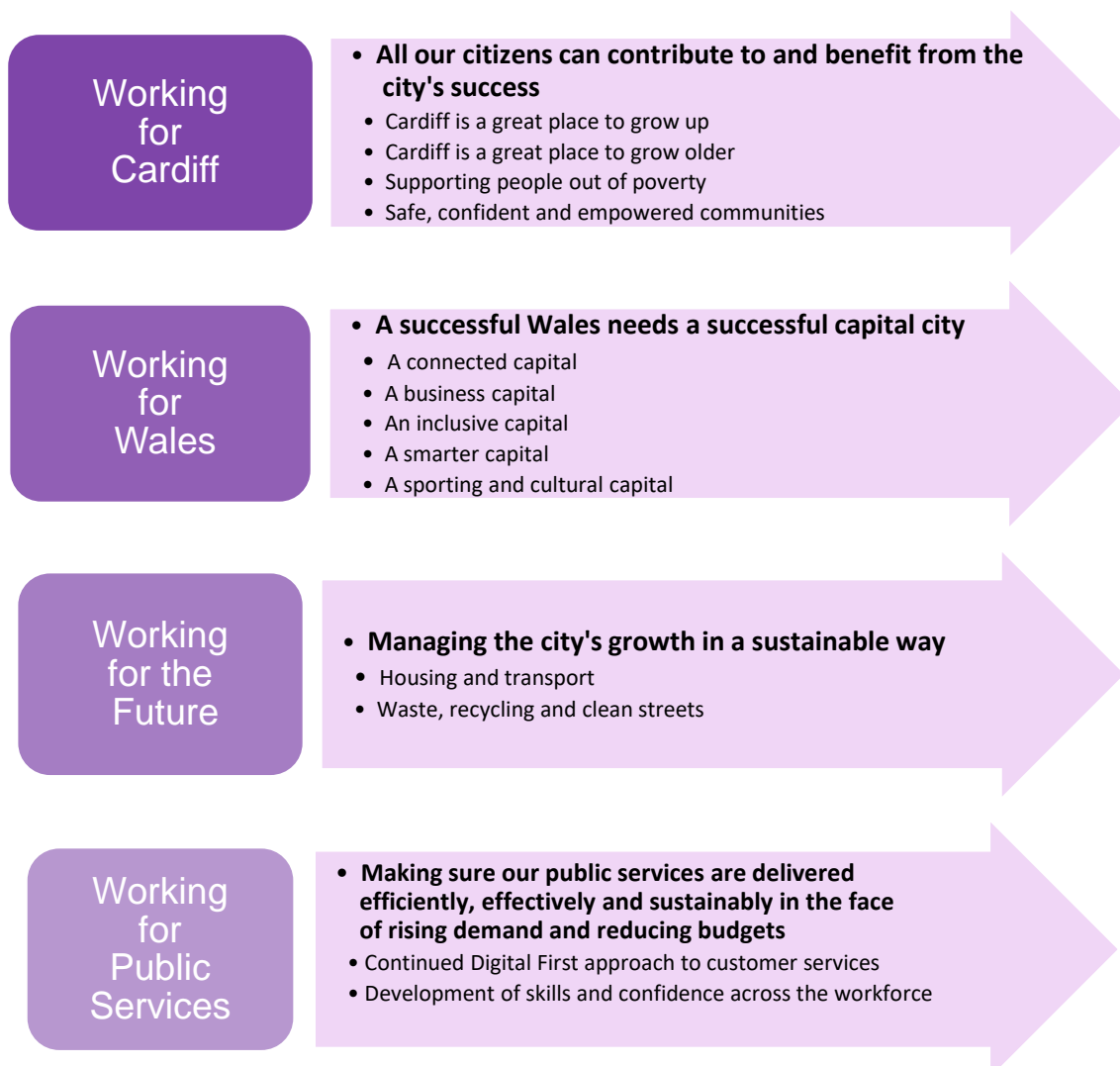


The City's public services have been enduring a long period of financial austerity. During the past ten years, the Council has made almost a quarter of a billion pounds in cumulative savings and reduced the number of its non-school staff by 22%. Looking ahead, the Council must close a budget gap of £73m over the next four years. In the medium term, the amount of funding available for 'non-statutory' services like parks, libraries or waste collection will make their continued delivery very challenging. This will form the backdrop to public service delivery as the City responds to the realities of the post-Brexit world and the Council continues to deliver its agenda for the city

Our Capital Ambition

The Council, through its Capital Ambition, explains how it aims to address the above challenges by embarking on a programme of action, with commitments and targets to move forward in the face of significant budgetary constraints.

Its four priorities are driven by the ambition to maintain momentum in city regeneration and economic development, tackle inequality and inclusive growth, and respond to the climate emergency and public service reform.



The Council's Corporate Plan and the Wellbeing Plan translate the above priorities into deliverable organisational objectives, setting out the steps to be taken and how performance will be measured.

The plans set out how we will continue to invest in and improve our schools, build more affordable housing, tackle homelessness, and protect the city's most vulnerable people. The Council has bold plans for tackling congestion and air pollution, improving recycling rates and keeping our streets clean, together with a series of commitments, which will help change the lives of people in the city for the better. Further detail is available on the Council's website.

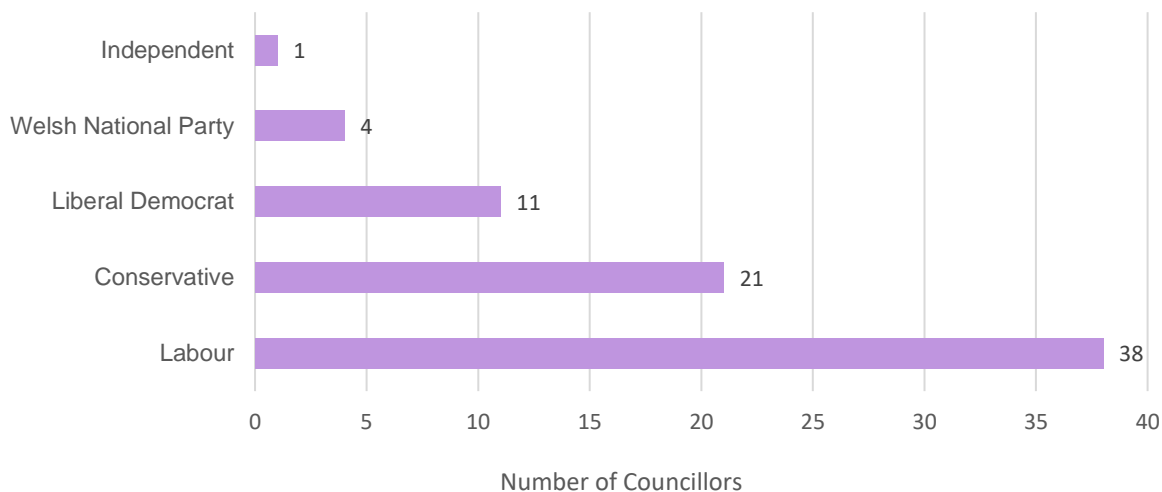
Our Services and the way we work

The Council provides over 700 services, supporting local communities and improving the lives of local people, some of which are shown below.

Planning, Transport and Environment	Economic Development
<ul style="list-style-type: none"> Bereavement and Registration Highways infrastructure and street cleaning Transport and Civil Parking Enforcement Waste Collection, Recycling, Treatment, Disposal and Education Schools Transport 	<ul style="list-style-type: none"> Business and Investment Regeneration and major projects Corporate Landlord Culture, Venues and tourism Leisure, Parks and Sport
People and Communities - Housing and Customer Services	People and Communities - Social Services
<ul style="list-style-type: none"> Community Hubs and Libraries Customer facing services e.g. preventive and 'into work' services Independent living and community alarm Adult and community learning Performance, Partnerships and Housing Revenue Account – council dwellings management 	<ul style="list-style-type: none"> Adult learning disabilities and mental health Youth offending Children's safeguarding, early help, fostering and residential services Support for older people and those with physical disabilities
Education and Lifelong Learning	Resources
<ul style="list-style-type: none"> Nursery, Primary, Secondary and Special schools Youth and community education and community learning Achievement and Inclusion Schools catering 	<ul style="list-style-type: none"> Finance and Human Resources Commissioning and Procurement ICT, Customer and Digital services
Corporate Management	Resources - Governance and Legal Services
<ul style="list-style-type: none"> Precepts, levies and contributions Corporate initiatives 	<ul style="list-style-type: none"> Democratic, electoral and legal services Scrutiny, member and bilingual services

The Council has 75 elected Councillors who represent the people of Cardiff and set the overall policy and budget framework.

Cardiff Councillors - Political Party Representation



The constitution sets out how the Council operates, how decisions are made and the procedures to be followed to ensure decisions are efficient, transparent and accountable to local people. Council selects a Lord Mayor annually to perform a civic role, promote the city and chair Council meetings. The Council appoints a Leader of the Council who appoints Cabinet Members, each with responsibility for a specific portfolio of services.

The role of Cabinet is to:

- be responsible for most major decisions
- provide leadership
- propose the budget framework and subsequent budget.

Scrutiny Committees support the work of the Cabinet and the Council by:

- monitoring decisions of the Cabinet
- allowing all Councillors, citizens and stakeholders to have a say in matters concerning the Council
- producing reports and recommendations to support the development of policies and decisions
- having the ability to review a decision, which has been made but not yet implemented.

Regulatory and other committees support delivery of Council services. Council has given Audit Committee the responsibility for the review of the Financial Statements for the Council. The Council's Management Team is led by Chief Executive Paul Orders and includes Corporate Directors, Directors and Assistant Directors, including the statutory officers (Monitoring Officer and Section 151 Officer). They are responsible for:

- providing impartial advice on policy and implementing decisions of the Cabinet and Council; and
- delivery of services and performance.

Impact of Covid-19

The Covid-19 pandemic has and will have a considerable impact on the Council. The lockdown, announced on 20th March 2020, has resulted in businesses required to close, elements of the Council's own services such as schools, libraries, leisure services having to be closed or be curtailed, as well as significant additional demand on other services for the most vulnerable in our communities such as the homeless and those in need of social care. This however has been met with an unprecedented response from the employees of the Council in adapting to new ways of working as well as taking on new roles via short-term redeployment.

Additional cost pressures have not had a dramatic impact on the financial outturn for 2019/20 as the impact on the public's and businesses' behaviour arose in the last two weeks of March. The significant impact on the Council's finances will be felt during 2020/21 with the significant costs to date being:

- Personal Protective Equipment
- Food vouchers and food provisions
- Emergency accommodation costs for rough sleepers
- Waste processing and treatment
- Support for domiciliary care providers, additional payments to care home providers and other service providers to protect the supply chain for key Council services
- Additional demand from vulnerable adults and children
- Council Tax Reduction support.

Additional costs, subject to eligibility, are to be supported by a Welsh Government Hardship Fund, however the significant financial impact on the Council stems from substantial losses of income. This includes parking, moving traffic enforcement, licensing fees, income from leisure and arts facilities, rents as well as other services that generate income from fees and charges. The Council is working collectively with the Welsh Local Government Association and Welsh Ministers to mitigate the impact of lost income. In respect of capital projects, additional costs are likely as a result of working under social distancing measures. Delays in some projects occurred at the end of the year and it is likely to delay other projects in the programme planned for 2020/21. It is difficult to quantify the impact of Covid-19 at this stage with any certainty. However, the financial pressures on the Council are likely to continue even after the Government's emergency Covid-19 funding for local authorities is taken into account because of the Council's need to support vulnerable residents and businesses who need the support as well as meet demand for services previously suppressed during the crisis.




As previous benchmarking and financial resilience indicators have shown, the Council has one of, if not the lowest level of reserves as a proportion of net revenue budget of all local authorities in Wales. Whilst some re-prioritisation may be possible, use of reserves to sustain additional costs and loss of income without Welsh Government support will not be possible and is a challenge to financial sustainability.

The pandemic has had a profound impact on all aspects of life in the City. Accordingly the Council will reset its Medium Term Financial Plan (MTFP) in recognition of the impact of the pandemic and the Council's strategic objectives as it starts to Restart, Recover and Renew. This will require an understanding of what is the "new normal" and will require the Council to review and prioritise the services it provides, its delivery models and the outcomes, and how these need to change going forward to meet new and emerging priorities including new digital solutions. This will also include a review of efficiency savings targets set for 2020/21, to determine achievability and alternative mitigating actions. Most of the priorities in the capital programme such as building new housing, investing in highway infrastructure and property renewal will continue to proceed. However there may be others that need to be delayed or re-prioritised for investment

in a recovery phase, subject to affordability. Where investment was supported by specific income, such projects will need to be reconsidered. Any financial reset will be against a backdrop of a new economic reality of a recession and limits to what is affordable.

Additional costs and lost income will impact on cash flow and during March, the Council took the opportunity to undertake further external borrowing in order to ensure liquidity in uncertain financial markets. As part of its Group Structure, the Council is also the 100% shareholder of Cardiff City Transport Services. Similar to all public transport providers, the company, which relies significantly on fare paying passengers, has seen income eliminated and has furloughed employees where not required to run essential services. The Council, Board of the Company and Welsh Government continue to look at options for ensuring the sustainability of provision of transport in the short, medium and long term.

Our Performance 2019/20 (Where appropriate, figures will be updated in the Cardiff Council Wellbeing Report)

Cardiff is a great place to grow up	
<ul style="list-style-type: none"> 96% of primary school children and 85.5% of secondary school children secured their first three choices of school placement (95% and 82% in 2018-19). The percentage of schools inspected by Estyn where standards of current performance were judged to be good or excellent (for 2018-19 academic year) was 72.20%. The average Capped Nine Points Score achieved by Key Stage 4 pupils was 366 against a target for academic year 2018-19. 98% of all year 11 leavers made a successful transition from compulsory schooling to education, employment or training. 	
Cardiff is a great place to grow old	
<ul style="list-style-type: none"> 7,509 people were helped to remain independent through alternative solutions provided by Independent Living. 96% of clients felt they were able to live independently in their homes following support from the Independent Living Service. 89% of people feel reconnected into their community through intervention from day opportunities. 	
Supporting people out of poverty	
<ul style="list-style-type: none"> The Council has supported 108 employers across Cardiff to become accredited Living Wage Employers - this has increased from 88 organisations in 2018-19. 152 apprenticeships and traineeships were created by the Council during 2019-20. 39,608 people accessed 'Into Work' advice to help citizens to develop skills and find employment opportunities. 	

Safe, Confident and Empowered Communities

- 2,840,127 visits to Cardiff's various sports and leisure sites across the City (2018-19)*.
- 3,400,748 citizens visited our libraries and hubs (2018-19)*.
- 98% of customers agreed with the statement "Overall the Hub met my requirements/I got what I needed".
- 1,113 Council Employees have participated in Welsh language courses and awareness training.
- 966 children and adults in need of care and support used the Direct Payments Scheme (2018-19)*.



A Capital City that Works for Wales

- At the end of Quarter 3 2019-20, there were 1,137 new and safeguarded jobs supported across the city
- 22.170m visitors (2018-19)*.
- 2.065m staying visitors (2018-19)*.



Cardiff Grows in a Resilient Way

- 51.2% of people travelled to work by sustainable methods compared to 48.1% of people in 2018-19.
- 15.4% of people in Cardiff used cycling as a mode of transport to travel to work (13.7% in 2018-19).
- 3.3% of principal A roads were in overall poor condition, this has improved from 3.50% in 2018-19.
- 99.03% of reported fly tipping incidents were cleared in 5 working days.



Modernising and integrating Our Public Services

- Since its launch, the Cardiff App has been downloaded 24,547 times, across both android and iOS devices.
- This has seen an increase to 1,240,299 customers choosing to use digital channels to contact the Council on areas such as Council Tax, housing, planning and waste collection (946,019 in 2018-19).
- The Council continues to see an increase in the number of customers choosing to interact via social media channels, with approximately 117,666 followers.



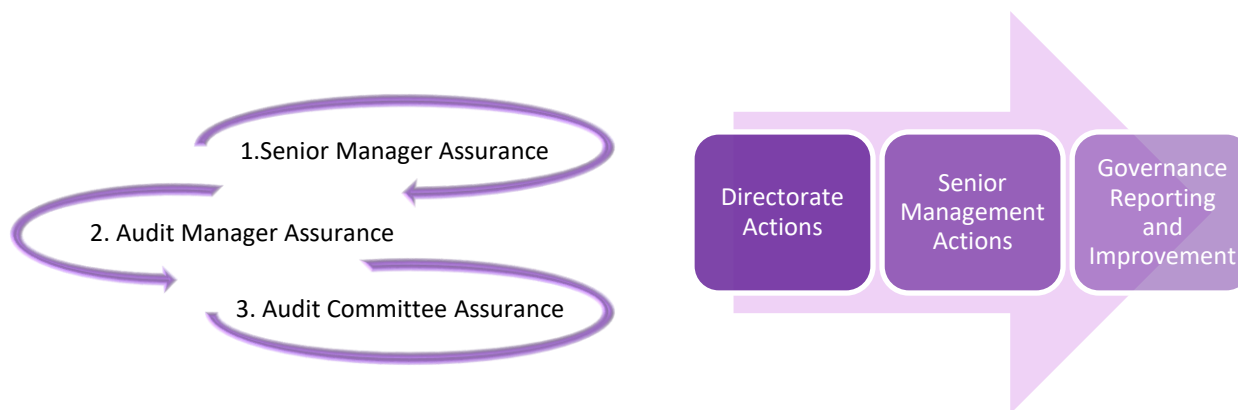
*Due to Covid-19, some data could not be obtained for 2019-20.

Our Governance, Risks and Financial Outlook

We prepare an Annual Governance Statement (AGS) each year, to disclose the findings of our annual review of the Council’s governance. The AGS includes an Action Plan for any significant governance issues identified as part of the review, to be progressed by Senior Management. It is approved by Council in parallel with the Financial Statements and is used for governance reporting and improvement. This is available on the Council’s website at the following address.

Link to be inserted following Council approval in September 2020

In preparing the AGS, the Council has adopted the ‘Delivering Good Governance in Local Government’ framework, developed by CIPFA and the Society of Local Authority Chief Executives. It comprises the systems, processes, culture and values through which the Council is directed and controlled and its engagement and work with the community. The AGS is built through core disclosures from Senior Management, and the independent opinions of the Internal Audit Manager and the Audit Committee.

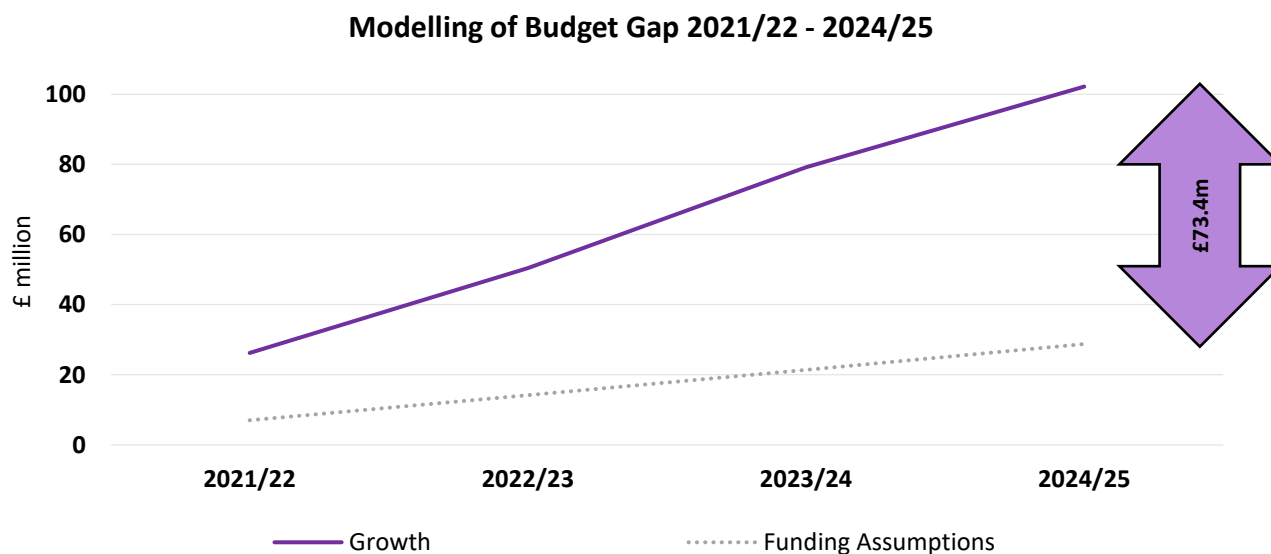


The Council’s risk management regime supports the identification, assessment, reporting and management of risks in directorate, corporate, programme and project activities. It involves quarterly risk assessments to support the timely identification and escalation of the Council’s most critical risks to Senior Management Team for ownership, review and reporting.

Over the course of the year, many risks have been progressed and appropriately mitigated through the above mechanisms. At 31 March 2020, there are twelve corporate risks at a ‘red’ residual risk status i.e. major or significant consequence is likely without further mitigation. Covid-19 has resulted in a change to the environment within which these risks as shown below need to be actively managed.

Climate Change and Energy Security
Failure to manage the effects of climate change and energy security due to lack of future proofing for key (social and civil) infrastructure and business development.
City Security
Major security-related incident in the city as a result of international or domestic terrorism.
Coastal Erosion
The risk of a breach of current coastal defence measures resulting in widespread flooding.
Air Quality & Clean Air
'Risk that Cardiff does not meet statutory requirements set by legislation and continues to have a detrimental impact on health for residents and visitors to Cardiff.
Welfare Reform
Failure to meet its statutory obligations placed upon it by the Welfare Reform including Universal Credit, Benefit Cap reductions, size restrictions for social tenants, removal of automatic entitlement to housing cost for under 21s and changes to funding for supported housing.
Financial Resilience
Failure to deliver a balanced annual budget and a fully informed Medium Term Financial Plan which would significantly weaken the financial resilience of the Council.
Impact of Brexit
The risk that Brexit (and any subsequent decisions) will create severe disruption to the city and hinder its ability to continue to deliver effective services and maintain community cohesion.
Waste Management
Failure to deliver cost effective compliance with waste legislation including statutory recycling targets.
Building Equipment Maintenance
Ineffective application of statutory equipment maintenance responsibilities for council buildings in a safe and legally compliant condition.
ICT Platforms Unsuitable/Outdated
Risk that ICT platforms (desktop, software, network, servers and telephones) will not be able to support the technologies required by the corporate change programme and deliver effective service to the council, or will not provide a reliable service due to age and condition of equipment and systems.
Increase in Demand (Children's Services)
Failure to effectively manage demand resulting in an increase in the number of looked after children, and the service and financial pressures this presents.
Cyber Security
Management - risk of an inability to assess how and when systems are being used, leading to an ineffective response to deliberate attacks or accidental user activity. Corporate cloud security - risk of weaknesses in externally hosted services.

Budget Gap is the term used to describe the difference between the funding the Council expects to receive, and the estimated cost of continuing to deliver services at the current level. Put simply, the budget gap is a result of funding failing to keep pace with demand, inflation and other financial pressures. Even with a more positive outlook for funding received from Welsh Government, a budget gap of £73 million between 2021/22 and 2024/25 was forecast prior to the impact of Covid-19.



This is due to factors such as employee costs, price inflation, paying for capital projects, demographic pressures for adults and children as well as increased school pupil numbers and needs.

A range of options have been considered in order to address budget gaps in 2020/21 and future years including early intervention to reduce costs and demand, maximising income streams, efficiency and productivity reviews across all areas of expenditure, collaboration, use of technology and increases in Council Tax. With increased levels of risk to the delivery of savings targets and the national funding, performance against existing budgets as well as the impact of Covid-19 on financial resilience risk will need to be managed and monitored closely to ensure financial sustainability.

Significant capital expenditure investment is proposed in areas such as new schools; to address the condition of existing buildings across the whole estate; to develop new council housing; to address air quality; economic regeneration and for sustainable travel schemes. The five year investment plan will require a significant increase in borrowing and confirmation of the approach to generating a significantly enhanced level of asset disposals in order to help pay for investment.

Further details of the Council's budget for 2020/21 and Medium Term are available on the Council's website at the following address <https://cardiff.moderngov.co.uk/mgAi.aspx?ID=19407#mgDocuments> and include the key documents below:

- Medium Term Financial Plan (MTFP)
- Housing Revenue Account 2020/21 Budget and MTFP
- Capital Strategy 2020/21
- Treasury Management Strategy
- A financial resilience snapshot which sets out a number of financial indicators and ratios.

Financial Performance 2019/20

Along with the rest of local government, the Council has faced significant challenges in funding its services. The 2019/20 budget approved in February 2019, was set against this backdrop of financial uncertainty and increasing demand for our services. An overall funding gap of £32.438 million in 2019/20 was identified and addressed by a combination of savings measures, use of earmarked reserves, schools' contribution to meeting pressures and a 4.9% Council Tax increase. A net revenue budget of £623.589 million was approved for 2019/20 as well as a Medium Term Financial Plan based on a rolling four-year period from 2020/21 to 2023/24, ensuring that resources are aligned to outcomes in the Corporate Strategy.

Revenue Expenditure and Funding

Revenue expenditure covers the cost of the Council's day-to-day operations and contributions to and from reserves. The final revenue outturn shows expenditure within the overall 2019/20 net revenue budget of £623.589 million. Favorable variances within the summary Revenue Account enabled contributions to be made to a number of strategic earmarked reserves that will support financial resilience of the Council in the medium term.

Directorate	Net Expenditure Budget £000	Net Expenditure Outturn £000	Variance (Under)/Over £000
Corporate Management	26,337	26,290	(47)
Economic Development	4,035	4,425	390
Education & Lifelong Learning	272,126	272,812	686
People & Communities - Housing & Communities	45,145	44,416	(729)
People & Communities – Performance and Partnerships	2,762	2,616	(146)
People & Communities - Social Services	172,727	177,241	4,514
Planning, Transport & Environment	37,702	41,027	3,325
Resources - Governance & Legal Services	5,493	6,136	643
Resources	16,662	16,655	(7)
Directorate Outturn Subtotal	582,989	591,618	8,629
Capital Financing	35,236	34,789	(447)
General Contingency	3,000	0	(3,000)
Summary Revenue Account inc. Council Tax collection and NDR refunds and Discretionary Relief	2,364	(2,818)	(5,182)
Total Council Outturn	623,589	623,589	0

The budget monitoring process identified financial pressures in a number of directorates, notably Social Services, and Planning, Transport & Environment. This reflected a range of factors including increased

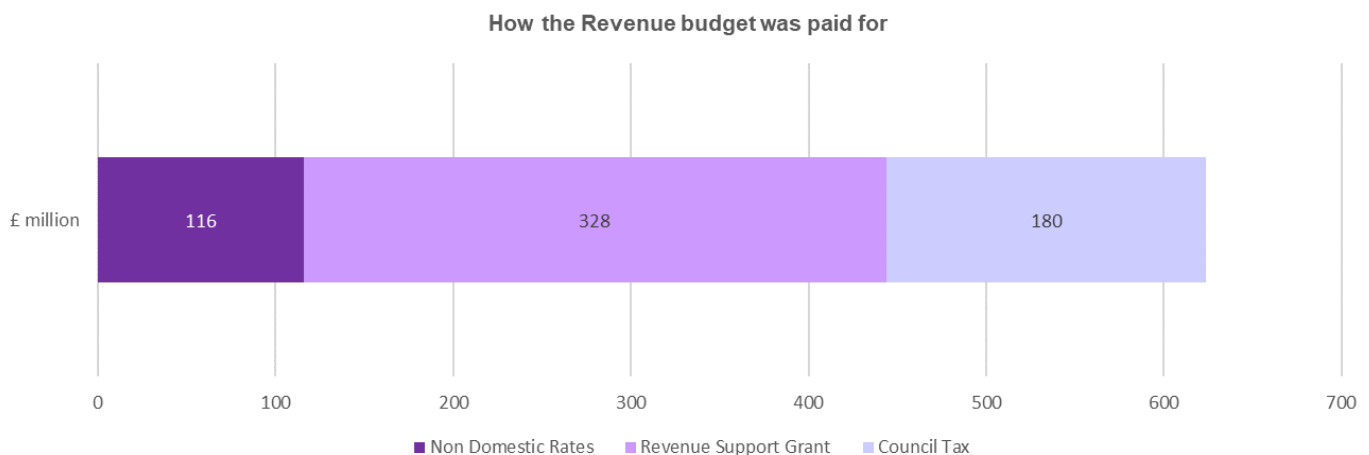
demographic and cost pressures, shortfalls in income and the failure to fully achieve the savings targets set as part of the 2019/20 budget.

This is reflected in the overall directorate outturn position showing a directorate overspend of £8.629 million. This was managed by the release of the £3 million general contingency held to reflect the quantum, risk and planning status of proposed savings, as well as savings from other areas including Council Tax Collection, Capital Financing and the Summary Revenue Account.

Non-Domestic Rates (NDR) are collected by the Council for Welsh Government based on the value of buildings used in business or for non-domestic purposes and a rate is set annually. The net NDR collectable by Cardiff for 2019/20 totaled £200.116 million of which Cardiff received £116.504 million after redistribution by Welsh Government. The in-year collection rate was 96.12%.

Revenue Support Grant of £328.126 million was received from Welsh Government.

Council Tax collected by the Council includes precepts for the police and community councils and where applicable was passed onto the relevant bodies. Council Tax income retained by the Council of £180.019 million funds just over a quarter of the Council's net expenditure. The in-year collection rate was 96.8%.



Housing Revenue Account (HRA)

The Housing Revenue Account is a ring-fenced account shown within the Housing and Communities directorate. It includes income from rents and expenditure on managing the housing stock and related services:

- The council has 13,637 dwellings as at 31 March 2020.
- The average weekly net rent for 2019/20 was £104.53.
- Income including rent and charges for services totaled £81.412 million.
- Revenue expenditure included £23.069 million on repairs and maintenance, £27.303 million on supervision and management and £31.525 million on capital financing costs, including interest, provision for the repayment of debt and towards capital expenditure.

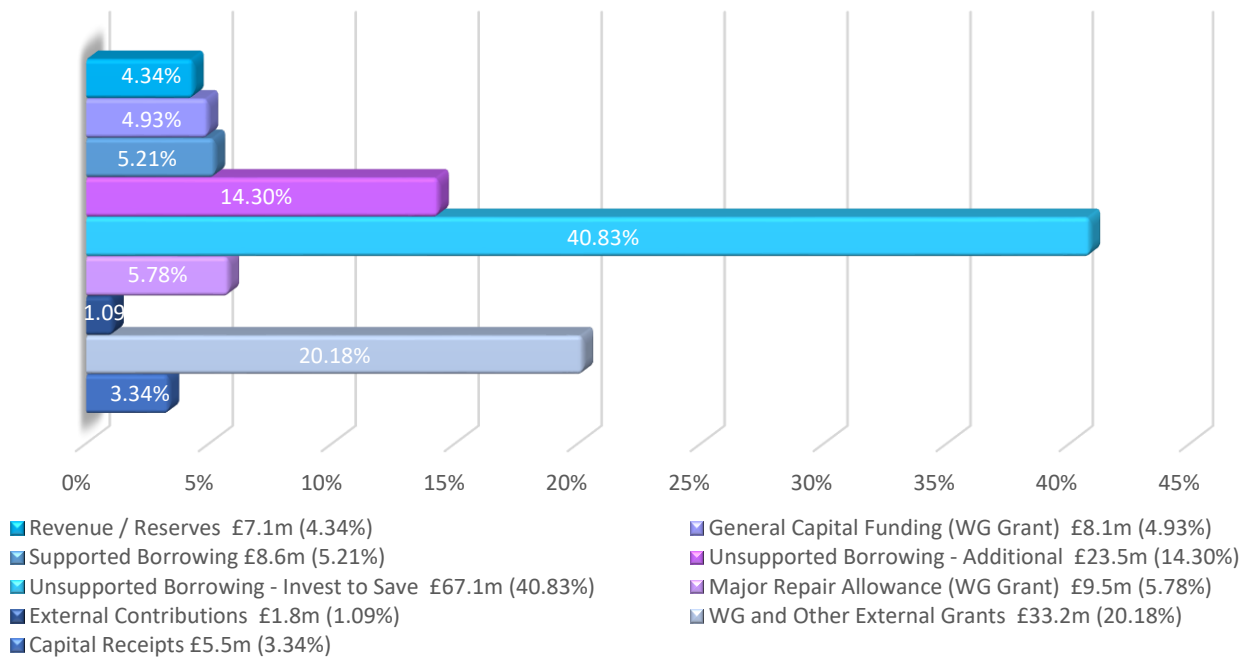
Capital Expenditure and Funding by the Council

Capital investment forms a large part of our spending. The Council has an ambitious capital programme to deliver projects that are fundamental to the Council achieving its aspirations to re-shape how we deliver our services as well as helping to unlock revenue savings and efficiencies to secure our non-financial stability. Capital spending during the year totaled £164.4 million.

Schemes	Detail	£m
Community and Neighbourhood Regeneration	Disabled adaptation grants, allowing people to live independently in their homes; environmental improvements; community hubs; land for travellers site expansion; domestic abuse multi agency hub; and completion of a regeneration scheme for Maelfa Centre in Llanedeyrn.	8.9
Education & Lifelong Learning	Completion of the Band A Investment Programme and development of Band B; investment in the condition and suitability of school buildings; schemes for Welsh medium expansion; reducing infant class sizes and Schools ICT.	17.2
Highways & Transportation	Road and footpath reconstruction and resurfacing; public transport and road safety improvements; cycling strategy implementation and expansion of cycle hire and moving traffic offences schemes; investment in active travel and safe routes in communities; design works for city centre air quality measures.	16.4
Leisure Facilities & Parks	Investment in leisure sites retained by the Council as well as sites operated by GLL; athletics track and parks play equipment replacement; Roath Park House refurbishment, Parc Cefn Onn and other infrastructure improvements.	2.7
Acquisition of Red Dragon Centre in Cardiff Bay	Purchase to support a business case for the development of a new arena for the city.	58.4
Solar Farm	Development of a solar farm at former landfill site.	5.0
Capital Cardiff Region - City Deal	Grant from Cardiff Council towards development of a Housing Viability Gap Fund for the region.	5.0
Public Housing	Disabled adaptations; estate regeneration; investment in existing stock condition; acquisition of land and existing dwellings from the private market; construction of new dwellings.	41.5
Other	Modernising ICT to improve business process; harbour asset renewal; Waste Recycling and collection improvements; Thornhill Crematorium improvements; creation of new burial site; property asset renewal works including enhancement to former Virgin Active site at Ocean Park.	9.3
Total		164.4

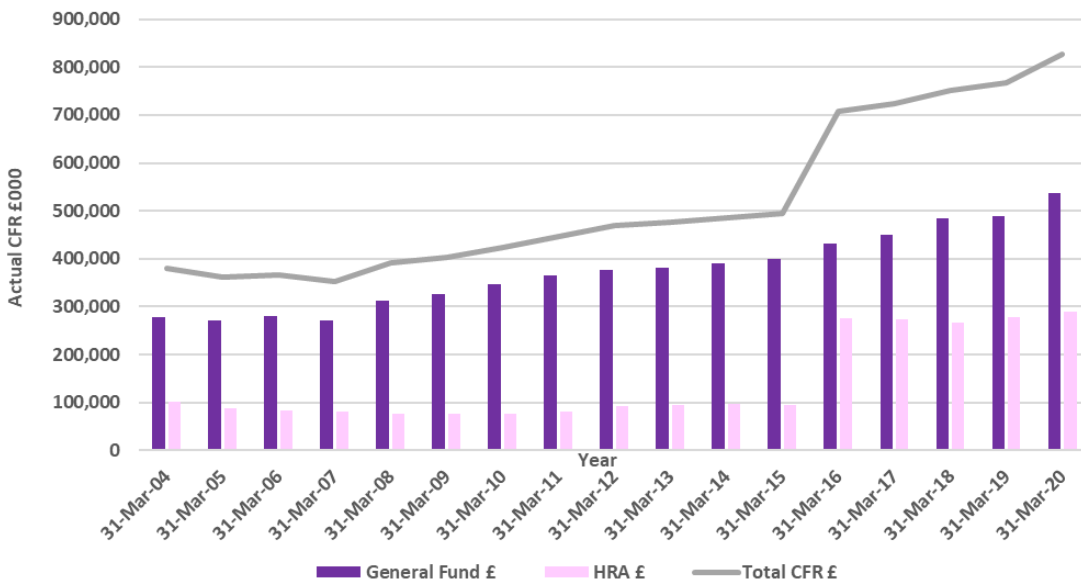
The Council pays for its capital expenditure from a number of sources. This includes borrowing money. Borrowing and any associated interest costs must ultimately be repaid in a prudent way from existing and future income. The Capital Programme was financed from a combination of borrowing (£99.2 million) and from grants, contributions, revenue budgets and sale of assets (£65.2 million). An analysis of the sources of capital funding is shown in the chart below:

Funding of Capital Expenditure



Capital expenditure incurred historically by borrowing, but yet to be paid for from future revenue or capital income from the General Fund and HRA, is termed the Capital Financing Requirement (CFR). The historic trend is shown in the next chart.

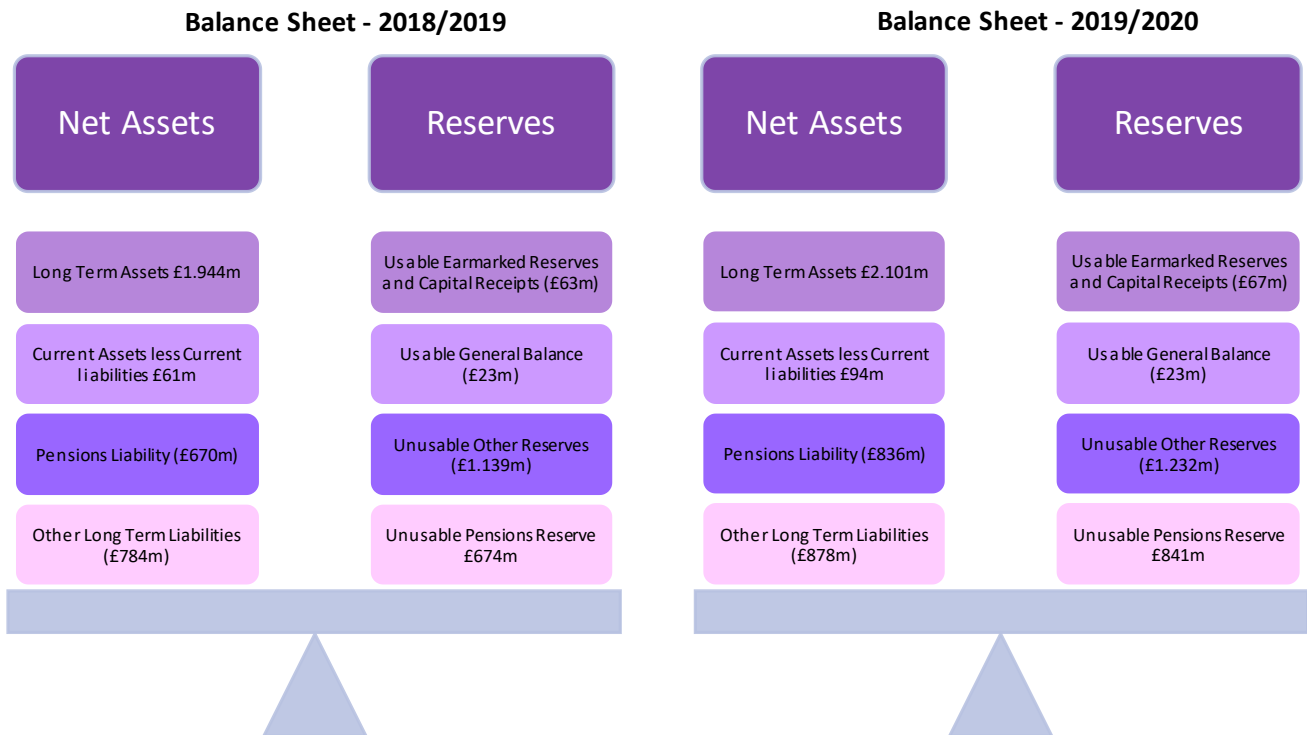
Capital Financing Requirement Trend



Each year, a prudent amount is charged to our revenue budgets to reduce this. In 2015/16 additional borrowing was taken by the Council and paid to HM Treasury to exit the HRA subsidy system. The CFR and associated financing costs, interest and repayment, of capital investment continues to rise as a percentage of controllable budget. The Council's Capital and Treasury Management Strategies set out a range of indicators for affordability, prudence and sustainability of the Council's capital investment plans.

Financial Position 2019/20

The balance sheet of the Council is summarised below and shows its assets and liabilities.



Property, Plant, Equipment and Other Non-Current Assets

The valuation of assets involves a number of assumptions; however, movements in asset valuations as well as any accounting charges such as depreciation have no impact on the council tax or rent payable, as they are required to be reversed from unusable reserves.

Note 16 details movements in assets, capital expenditure and its financing:

- capital receipts from the disposal of property assets and similar income was £9.974 million
- as part of the Council's rolling programme, revaluations took place during the year of operational assets (schools), investment properties, surplus assets and heritage assets.

Financial Assets and Liabilities

Treasury Investment and borrowing activities were undertaken in accordance with regulatory requirements and the Council's Treasury Management Strategy for 2019/20. Investments for treasury management purposes and cash is £112.057 million at 31 March 2020 and is primarily represented by temporary cash balances deposited with financial institutions. The average rate of interest earned for the year was 0.85%.

The Council borrows money to manage its daily cash flows and to pay for capital expenditure. In accordance with the Treasury Management Strategy, borrowing is undertaken to manage the capital financing requirement when deemed necessary to mitigate against the risk of future interest rates rising unexpectedly. The net change in external borrowing during the year was an increase of £106.9 million. This included specific borrowing for the acquisition of the Red Dragon Centre as well as to strengthen liquidity of the Council particularly around uncertainty in financial markets in relation to the Covid-19 position.

The average interest rate paid on the Council's borrowing reduced from 4.53% to 4.11% at 31 March 2020. Interest payable on borrowing was £32.960 million, of which £12.275 million was payable by the Housing Revenue Account.

Note 17 of the accounts provides further information on the Council's financial assets and liabilities and the nature and extent of risks involved

Provisions

The Council sets aside money for liabilities or losses which are likely to be incurred, but where the exact amount and timing of payment may be uncertain. This includes insurance claims received as well as for landfill aftercare. During 2019/20, total provisions decreased by £0.640 million to £30.217 million. Details of the movement of individual provisions are shown in note 23 of the accounts.

Pensions Liabilities

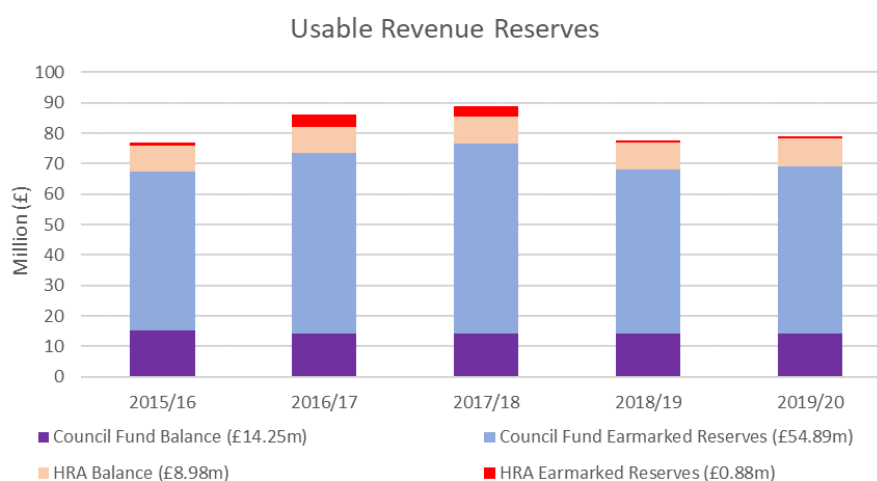
The Council is a member of the Cardiff and Vale of Glamorgan Pension Fund, with details of its participation in pension schemes shown in note 15 of the accounts:

- The cost to the Council during the year for pension liabilities is £50.240 million.
- The Council's future liability in respect of pension benefits payable, compared to assets held, is £835.710 million at 31 March 2020. This is based on the latest actuarial assumptions. This has increased by £172.992 million from 2018/19.

- The fund is revalued every three years, with the fund's assets at 31 March 2019 deemed to cover 96% of future liabilities. A 17 year recovery plan is in place in order to meet the shortfall.

Balances and Reserves

Balances and Reserves are sums of money put aside for specific policy purposes or for general contingencies and cash flow management. Their use, creation and assessment of sufficiency also considers risks to financial resilience. The level of usable reserves as a percentage of revenue expenditure continues to be one of the lowest in Wales. Earmarked reserves are detailed in note 26 of the accounts whilst other usable and unusable reserves are shown in notes 26 and 27.



The Financial Statements

The Statement of Accounts are set out in this document, accompanied by a Statement of Responsibilities for the financial Statements and the Audit Report. The single entity statements are also defined as including the income, expenditure, assets, liabilities, reserves and cash flows of the local authority maintained schools in England and Wales within the control of the local authority.

The core statements are:

- The Comprehensive Income and Expenditure Statement records all of the Council's income and expenditure for the year. The top half of the statement provides an analysis by directorate. The bottom half of the statement deals with corporate transactions and funding.
- The Movement in Reserves Statement is a summary of the changes to our reserves over the course of the year. Reserves are divided into 'useable', which can be invested in capital projects or service improvements and 'unusable', which must be set aside for specific purposes.
- The Balance Sheet is a 'snap shot' of the Council's assets, liabilities, cash balances and reserves at the year-end date.
- The Cash Flow Statement shows the reasons for changes in the council's cash balances during the year and whether that change is due to operating activities, new investment or financing activities.

The supplementary statements are:

- The Housing Revenue Account separately identifies the Council's statutory landlord function as a provider of social housing under the Local Government and Housing Act 1989.
- Group Accounts combine the Council's own financial statements with its material interests in subsidiaries, associates and/or joint ventures, in this Council's case, Cardiff Bus.
- Other statements for regulatory purposes include Trust Funds, Cardiff Port Health Authority and Cardiff Harbour Authority.

Conclusion

Despite in year pressures, the Council was able to remain within its net revenue budget set for 2019/20. Demand for all council services continues to increase and the continued negative future funding outlook for all local authorities remains a significant risk. The Council has set an ambitious agenda to invest and improve what we do for residents which will require difficult choices to be made and a focus on key priorities.

The impact of Covid-19 for the 2019/20 position is limited, given that lockdown measures were put in place during the last few days of the financial year, however its impact will have a significant impact both financially and in the way we do things. This will involve a phased approach of:

Restart: Restarting and adapting a wide range of Council Services in the context of extended stringent social distancing requirements - immediate

Recover: A strategic response to support the city to emerge from the crisis – next 18 months

Renew: Longer term city development strategy consistent with Capital Ambition – 10 year vision

Detailed financial planning assumptions will be more important than ever to support a fully informed and revised Medium Term Financial Plan that ensures financial resilience. This is to be considered by Council in July 2020.

I am grateful for the work of my finance team in supporting directorates and for all officers who facilitate the transparency of our financial transactions and make the preparing of these financial statements and reporting of financial performance and position during 2019/20 possible. This is a requirement that will itself be more challenging in future years due to both additional accounting and reporting as well as earlier preparation of the accounts and consequential audit requirements.

Christopher Lee

Corporate Director Resources and Section 151 Officer



Statement of Responsibilities for the Financial Statements



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 2019/20, that officer was Christopher Lee, 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 McKerlich
Lord Mayor**

Date: 2020

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 2019/20 (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
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Corporate Director Resources Certificate

The financial statements for the Council give a true and fair view of its income and expenditure for the financial year 2019/20 and financial position of the Council at 31 March 2020.



Christopher Lee
Corporate Director Resources

Date: 15 June **2020**

Audit Report of the Auditor General to the Members of the County Council of the City and County of Cardiff

This page is intentionally left blank and will be updated upon receipt of the Auditor General's opinion following the audit of the accounts.

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

24 Cathedral Road
Cardiff
CF11 9LJ



Accounting Policies, Critical Judgements and Assumptions



Accounting policies used when formulating the accounts

The Statement of Accounts summarises the Council's income and expenditure for the year ended 31 March 2020 and its financial position at that date. The accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code).

The accounts have been prepared on a going concern basis. The accounting convention adopted is principally historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1. Accounting Standards issued but not yet adopted

The main change to the Code will be the requirements of International Financial Reporting Standard 16 – Leases adopted in the 2021/22 Code. The required date of application and the date that the Council will adopt IFRS 16 is 1 April 2021. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for most leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments

The impact of this standard on the Council's financial position is likely to be immaterial.

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 Council transfers the significant risks and rewards of ownership to the purchaser
- revenue from the provision of services/contracts is recognised when the Council can measure reliably the percentage of completion and it is probable that economic benefits or service potential will be achieved
- supplies are recorded as expenditure when they are consumed
- services received are recorded as expenditure when the services are received, rather than when the payments are made
- there is a de minimus threshold of £500, under which income and expenditure may not be accrued
- 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 debtors are not considered to be collectable the balance is reduced by a provision for doubtful debt.

3. 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 if it meets the following criteria:

- be available for immediate sale in its present condition

- sale must be highly probable
- be actively marketed or have identified prospective purchasers
- the sale expected to be completed within one year.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where this results in a loss, this 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 previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. Regular reviews are undertaken as to whether assets still meet the criteria for Assets Held for Sale and where this is not the case they are reclassified and revalued in accordance with the appropriate class.

4. *Cash and Cash Equivalents*

Cash is represented by cash in hand, the net balance on all of the Council's bank accounts including balances of cheque book schools. It includes deposits with financial institutions that are repayable on notice of not more than 24 hours without significant penalty. It also includes investments maturing and interest received on the first working day of April.

5. *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 the notes to the accounts where deemed material.

6. *Deferred Liabilities*

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

7. *Disposals and Capital Receipts*

When assets are disposed of or decommissioned, the value of those assets included in the Balance Sheet along with any proceeds from disposal are used to calculate a gain or loss on disposal.

Disposals greater than £10,000 are treated as capital receipts and are credited to the Capital Receipts Reserve.

8. *Employee Benefits*

Benefits Payable during Employment

Short-term employee benefits such as wages and salaries, paid annual leave, sick leave and expenses are paid on a monthly basis and reflected as expenditure on an accruals basis in the relevant service line in the Comprehensive Income and Expenditure Statement.

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 Comprehensive Income and Expenditure Statement.

Post-Employment Benefits

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

- the Teachers' Pension Scheme, administered by the Teachers Pensions Agency
- the Local Government Pension Scheme, via membership of the Cardiff and Vale of Glamorgan Pension Fund administered by the Council.

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

Defined Contribution Schemes

Centralised arrangements for the Teacher's Pension Scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council and is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet.

Defined Benefit Schemes

The Cardiff and Vale of Glamorgan Pension Fund is a defined benefit scheme. The net pension liability, which represents the Council's attributable share of the Pension Fund's assets and liabilities, is shown in the Balance Sheet where:

- liabilities for the scheme attributable to the Council are included on an actuarial basis using the projected unit method (an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections earnings for current employees)
- assets of the scheme attributable to the Council are included at their fair value:
 - quoted and unitised securities – current bid price
 - unquoted securities – professional estimate
 - property – market value.

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

- current service costs: increase in the liability as a result of pension earned by employees in the year is charged to net cost of services.
- past service costs: increase in the liability arising from current year decisions which affect pension earned by employees in earlier years is charged to Corporate Management.
- gains/losses on settlements and curtailments: result of actions to relieve the Council of liabilities or events that reduce expected future service or accrual of benefits are charged to Corporate Management.
- net interest on the net defined benefit liability: net interest expense for the period that arises from the passage of time and is shown within the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.
- re-measurements: return on plan assets (excluding amounts included in net interest) and actuarial gains/losses as a result of updated actuarial assumptions. These are both charged to the Pensions Reserve as Other Income and Expenditure.

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.

9. *Financial Assets*

Financial assets are classified based on a classification and measurement approach that reflects the Council's business model for holding financial assets and their cash flow characteristics.

There are three main classes of financial assets measured at:

- amortised cost - Achieve objectives by collecting contractual cash flows e.g. principal and interest.
- fair value through profit or loss (FVPL) - Achieve objectives by both collecting contractual cash flows and selling assets.
- fair value through other comprehensive income (FVOCI) - Achieve objectives by any other means than collecting contractual cash flows and where the Council has designated that this is the case.

In terms of value of financial assets recognised in the accounts, the authority's primary business model is to hold investments to collect contractual cash flows, however loans and equity instruments may be provided as capital expenditure in the approved Capital Programme to achieve service objectives. Depending on the rationale for holding such financial assets, primarily equity, the Council may designate such items to be measured at fair value through other comprehensive income.

Fair value measurement techniques are defined within the final section of this policy.

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the 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 in accordance with any investment or loan agreement. The amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest).

Any gains or losses that arise on the derecognition of an asset are credited/debited to the CIES.

Expected Credit Loss Model

Impairment losses are calculated to reflect the expectation that future cash flows might not take place because the borrower could default on their obligations. Such a review would take place on an individual financial asset or collective basis, based on materiality and cost benefit of individual assessment.

The Council undertakes a review of expected credit losses on all financial assets held at amortised cost either on a 12-month or lifetime basis. Where provision for such losses is not already undertaken e.g. as part of a provision for bad debts, adjustments to the value of financial assets disclosed in the accounts would be made. Credit risk plays a crucial part in assessing expected credit loss. Where risk has increased significantly since a financial asset was initially recognised, provision for losses are assessed on a lifetime basis. Where

risk has not increased significantly or remains low, provision for losses are assessed on the basis of 12-month expected loss.

Financial Assets Measured at Fair Value through Profit or Loss (FVPL)

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

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

Financial Assets Measured at Fair Value through other comprehensive income (FVOCI)

Financial assets that are measured as FVOCI are initially measured and carried at fair value on the Balance Sheet. Treating such assets under this category will require a 'Designation' by the Council. These are likely to be equity holdings held as part of a service objective.

Fair value gains and losses are recognised in Other Comprehensive Income and the change in the amount of the investment in the balance sheet is matched with an entry in the Financial Instruments Revaluation Reserve.

Upon derecognition, any balance on the Financial Instruments Revaluation Reserve is recycled through the Surplus or Deficit on the Provision of Services.

Fair Value Measurement of Financial Assets

Fair value measurements for the above financial asset classes measured at fair value are based on the following techniques:

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

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

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

10. Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and 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 which is paid to transfer a liability, is estimated and disclosed, inputs to the valuation techniques used to determine fair value are attributed to the same levels as stated under the Financial Assets accounting policy.

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

11. Grants and Contributions

Grants and other contributions are accounted for on an accruals basis and recognised when:

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

Revenue

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 longer any reasonable assurance that the conditions will be met, sums received will not be recognised as a receipt of grant but as a repayment due to the awarding body and held on the Balance Sheet as a liability if it remains unpaid.

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.

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 and is shown as a creditor, as the unused element could be returned to the funder. Where a non-specific grant such as the General Capital Grant or Major Repair Allowance were to remain unapplied, it would be held as Capital Grants Unapplied Reserve.

Capital grants and contributions are identified separately on the Balance Sheet.

12. Heritage Assets

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

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. No depreciation charge is made on heritage assets.

The unique nature of heritage assets makes reliable valuation complex. These difficulties are recognised by the Code and therefore many individual assets are not recorded in the accounts, but additional narrative disclosures are made about the nature and scale of such assets within the notes to the accounts. A full valuation took place in 2019/20.

13. *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 Council in the form of savings and improvements in service delivery. Intangible assets are included in the Balance Sheet at historic cost net of amortisation and are reviewed for impairment and 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 initially set between 3-5 years, and reversed in the Movement in Reserves Statement via transfer to the Capital Adjustment Account.

Gains or losses arising from disposal are recognised in the surplus or deficit on the provision of services.

14. *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.

15. *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 expenditure.

16. *Investment Property*

Investment properties are those held solely to earn rentals and/or for capital appreciation such as; ground leases, land held for future development as strategic sites and other land and buildings that meet investment property criteria.

Investment properties are measured at fair value, based on the market value that would be received to sell an asset in an orderly transaction between market participants at the measurement date, reflecting the asset's highest and best use. A full valuation is undertaken every two years. The previous valuation was undertaken in 2018/19 by James Lang LaSalle IP, Inc (commercial), E. J Hales Ltd (retail) and internal valuers (community). In 2019/20 a review of market values took place to ensure they did not materially alter the fair value of the assets.

Investment properties are not depreciated. Gains and losses on revaluation and disposal are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. 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.

17. Joint Committees

Subject to materiality and exposure to risk, the relevant proportion of Joint Committees are included within the Council's accounts reflecting the transactions and balances for those Joint Committees.

18. 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. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

The Council as Lessee

Finance Leases

For plant and equipment, the Council has set a de-minimis level of £75,000 for leases to be recognised as finance leases. The Council does not hold any leases of this type.

Operating Leases

Payments for operating leases are charged to the relevant service line on an accruals basis.

The Council as Lessor

Finance Leases

The Council does not provide any leases of this type.

Operating Leases

Where the Council 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.

19. Property, Plant, Equipment

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

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 capitalisation of expenditure in connection with Council dwellings.

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, excluding borrowing costs which are not capitalised. A full year's depreciation is charged on capital expenditure incurred in the year. No depreciation is charged in the year of disposal.

Assets are subsequently carried on the balance sheet as per the following:

Asset Type	Measurement	Valuation Frequency	Last Valuation	Surveyor for Last Valuation	Next Valuation	Depreciation*
Assets under Construction	Depreciated Historical Cost	n/a	n/a	n/a	n/a	n/a
Community Assets	Depreciated Historical Cost	n/a	n/a	n/a	n/a	n/a
Council Dwellings	Existing Use Value for Social Housing	Every 2 years	2018/19	Cardiff Council Strategic Estates	2020/21	Land: n/a Buildings: 50 years
Infrastructure	Depreciated Historical Cost	n/a	n/a	n/a	n/a	7-120 years**
Other Operational Land & Buildings	Existing Use Value or Depreciated Replacement Cost if specialist nature without market-based evidence	Every 3 years	2018/19	Cooke & Arkwright	2021/22	Land: n/a Buildings: 3-65 years
School Assets	Detailed Depreciated Replacement Cost (Modern Equivalent Asset)	Every 3 years	2019/20	Cooke & Arkwright	2022/23	Land: n/a Buildings: 3-54 years
Surplus Assets	Fair Value	Annual Fair Value Check	2019/20	Jones Lang LaSalle	2020/21	n/a
Vehicles, Plant, Furniture & Equipment	Depreciated Historical Cost	n/a	n/a	n/a	n/a	5-15 years

* Calculated on a straight-line basis over the below estimated useful lives, unless there is not a determinable finite useful life.

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

Revaluations

Council dwellings, other land and buildings including schools, are required to be valued periodically. Asset valuations take place with an effective date of 1 April of the financial year and are undertaken by professional valuers.

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 or source any external valuation services. This ensures finance are made aware of all property issues affecting the Council,

- having an agreed rolling revaluation programme 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.

Revaluations of the Council's property assets are undertaken on a minimum three yearly rolling programme basis, or 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.

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.

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 or significant permanent market value reduction. Where a material change in value is identified, the accounting treatment is as follows:

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

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.

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.

These factors are:

- 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 £1.500 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 do not meet 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.

20. Provisions

Provisions are charged as expenditure to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision, which is held on the Balance Sheet. Provisions are reviewed at the end of each financial year and where no longer required are credited back to the relevant service line.

21. 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 line 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.

22. Reserves

The Council sets aside useable earmarked reserves for future policy purposes or to cover contingencies. Certain reserves are maintained to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits. These do not represent usable resources for the Council and there are no net impacts on council tax or rent.

23. Value Added Tax (VAT)

VAT payable is excluded from expenditure except where it is not recoverable from HMRC. VAT receivable is excluded from income.

Critical judgements in applying accounting policies

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

- there is a high degree of uncertainty about future levels of income and expenditure for the Council and its subsidiaries particularly as a result of the Covid-19 crisis. However the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- in 2014/15, CIPFA clarified the requirements for recognising schools property on Council Balance sheets. This highlighted the need for there to be 'control' of assets, with a key criteria for recognition being legal ownership. The Council includes Voluntary Aided, Voluntary Controlled and Foundation schools in its balance sheet only if it owns the land and/or can accordingly direct the use of the assets. In most cases these are owned by religious bodies, the trustees or governing body of the school.

Assumptions made about the future and other sources of estimation uncertainty

The Statement of Accounts contains figures that are based on assumptions or estimates about the future or that are otherwise uncertain. Whilst these take into account historical experience, current trends, professional guidance and other relevant factors, actual results could be different. The main items in the Council's Balance Sheet at 31 March 2020 for which there is a risk of adjustment in future financial years are:

Item	Uncertainty	Effect if Actual Results Differ from Assumptions
Valuation, where required of Property, Plant and Equipment assets, Heritage assets and Investment properties	Valuation of property interests involves assessment of a number of variables such as market conditions, useful life, cost of reconstruction, assessment of condition, use of a discount factors for social housing etc. Valuations are undertaken by qualified Chartered Surveyors, or experts in the relevant field, 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. As a result of the impact of Covid-19, valuations on all property assets, irrespective of the basis of valuation, are reported on the basis of 'material valuation uncertainty' as per the RICS Red Book. Consequently, less certainty and a higher degree of caution should be attached to the valuations. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid. The Council's approach to undertaking valuations on a more frequent basis than the minimum 5 year period will ensure that any changes are captured as soon as possible in the next formal valuation.	Any changes to valuations and any associated depreciation charges to services for non-current assets are required to be reversed out in the accounts, so this will not have an impact on Council Tax or rents.
Financial Instrument assets	These are reviewed annually for significant impairment using data such as historic risk of default and other reviews of recoverability. For financial assets not quoted on a recognised exchange or where it is difficult to provide accounting valuations e.g. valuations of the Council's shareholding in Cardiff City Transport Services Ltd. The fair value is deemed to be Net Worth.	Any change in the fair value of Cardiff City Transport Services Ltd has no impact on the level of Council Tax as changes are reflected by a corresponding amendment in the Financial Instrument Adjustment Reserve.
Provisions	The Council makes a number of provisions for liabilities that it may face where a reasonable estimate of value can be made at the balance sheet date. In most cases these are subject to legal claims, such as those for insurance. Provisions relating to landfill sites are subject to a high level of estimation primarily given the length of period over which they are to be considered. Professional internal and external advice is used to determine the need and value of provisions.	The outcomes of assumptions will have an impact on the Outturn in future years, however due to the uncertain nature of these events, are difficult to quantify
Arrears	The Authority is 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 changes which may impact on collectability a level of impairment or provision for expected credit losses is assumed. It is not certain however that this impairment allowance would be sufficient as the Council cannot assess with certainty	Improvements in collection will improve future reported Outturn position, however where customers are finding it difficult to pay this will require increases in the level of provisions currently set aside.

Item	Uncertainty	Effect if Actual Results Differ from Assumptions
	<p>which debts will be collected or not.</p> <p>The economic impact of the Covid-19 pandemic has made the estimation of debt impairment more difficult as there is more uncertainty about the economic viability of debtors and hence their ability to settle their debts which may, or may not be sufficient.</p>	
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, inflation, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. This also includes market volatility for example as a result of Britain's departure from the European Union and Covid-19.</p> <p>Professional actuaries are engaged to provide the Council with expert advice about the assumptions to be applied.</p>	It is difficult to measure the effects on the net pension liability of changes in individual assumptions, as they can result in multiple variations to the figure.



Core Financial Statements and Notes to the Financial Statements

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Comprehensive Income and Expenditure

This statement records all of the Council's income and expenditure throughout the year and consequently shows the accounting cost of providing services during the year in line with generally accepted accounting practices. The Expenditure and Funding Analysis (Note 2) demonstrates how the funding available to the Council has been used to provide services in comparison with those resources consumed or earned under Generally Accepted Accounting Practices (GAAP).

2018/19				2019/20			
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
35,699	(1,416)	34,283	Corporate Management		19,663	(5,971)	13,692
75,961	(40,445)	35,516	Economic Development		53,977	(40,254)	13,723
372,552	(92,979)	279,573	Education & Lifelong Learning		314,306	(77,419)	236,887
6,991	(1,067)	5,924	Governance & Legal Services		8,700	(2,223)	6,477
8,977	(6,073)	2,904	Harbour Authority		8,567	(5,724)	2,843
42,624	(77,654)	(35,030)	Housing Revenue Account		65,056	(81,412)	(16,356)
240,839	(194,522)	46,317	Housing and Communities		233,246	(184,215)	49,031
8,130	(4,767)	3,363	Performance and Partnerships		8,446	(5,499)	2,947
122,716	(52,699)	70,017	Planning , Transport and Environment		115,941	(52,453)	63,488
29,968	(10,477)	19,491	Resources		33,174	(11,288)	21,886
197,226	(24,084)	173,142	Social Services		211,533	(30,628)	180,905
3,688	(5,514)	(1,826)	Summary Revenue Account		2,870	(12,653)	(9,783)
1,145,371	(511,697)	633,674	Net Cost of Services		1,075,479	(509,739)	565,740
33,499	0	33,499	Police and Crime Commissioner for South Wales		37,469	0	37,469
367	0	367	Community Council Precepts	3	397	0	397
17,439	0	17,439	Levies & Contributions		17,696	0	17,696
9,106	(9,590)	(484)	(Gain)/loss on sale of non-current assets		4,642	(8,681)	(4,039)
60,411	(9,590)	50,821	Other Operating Expenditure		60,204	(8,681)	51,523
32,176	0	32,176	Interest Payable on debt	17	32,960	0	32,960
16,098	(11)	16,087	Interest on net defined benefit liability/(asset)*	15	14,810	0	14,810
0	(972)	(972)	Interest & Investment Income	17	0	(1,129)	(1,129)
5,066	(5,655)	(589)	Change in fair value of Investment Properties	2.2	6,566	(2,475)	4,091
53,340	(6,638)	46,702	Financing and Investment Income & Expenditure		54,336	(3,604)	50,732
0	(49,018)	(49,018)	Recognised Capital Grants & Contributions	28	0	(41,333)	(41,333)
0	(325,564)	(325,564)	Revenue Support Grant		0	(328,126)	(328,126)
0	(115,383)	(115,383)	Non-Domestic Rates	6	0	(116,504)	(116,504)
2,282	(202,564)	(200,282)	Council Tax Income	5	(766)	(217,119)	(217,885)
131	0	131	Corporation Tax (CCRCD)		129	0	129
2,413	(692,529)	(690,116)	Taxation & Non-Specific Grant Income		(637)	(703,082)	(703,719)
		41,081	(Surplus)/Deficit on Provision of Services				(35,724)
	(45,320)		Revaluation Gains	27			(35,802)
	21,306		Revaluation Losses				11,958
	2,399		Impairment losses on non-current assets charged to the Revaluation Reserve				2,357

Comprehensive Income and Expenditure

	3,172	(Surplus)/Deficit on Financial Instrument Revaluation Reserve			1,101
	(21,536)	Actuarial (gains)/losses on pension assets/liabilities	15		127,222
	(39,979)	Other Comprehensive Income & Expenditure			106,836
	1,102	Total Comprehensive Income & Expenditure			71,112

Movement in Reserves

The statement is split into both Usable and Unusable Reserves. Usable Reserves are those that the Council can use to provide services such as the General Fund and Capital Receipts Reserve whereas Unusable Reserves such as the Pension Fund and Capital Adjustment Account cannot be used, as they are for accounting purposes only.

	Council Fund Balance	Council Fund Earmarked Reserves	HRA Balance	HRA Earmarked Reserves	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2018 carried forward	14,255	61,843	8,983	3,223	21,320	109,624	442,637	552,261
Movement in Reserves during 2018/19								
Surplus or (deficit) on the provision of Services	(78,008)	0	36,927	0	0	(41,081)	0	(41,081)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	39,979	39,979
Total Comprehensive Income and Expenditure	(78,008)	0	36,927	0	0	(41,081)	39,979	(1,102)
Adjustments between accounting basis & funding basis under regulations (note 1)	69,879	0	(39,655)	0	(12,832)	17,392	(17,392)	0
Net Increase/(Decrease) before Transfers to/(from) Earmarked Reserves	(8,129)	0	(2,728)	0	(12,832)	(23,689)	22,587	(1,102)
Transfers to/(from) Earmarked Reserves	8,129	(8,129)	2,728	(2,728)	0	0		0
Increase/(Decrease) in 2018/19	0	(8,129)	0	(2,728)	(12,832)	(23,689)	22,587	(1,102)
Balance at 31 March 2019 carried forward	14,255	53,714	8,983	495	8,488	85,935	465,224	551,159
Movement in Reserves during 2019/20								
Surplus or (deficit) on the provision of Services	19,559	0	16,165	0	0	35,724	0	35,724
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	(106,836)	(106,836)
Total Comprehensive Income and Expenditure	19,559	0	16,165	0	0	35,724	(106,836)	(71,112)
Adjustments between accounting basis & funding basis under regulations (note 1)	(18,379)		(15,782)	0	2,418	(31,743)	31,743	0
Net Increase/(Decrease) before Transfers to/(from) Earmarked Reserves	1,180	0	383	0	2,418	3,981	(75,093)	(71,112)
Transfers to/(from) Earmarked Reserves (note 26)	(1,180)	1,180	(383)	383	0	0	0	0
Increase/(Decrease) in 2019/20	0	1,180	0	383	2,418	3,981	(75,093)	(71,112)
Balance at 31 March 2020 carried forward	14,255	54,894	8,983	878	10,906	89,916	390,131	480,047

Balance Sheet

This statement is comprised of two balancing sections - the net assets of the Council and the total reserves held.

31 March 2019		Note	31 March 2020
£000			£000
1,749,003	Property, Plant & Equipment	16	1,850,336
54,152	Heritage Assets		58,616
118,003	Investment Properties		170,144
2,222	Intangible assets including AUC		2,292
10,948	Long-term Investments	17	9,723
10,251	Long-term Debtors		8,701
1,944,579	Total Long-Term Assets		2,099,812
69,032	Short-term Investments	17	76,106
2,570	Held for Sale assets	18	1,860
2,266	Inventories		2,073
95,332	Short-term Debtors	19	136,840
20,873	Cash and Cash Equivalents	20	35,951
190,073	Total Current Assets		252,830
(13,306)	Short-term Borrowing	17	(29,625)
(106,584)	Short-term Creditors	21	(119,136)
(1,769)	Pension Strain	24	(1,496)
(6,100)	Provisions	23	(5,405)
(1,648)	Deferred Liabilities	25	(3,214)
(129,407)	Total Current Liabilities		(158,876)
(717,700)	Long-term Borrowing	17	(807,540)
(24,757)	Provisions	23	(24,812)
(11,700)	Deferred Liabilities	25	(9,261)
(14,485)	Capital Contributions Receipts in Advance	28	(17,430)
(12,412)	Revenue Grants Receipts in Advance		(13,854)
(782)	Capital Grants Receipts in Advance		(1,424)
(2,560)	Pension Strain	24	(3,688)
(669,690)	Net Pensions Liability	15	(835,710)
(1,454,086)	Total Long-Term Liabilities		(1,713,719)
551,159	NET ASSETS		480,047
	Financed by:		
14,255	Council Fund Balance		14,255
53,714	Council Fund Earmarked Reserves	26	54,894
8,983	Housing Revenue Account Balance		8,983
495	Housing Revenue Account Earmarked Reserves	26	878
8,488	Capital Receipts Reserve	26	10,906
85,935	Usable Reserves		89,916
268,598	Revaluation Reserve	27	288,416
864,171	Capital Adjustment Account		939,914
5,008	Deferred Capital Receipts		5,008
10,368	Financial Instruments Revaluation Reserve		9,267
(674,020)	Pensions Reserve		(840,894)
(8,901)	Accumulated Absences Adjustment Account		(11,580)
465,224	Unusable Reserves		390,131
551,159	TOTAL RESERVES		480,047

Cashflow Statement

This statement shows how the Council generates and uses cash and cash equivalents by classifying the cash flows as arising from operating, investing and financing activities.

2018/19		Note	2019/20
£000			£000
41,082	Net (surplus) /deficit on the provision of services		(35,724)
(119,732)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	30	(30,153)
59,214	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		51,307
(19,436)	Net cash flows from operating activities		(14,570)
133,361	Purchase of property, plant and equipment, investment property and intangible assets		151,540
35,000	Purchase of short-term and long-term Investments		7,000
(4,808)	Other payments for investing activities		(3,624)
(9,232)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets		(9,974)
(68,618)	Capital Grants and Contributions		(36,798)
85,703	Net cash flows from investing activities		108,144
(32,934)	Cash receipts from short-term and long-term borrowing		(111,060)
(4,437)	Other receipts from financing activities		(4,239)
4,288	Repayments of short-term and long-term borrowing		6,647
(33,083)	Net cash flows from financing activities		(108,652)
33,184	Net (increase)/ decrease in cash and cash equivalents		(15,078)
54,057	Cash and cash equivalents at the beginning of the reporting period		20,873
20,873	Cash and cash equivalents at the end of the reporting period	20	35,951

Notes to the Financial Statements

1. Adjustments between Accounting Basis and Funding Basis under Regulation

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

Usable Reserves 2018/19	Adjustments between Accounting and Funding Basis				Usable Reserves 2019/20			
	Council Fund Balance	Housing Revenue Account	Capital Receipts Reserves	Movement in Unusable Reserves	Council Fund Balance	Housing Revenue Account	Capital Receipts Reserves	Movement in Unusable Reserves
£000	£000	£000	£000		£000	£000	£000	£000
				Adjustments primarily involving the Capital Adjustment Account:				
				<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
46,809	10,560	0	(57,369)	Charges for depreciation and impairment of Non-Current assets	50,790	13,090	0	(63,880)
51,314	(16,523)	0	(34,791)	Revaluation losses of Non-Current Assets	49,954	110	0	(50,064)
(19,961)	(35)	0	19,996	Reverse previous impairment on revaluation	(106,823)	(27)	0	106,849
798	163	0	(961)	Amortisation of Intangible Assets	0	0	0	0
(566)	(23)	0	589	Movements in the market value of Investment Properties	4,090	1	0	(4,091)
0	0	0	0	Movement in the value of Held for Sale Assets	0	0	0	0
(36,700)	(12,318)	0	49,018	Capital grants and contributions applied	(29,852)	(11,481)	0	41,333
9,295	0	0	(9,295)	Revenue expenditure funded from capital under statute	1,558	145	0	(1,703)
2,422	605	0	(3,027)	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	2,417	1,848	0	(4,265)
				<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
(26,635)	(11,413)	0	38,048	Statutory provision for the financing of capital investment	(24,055)	(12,807)	0	36,862
(1,651)	(9,469)	0	11,120	Capital expenditure charged against the Council Fund and HRA balances	(735)	(6,400)	0	7,135

Usable Reserves 2018/19				Adjustments between Accounting and Funding Basis	Usable Reserves 2019/20			
Council Fund Balance	Housing Revenue Account	Capital Receipts Reserves	Movement in Unusable Reserves		Council Fund Balance	Housing Revenue Account	Capital Receipts Reserves	Movement in Unusable Reserves
£000	£000	£000	£000		£000	£000	£000	£000
0	0	(22,037)	22,037	Use of the Capital Receipts Reserves to finance new capital expenditure	0	0	(5,538)	5,538
0	20	(20)	0	Credit for disposal costs that qualify to be met from the resulting capital receipts	0	3	(3)	0
0	0	11	(11)	Capital receipts set aside for the repayment of debt	24	0	(761)	737
				Adjustments involving the Revaluation Reserve				
(1,757)	(1,876)	9,212	(5,579)	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	(5,892)	(2,451)	8,720	(377)
				Adjustments involving the Pensions Reserve:				
91,338	4,497	0	(95,835)	Net retirement benefits as per IAS19	82,847	6,191	0	(89,038)
(44,107)	(3,784)	0	47,891	Employer's contributions to the Pension Scheme	(46,102)	(4,138)	0	50,240
(148)	(199)	0	347	Pension Strain Future Years	751	104	0	(854)
				Adjustments involving the Accumulated Absences Adjustment Account				
(572)	140	0	432	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.	2,650	30	0	(2,679)
				Adjustments involving the Deferred Capital Receipts Reserve				
0	0	2	(2)	Transfers to the Capital Receipts Reserve upon receipt of cash	0	0	0	0
0	0	0	0	Transfers to the Deferred Capital Receipts Reserve in relation to gain/loss on disposal	0	0	0	0
69,879	(39,655)	(12,832)	(17,392)	Total Adjustments	(18,379)	(15,782)	2,418	31,743

2. Expenditure and Funding Analysis

The Expenditure and Funding Analysis demonstrates how the funding available to the Council has been used to provide services in comparison with those resources consumed or earned under Generally Accepted Accounting Practices (GAAP).

2018/19			Directorate	2019/20		
Net Expenditure Charged to CF and HRA	Adjustments between accounting & funding basis	Net expenditure CIES		Net Expenditure Charged to CF and HRA	Adjustments between accounting & funding basis	Net expenditure CIES
£000	£000	£000		£000	£000	£000
23,638	10,645	34,283	Corporate Management	26,290	(12,598)	13,692
7,141	28,375	35,516	Economic Development	4,425	9,298	13,723
261,913	17,660	279,573	Education & Lifelong Learning	272,812	(35,925)	236,887
5,612	312	5,924	Governance & Legal Services	6,136	341	6,477
0	2,904	2,904	Harbour Authority	0	2,843	2,843
0	(35,030)	(35,030)	Housing Revenue Account	0	(16,356)	(16,356)
43,484	2,833	46,317	Housing & Communities	44,416	4,615	49,031
3,020	343	3,363	Performance & Partnerships	2,616	331	2,947
40,571	29,446	70,017	Planning Transport and Environment	41,027	22,461	63,488
17,443	2,048	19,491	Resources	16,655	5,231	21,886
171,110	2,032	173,142	Social Services	177,241	3,664	180,905
34,983	(36,809)	(1,826)	Summary Revenue Account	31,971	(41,754)	(9,783)
608,915	24,759	633,674	Net Cost of Services	623,589	(57,849)	565,740
(558,589)	(34,004)	(592,593)	Other Income and Expenditure	(575,055)	(26,409)	(601,464)
50,326	(9,245)	41,081	(Surplus) or Deficit on Provision of Services	48,534	(84,258)	(35,724)
	Council Fund	HRA Balance			Council Fund	HRA Balance
	14,255	8,983	Opening Balance as at 1 April		14,255	8,983
	0	0	Surplus/(Deficit)		0	0
	14,255	8,983	Closing Balance as at 31 March		14,255	8,983

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2.1 Note to the Expenditure and Funding Analysis

The adjustments between Accounting and Funding basis are analysed further in the following table.

2018/19				Directorate	2019/20			
Adjustments for capital purposes	Net change for Pensions Adjustments	Other Adjustments	Total Adjustments		Adjustments for capital purposes	Net change for Pensions Adjustments	Other Adjustments	Total Adjustments
£000	£000	£000	£000		£000	£000	£000	£000
8,363	22,823	(20,541)	10,645	Corporate Management	64	9,815	(22,477)	(12,598)
24,743	1,177	2,455	28,375	Economic Development	7,258	2,385	(345)	9,298
19,191	1,288	(2,819)	17,660	Education & Lifelong Learning	(38,090)	5,027	(2,862)	(35,925)
5	157	150	312	Governance & Legal Services	5	350	(14)	341
2,744	157	3	2,904	Harbour Authority	2,751	110	(18)	2,843
(5,793)	514	(29,751)	(35,030)	Housing Revenue Account	13,322	2,157	(31,835)	(16,356)
1,330	1,203	300	2,833	Housing and Communities	1,059	2,422	1,134	4,615
0	152	191	343	Performance & Partnerships	0	291	40	331
28,628	1,189	(371)	29,446	Planning Transport and Environment	20,082	2,954	(575)	22,461
1,383	1,066	(401)	2,048	Resources	1,625	2,551	1,055	5,231
335	1,343	354	2,032	Social Services	(69)	3,748	(15)	3,664
0	0	(36,809)	(36,809)	Summary Revenue Account	0	6	(41,760)	(41,754)
80,929	31,069	(87,239)	24,759	Net Cost of Services	8,007	31,816	(97,672)	(57,849)
(50,091)	16,087	0	(34,004)	Other Income and Expenditure from the Expenditure & Funding Analysis	(41,282)	14,810	63	(26,409)
30,838	47,156	(87,239)	(9,245)	(Surplus) or Deficit on Provision of Services	(33,275)	46,626	(97,609)	(84,258)

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i. Adjustments for capital purposes

Depreciation, impairment charges and revaluation gains and losses are included within the net cost of services. In addition:

- other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- financing and investment income – the statutory charges for capital financing i.e. prudent revenue provision and other revenue contributions are deducted from other income and expenditure, as these are not chargeable under generally accepted accounting practices (GAAP).
- taxation and non-specific income and expenditure - capital grants are adjusted for income not chargeable under GAAP. Revenue grants are adjusted from those receivable during the year to those receivable without conditions or for which conditions were satisfied throughout the year. The taxation and non-specific income and expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied within the year.

ii. Net Change for Pension Adjustments

The removal of pension contributions and the addition of the IAS19 Employee Benefits pension related expenditure and income are reflected as follows:

- for the net cost of services – the removal of the employer pension contributions made by the Council as determined by statute and their replacement with current service costs and past service costs.
- for financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

iii. Other Adjustments

The amounts debited/credited to the CIES and amounts payable/receivable to be recognised under statute are as follows:

- for financing and investment income and expenditure – the other differences column recognises adjustments to the Council Fund for the timing differences of premiums and discounts.
- the charge for taxation and non-specific grant income represents the difference between what is chargeable under statute for council tax and NDR that was forecast to be received at the start of the year, and the income recognised under GAAP. This is a timing difference as any difference is brought forward in the surpluses or deficits on the collection fund.

2.2. Expenditure and Income Analysed by Nature

As well as by Directorate, the Council's expenditure and income analysed by type is shown below.

2018/19		2019/20
£000		£000
489,988	Employee Benefits Expenses	521,284
584,086	Other Service Expenses	504,618
89,808	Depreciation, Amortisation & Impairment *	63,750
5,066	Change in Fair Value of Investment Properties	6,566
32,176	Interest Payments	32,960
51,305	Precepts & Levies	55,562
9,106	Loss on Sale of Non-Current Assets	4,642
1,261,535	Total Expenditure	1,189,382
(199,993)	Fees, Charges & Other Service Income	(218,636)
(5,655)	Change in Fair Value of Investment Properties	(2,475)
(972)	Interest and Investment Income	(1,129)
(643,511)	Income from Council Tax and Non-Domestic Rates **	(333,623)
(360,733)	Grants and Contributions **	(660,562)
(9,590)	Gain on Sale of Non-Current Assets	(8,681)
(1,220,454)	Total Income	(1,225,106)
41,081	Surplus & Deficit on the Provision of Services	(35,724)

* In 2018/19 revaluation figures were included within Depreciation, Amortisation & Impairment. In 2019/20 they are included within Other Service Expenses.

** In 2018/19 Revenue Support Grant was included in Income from Council Tax and Non-Domestic Rates. In 2019/20 it is included within Grants and Contributions.

3. Precepts and Levies

2018/19		2019/20
£000		£000
	Precepts	
33,499	Police and Crime Commissioner for South Wales	37,469
	Community Councils:	
34	- Lisvane	39
143	- Pentyrch	155
122	- Radyr	124
18	- St Fagans	21
30	- Old St Mellons	37
20	- Tongwynlais	21
33,866	Total Precepts	37,866
	Levies & Contributions	
17,181	South Wales Fire and Rescue Service	17,438
139	Natural Resources Wales	139
114	Cardiff Port Health Authority	114
5	Newport Health Authority	5
17,439	Total Levies and Contributions	17,696

4. Participation in Joint Committees

During 2019/20 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. The Statement of Accounts for each Joint Committee will be available on the lead authority's website.

2018/19	Committee	Purpose	Lead Authority	2019/20
£000				£000
239	Cardiff Capital Region City Deal* (CCRCD)	To co-ordinate and discharge Councils' obligations in relation to the City Deal	Cardiff Council	258
1,523	Central South Consortium Joint Education Service	To provide a regional approach to improvement in schools	Rhondda Cynon Taf Council	1,453
209	Glamorgan Archives*	Management and administration of the Glamorgan Records Office	Cardiff Council	209
27	Prosiect Gwyrdd*	To manage residual waste treatment	Cardiff Council	27
576	Regional Adoption Service	To share best practice, develop and improve adoption services	Vale of Glamorgan Council	631
5,110	Shared Regulatory Service	To provide environmental health services	Vale of Glamorgan Council	4,911
7,684	Total			7,489

In previous years, the Council has included its share of the transactions and balances of each Joint Committee in its accounting statements. This was reviewed in 2019/20 to include the contributions to each Joint Committee as outlined in table above, except for CCRCD where the Council continues to show its share of transactions and balances in its accounting statements.

Capital contributions to CCRCD in respect to the Wider Investment Fund are included in the core financial statements but not shown in the table above. No capital contributions were made in 2019/20 (£2.920 million for 2018/19).

5. 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, totaled across all bands and adjusted for discounts. Cardiff's Council Tax base for 2019/20 was 145,499 (143,453 for 2018/19).

The amounts for a band D property in Cardiff during 2019/20 were as follows:

2018/19	Band D Council Tax:	2019/20
£		£
1,155	Cardiff Council	1,211
234	Police and Crime Commissioner for South Wales	258
1,389	Total	1,469

The above amount (£1,469) 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.

Band	A	B	C	D	E	F	G	H	I
Multiplier	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:

2018/19		2019/20
£000		£000
(202,564)	Council Tax collectable	(217,119)
2,282	Impairment for non-payment of Council Tax	(766)
(200,282)	Net proceeds	(217,885)
	Represented by:	
33,866	Precepts	37,866
166,416	Council Tax attributable to the Council	180,019

The cumulative impairment for non-payment of Council Tax held at the 31 March 2020 is £6.920 million (£8.730 million at 31 March 2019).

Council Tax that is past due but not impaired:

31 March 2019		31 March 2020
£000		£000
272	Debts less than one year	3,184
288	Debts between two and 5 years	1,258
30	Debts over five years	113
590	Total Council Tax due but not impaired	4,555

6. Non-Domestic Rates (NDR)

The Welsh Government specifies an amount for the rate (52.6p in 2019/20 and 51.4p in 2018/19) 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 Councils on the basis of a fixed amount per head of population. The rateable value was £460.510 million for 2019/20 (£458.132 million 2018/19). An analysis of the net proceeds from non-domestic rates is shown below:

2018/19		2019/20
£000		£000
194,593	Non-Domestic Rates collectable	200,116
(903)	Cost of collection allowance	(919)
(2,658)	Impairment for non-payment	(3,869)
191,032	Payment into national pool	195,328
(115,383)	Redistribution from national pool	(116,504)

7. Agency Income and Expenditure

The Council acted 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 £5.095 million at 31 March 2020 (£9.452 million at 31 March 2019) 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 2020 the Welsh Government had provided £2.736 million of funding, of which £759,000 is outstanding as loans provided. The balance available for new loans was £1.977 million (£1.877 million at 31 March 2019).
- Home Improvement loans – provide loans for home improvements. At 31 March 2020 the Welsh Government had provided £1.062 million of funding, of which £466,000 is outstanding as loans provided leaving a balance available for new loans of £416,000.
- Covid-19 Business Grants. The Council distributed grants to eligible business on behalf of the Welsh Government totaling £23.265 million and this is shown within the debtors balance at 31 March 2020.

South Wales Trunk Road Agency

The total reimbursement received by the Council was £294,000 in 2019/20 (£393,000 in 2018/19).

FOR Cardiff

This is a partnership between the local business community and the Council to form a Business Improvement District in a defined area within the city centre. A levy is charged on all business rate payers of all relevant businesses in addition to their business rates bill. This is used to develop projects benefitting the local area. Further information is available on their website <https://www.forcardiff.com>. The Council collects the income and pays this over to FOR Cardiff. This totaled £1.460 million in 2019/20 (£1.620 million in 2018/19).

Prosiect Gwyrdd

The Council is responsible for the payments to Viridor to provide waste treatment in relation to residual waste. The Council made payments of £9.207 million in 2019/20 (£9.476 million in 2018/19) on behalf of all the partners.

8. Remuneration

8.1 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 2019/20 was 1:7 (1:7 in 2018/19). The median full time equivalent earnings for 2019/20 was £25,901 (£25,105 in 2018/19). These figures include staff directly employed by the governing bodies of schools including a Voluntary-Controlled and a Foundation school and several Voluntary-Aided schools, as well as those employed by the Council.

8.2 The Accounts and Audit (Wales) Regulations 2014 also require 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 fall within this category including teaching staff. The table excludes any staff paid via agency.

The remuneration bands 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 table separately identifies individuals directly employed by the governing bodies of schools including several Voluntary-Aided, Voluntary-Controlled and Foundation schools, as well as those employed by the Council. The employee costs relating to these individuals are included with the Council's Net Cost of Services and, therefore, these individuals are included in the following table.

Number of Employees		Remuneration band £	Number of Employees	
2018/19			2019/20	
Non Schools	Schools		Non Schools	Schools
9	65	60,000-64,999	13	57
19	31	65,000-69,999	19	44
1	12	70,000-74,999	3	13
3	8	75,000-79,999	1	8
6	9	80,000-84,999	1	8
0	6	85,000-89,999	7	6
2	1	90,000-94,999	0	5
1	3	95,000-99,999	1	3
1	2	100,000-104,999	1	1
0	1	105,000-109,999	0	2
0	1	110,000-114,999	0	0
0	0	115,000-119,999	0	0
4	2	120,000-124,999	0	1
0	1	125,000-129,999	4	3
0	0	130,000-134,999	0	0
2	1	135,000-139,999	2	0
0	0	140,000-144,999	0	0
0	0	145,000-149,999	0	0
0	1	150,000-154,999	0	0
0	0	155,000-159,999	0	1
0	0	160,000-164,999	0	0
0	0	165,000-169,999	0	1
0	0	170,000-174,999	0	0
1	0	175,000-179,999	0	0
0	0	180,000-184,999	1	0
49	144	Total	53	153

8.3 Shown in the tables below are remuneration details as required by regulation:

- senior employees who form part of the Council's Senior Management Team (Directors, Assistant Directors and Heads of Service) whose salary is £60,000 or more per annum but less than £150,000. These are identified by job title.
- senior employees whose salary is £150,000 or more on an annualised basis are identified by name.
- the table does not include senior employees in schools.

Remuneration also includes the cost of any additional contributions that the Council is required to make to the Pension Fund in respect of the individuals who are leaving the Council i.e. Enhancement of Retirement Benefits (Pension Strain costs). No bonuses have been paid during 2019/20 (£0 in 2018/19)

2018/19 Total remuneration including pension contributions £	2019/20 Post title	Note	Salary, fees and allowances received £	Taxable benefits £	Compensation for loss of employment			Employers pension contribution (23.3% of salary) £	Total remuneration including pension contributions £	Explanatory notes
					Received via payroll (taxable) £	Received via payroll (non-taxable) £	Enhancement of Retirement Benefits £			
218,453	Chief Executive - Paul Orders	(a)	180,423	0	0	0	0	42,399	222,822	
135,265	Corporate Director Resources & Section 151 Officer	(a)	767	0	0	0	0	0	767	Relinquished S151 duties 10/03/2019. Left the Council 02/04/2019.
9,430	Corporate Director Resources & Section 151 Officer		137,970	0	0	0	0	32,423	170,393	Commenced 11/03/2019.
167,052	Corporate Director People and Communities		137,970	0	0	0	0	32,423	170,393	
154,202	Director Planning, Transport & Environment		127,357	0	0	0	0	29,929	157,286	
154,202	Director Economic Development		127,357	0	0	0	0	29,929	157,286	
154,365	Director Education & Lifelong Learning		97,640	0	0	0	0	12,470	110,110	Reduced hours from 01/09/2019. Annualised salary £127,357.

2018/19 Total remuneration including pension contributions £	2019/20 Post title	Note	Salary, fees and allowances received £	Taxable benefits £	Compensation for loss of employment			Employers pension contribution (23.3% of salary) £	Total remuneration including pension contributions £	Explanatory notes
					Received via payroll (taxable) £	Received via payroll (non-taxable) £	Enhancement of Retirement Benefits £			
153,872	Director Governance & Legal Services & Monitoring Officer		127,357	0	0	0	0	28,781	156,138	
112,336	Director Social Services		127,357	0	0	0	0	29,929	157,286	Commenced 09/07/2018.
12,634	Director Social Services		0	0	0	0	0	0	0	Left the Council 30/04/2018.
123,790	Chief Digital Officer		102,240	0	0	0	0	24,026	126,266	
10,225	Assistant Director Adult Services		0	0	0	0	0	0	0	Left the Council 06/05/2018.
19,732	Assistant Director Adult Services		86,603	0	0	0	0	20,352	106,955	Commenced 24/01/2019.
73,704	Assistant Director Children's Services	(b)	0	0	0	0	0	0	0	Left the Council 12/10/2018.
82,123	Assistant Director Children's Services	(b)	199,849	0	0	0	0	0	199,849	Commenced 22/04/2019. Annualised salary £86,603.
106,725	Assistant Director Commercial Services		0	0	0	0	0	0	0	Post deleted 30/09/2018.
96,965	Assistant Director Education & Lifelong Learning		0	0	0	0	0	0	0	Left the Council 03/03/2019.
0	Assistant Director Education & Lifelong Learning		50,518	0	0	0	0	11,872	62,390	Commenced 01/09/2019. Annualised salary £86,603.
104,858	Assistant Director Housing & Communities		86,603	0	0	0	0	20,352	106,955	
82,876	Assistant Director Street Scene		86,603	0	0	0	0	20,352	106,955	Post commenced 20/06/2018.

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2018/19	2019/20	Note	Salary, fees and allowances received	Taxable benefits	Compensation for loss of employment			Employers pension contribution (23.3% of salary)	Total remuneration including pension contributions	Explanatory notes
					Post title	Received via payroll (taxable)	Received via payroll (non-taxable)			
£	£	£	£	£	£	£	£	£	£	
0	Programme Director - Schools Organisation Programme		71,688	0	0	0	0	16,636	88,324	Commenced 03/06/2019. Annualised salary £86,603.
104,858	Chief Human Resources Officer		86,603	0	0	0	0	20,352	106,955	
104,858	Head of Finance		86,603	0	0	0	0	20,352	106,955	
92,687	Head of Performance & Partnerships		0	0	0	0	0	0	0	Left the Council 17/02/2019.
0	Head of Performance & Partnerships		81,551	0	0	0	0	20,031	101,582	Commenced 22/04/2019. Annualised salary £86,603.

- a) In addition to the remuneration fees detailed in the table above, Corporate Director Resources received fees relating to Returning Officer duties of £652.41 in 2018/19. This role was transferred to the Chief Executive and any subsequent fees were waived for this role in 2019/20.
- b) During 2019/20 agency invoices of £199,849 (£155,827 in 2018/19) were paid for services received in 2019/20 as Assistant Director Children's Services.

8.4 Exit Packages

The numbers of exit packages with total cost per band and the total cost of the compulsory and other redundancies 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 which is paid by the Council to the Pension Fund over a five year period.

2018/19				Exit package cost band (including special payments)	2019/20			
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 £		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 £
44	102	146	1,204,141	£0 - £20,000	60	85	145	1,031,334
5	57	62	1,522,036	£20,001 – £40,000	11	46	57	1,469,225
1	7	8	418,560	£40,001 – £60,000	3	7	10	478,119
1	3	4	267,582	£60,001 – £80,000	1	5	6	426,406
0	5	5	470,239	£80,001 – £100,000	0	4	4	354,718
0	4	4	482,765	£100,001 – £150,000	0	3	3	355,610
0	0	0	0	£150,001 – £200,000	0	3	3	491,430
51	178	229	4,365,323	Total	75	153	228	4,606,842

8.5 Members Allowances

The total amount of Members' Allowances (including basic and special responsibility) paid in 2019/20 was £1.340 million (£1.320 million in 2018/19). As required by the Code, this figure includes all remuneration paid to members including basic and special allowances, care allowances and directly reimbursed expenses.

9. Health Act 1999 Pooled Funds and Similar Arrangements

The Cardiff and Vale Joint Equipment Store (JES) 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 transactions are included in the Housing & Communities line of the Comprehensive Income and Expenditure Statement.

Under regulation 19(1) of the Partnership Arrangements (Wales) Regulations 2015, a pooled budget arrangement has been agreed between Cardiff and Vale local authorities and the Cardiff and Vale University Health Board in relation to the provision of care home accommodation for older people. The arrangement came into effect on 1st April 2018, initially for one year, however, the agreement has been extended to also cover the 2019/20 financial year. Cardiff Council has acted as host authority during both years of the agreement. The Cardiff Council transactions are included in the Social Services line of the Comprehensive Income and Expenditure statement.

Income and expenditure for these pooled budget arrangements for the year ending 31 March 2020 are as follows:

2018/19 £000			2019/20 £000	
Joint Equipment	Care Homes for older people		Joint Equipment	Care Homes for older people
		Expenditure		
1,832	0	Equipment	1,735	0
102	0	Contribution to Overheads	102	0
0	60,844	Care Home costs	0	64,412
1,934	60,844	Total Expenditure	1,837	64,412
		Funding		
(1,289)	(27,408)	Cardiff and Vale University Health Board	(1,292)	(29,064)
(391)	(24,099)	Cardiff Council	(337)	(24,771)
(212)	(9,337)	Vale of Glamorgan Council	(208)	(10,577)
(1,892)	(60,844)	Total Funding	(1,837)	(64,412)
42	0	(Surplus)/Deficit transferred to Reserve	0	0

10. 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.

For 2019/20, a wider review has been undertaken on the CIPFA disclosure requirements for related parties in conjunction with WAO. This highlighted areas where disclosure for related parties is already being disclosed in other notes to the accounts e.g. in respect of Central Government Grants and other Public and NHS bodies. As a result, the figures for 2019/20 Members interests are significantly lower from those disclosed in 2018/19 statement.

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, providing the majority of its funding in the form of grants and prescribing the terms of many of the transactions that the Council has with other parties. Grants received from government departments are set out in note 28 including grant receipts outstanding at 31 March 2020.

Members of the Council have direct control over the Council's financial and operating policies. The total members' allowances paid in 2019/20 is shown in note 8. Members' interests in other organisations have been identified by an inspection of the Members' and Officers' Declaration of Interest Register. This is available on the Councils Website <https:cardiff.moderngov.co.uk/mgMemberIndex>.

During 2019/20, goods and services totalling £1.255 million were commissioned from organisations in which members had an interest (£28.954 million in 2018/19). The largest payments were made to the Huggard

Centre, Cartref Care Homes and Cardiff Mind Ltd . Within these, grants totalling £209,000 were paid to three companies where Members have an interest. The relevant members did not take part in any discussion or decision relating to the grants. Income was received of £140,000 (£41.167 million in 2018/19) with an outstanding debtor balance of £59,000.

Officer's emoluments are shown in note 8. In 2019/20, for organisations in which Senior Officers had an interest there were no goods or services commissioned (£20,000 in 2018/19). For goods and services provided, income of £99,000 was received in 2019/20 (£245,000 in 2018/19). Of this income, £49,000 is also included in the income for members as there are officers and members represented on the board.

Subsidiary Companies include Cardiff City Transport Services (Cardiff Bus), Cardiff Business Technology Centre (CBTC), and Atebion Solutions Ltd. Details of transactions with these companies are shown in note 22 to the Core Financial Statements.

Pension Fund contributions paid to the Fund are shown in note 15.

Precepts and Levies collected on behalf of other organisations and an analysis of amounts levied on the Council by other bodies can be found in note 3 to the Core Financial Statements. Separate to the precept, the Council made payments of £78,000 to Police and Crime Commissioner for South Wales during 2019/20 (£41,000 in 2018/19).

11. External Audit Costs

2018/19		2019/20
£000		£000
382	Fees payable to Wales Audit Office for external audit services	382
65	Fees payable to Wales Audit Office for the certification of grant claims	50
20	Fees payable to Wales Audit Office for other financial audit work	20
467	Total	452

12. Leasing

Council 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 2019/20:

2018/19		2019/20
£000		£000
1,275	Property Leases	1,340
2,316	Other Leases	2,022
3,591		3,362

The Council was committed at 31 March 2020 to making payments of £12.494 million under operating leases (£12.228 million at 31 March 2019) comprising the following elements:

31 March 2019			31 March 2020	
Property Leases £000	Other Leases £000		Property Leases £000	Other Leases £000
		Minimum lease payments		
1,217	2,003	Not later than one year	1,167	2,143
1,529	3,355	Later than one year but not later than five years	994	2,833
4,119	5	Later than five years	5,327	30
6,865	5,363		7,488	5,006

Finance Leases

There were no finance leases at 31 March 2020 (none in 2018/19) and there are no future obligations under finance leases.

Council as Lessor

Operating Leases

Operating leases exist in respect of land and buildings and the Council received revenue of £7.235 million in 2019/20 (£5.608 million in 2018/19).

The Council was committed as at 31 March 2020 to receiving income of £489.118 million (£420.966 million as at 31 March 2019) under operating leases for Land & Buildings comprising the following elements:

31 March 2019 £000	Minimum Income	31 March 2020 £000
5,188	Not later than one year	8,647
16,984	Later than one year and not later than five years	29,385
398,794	Later than five years	451,086
420,966		489,118

Finance Leases

The Council does not provide any leases of this type.

13. Investment Properties

The following items have been accounted for in the Economic Development line in the Comprehensive Income and Expenditure Statement:

2018/19 £000		2019/20 £000
(5,688)	Rental income from investment property	(6,231)
1,839	Direct operating expenses arising from investment property	2,011
(3,849)	Net (gain) / loss	(4,220)

Subject to the terms and conditions of individual lease arrangements, the Council does have contractual obligations to repair, maintain or enhance certain properties.

14. Prudent Revenue Provision

The Council is required to set aside annually from its revenue budget, 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 of 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.

2018/19		2019/20
£000		£000
26,635	Council Fund revenue provision	24,055
11,413	Housing Revenue Account provision	12,807
38,048	Prudent revenue provision	36,862

15. Pensions

Participation in Pension Schemes

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council 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; and
- Local Government Pension Scheme.

Teachers' Pension Scheme

Unless they opt out, teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Teacher's Pension Agency on behalf of the Department for Education. It is a defined benefit scheme and although it is unfunded, it is a notional fund as a basis for calculating the employer's contribution rate. However, it is not possible for the Council to identify its 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 Council's contributions to the scheme.

In 2019/20 the Council paid £25.973 million in respect of teachers' pension costs, which represents 16.5% of teachers' pensionable pay for April to August and 20.7% of teachers' pensionable pay for September to March (£20.104 million representing 16.5% of teachers' pensionable pay in 2018/19). In addition, the Council 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.

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 (The Fund), for which the Council acts as Administering Authority. This is a defined benefit scheme based on career-average pensionable salary. Both the Council and the employees pay contributions into the Fund, calculated at a level intended to balance its liabilities and 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 Fund and, where applicable, certain unfunded benefits provided by the Employer as referred to above.

Transactions relating to retirement benefits

The core financial statements have been compiled in accordance with International Accounting Standards 19 – Employee Benefits (IAS 19) and for the Local Government Pension Scheme, include the cost to the Council 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 amount 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 by Cardiff Council in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement during the year.

2018/19				2019/20		
Funded scheme	Unfunded liabilities	Total		Funded scheme	Unfunded liabilities	Total
£000	£000	£000		£000	£000	£000
			Comprehensive Income and Expenditure Statement (CIES)			
			Net Cost of Services			
55,670	0	55,670	Current Service Cost	70,650	0	70,650
22,348	1,250	23,598	Past Service Costs	10,550	0	10,550
			Financing & Investment Income and Expenditure			
14,760	1,180	15,940	Interest on net defined benefit liability/(asset)	13,680	1,130	14,810
92,778	2,430	95,208	Net charge to CIES	94,880	1,130	96,010
			Remeasurement of the net Defined Liability comprising			
(52,880)	0	(52,880)	Returns on Plan Assets excluding amounts included in net interest	168,680	0	168,680
102,180	1,480	103,660	Actuarial losses arising from changes in Financial assumptions	(57,738)	(500)	(58,238)

(76,170)	(2,260)	(78,430)	Actuarial gains arising from changes in demographic assumptions	(28,360)	(1,890)	(30,250)
2,880	3,900	6,780	Other experience and Actuarial adjustments	47,260	(230)	47,030
(23,990)	3,120	(20,870)	Total Remeasurements recognised in Other Comprehensive Income	129,842	(2,620)	127,222
68,788	5,550	74,338	Total charged to Comprehensive Income and Expenditure Statement	224,722	(1,490)	223,232

2018/19				2019/20		
Funded scheme £000	Unfunded liabilities £000	Total £000		Funded scheme £000	Unfunded liabilities £000	Total £000
			Movement in Reserves Statement			
(92,778)	(2,430)	(95,208)	Reversal of net charges made for retirement benefits in accordance with IAS19	(94,880)	(1,130)	(96,010)
			Actual amount charged against Council Tax in respect of pensions for the year			
44,540	0	44,540	Employers contributions payable to the scheme	47,130	0	47,130
0	3,350	3,350	Payments in respect of unfunded pensions liabilities **	0	3,110	3,110
44,540	3,350	47,890	Total	47,130	3,110	50,240

* 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 Taf (RCT) Council on behalf of the Council.

Reconciliation of funded status to Balance Sheet

31 March 2019				31 March 2020		
Funded scheme £000	Unfunded liabilities £000	Total £000		Funded scheme £000	Unfunded liabilities £000	Total £000
(1,820,380)	(46,520)	(1,866,900)	Opening present value of liabilities	(1,931,978)	(48,720)	(1,980,698)
(55,670)	0	(55,670)	Current service cost	(70,650)	0	(70,650)
(46,800)	(1,180)	(47,980)	Interest cost	(45,280)	(1,130)	(46,410)
(11,240)	0	(11,240)	Contributions by participants	(11,990)	0	(11,990)
(28,890)	(3,120)	(32,010)	Remeasurements in Other Comprehensive Income (OCI)	38,838	2,620	41,458
53,350	3,350	56,700	Net benefits paid out *	56,890	3,110	60,000
(22,348)	(1,250)	(23,598)	Past service cost	(10,550)	0	(10,550)
(1,931,978)	(48,720)	(1,980,698)	Closing present value of liabilities	(1,974,720)	(44,120)	(2,018,840)
1,230,630	0	1,230,630	Opening fair value of assets	1,317,980	0	1,317,980
32,040	0	32,040	Interest income on assets	31,600	0	31,600
52,880	0	52,880	Remeasurement gains/(losses) on assets	(168,680)	0	(168,680)
44,540	0	44,540	Contributions by employer	47,130	3,110	50,240
11,240	0	11,240	Contributions by participants	11,990	0	11,990
(53,350)	0	(53,350)	Net benefits paid out *	(56,890)	(3,110)	(60,000)
1,317,980	0	1,317,980	Closing fair value of assets	1,183,130	0	1,183,130
(613,998)	(48,720)	(662,718)	Net pension asset /(liability)*	(791,590)	(44,120)	(835,710)

*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.

There has been a significant increase in the pension liability at 31 March 2020 as compared to the previous year. This is due to a large decrease in the value of assets as a result of the impact of Covid-19 on financial markets. However, it is important to note that this is a snap shot of the position as at 31 March 2020. The Pension Fund is a defined benefit scheme, which means that members' benefits are not linked to stock market performance. The Pension Fund is a long term investor and members can be assured that contributions are reviewed as part of the triennial valuation.

Contributions for year ending 31 March 2021

Local Government Scheme - employer's regular contributions to the Fund for the accounting period ending 31 March 2021 are estimated to be £45.941 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 2021 the Council expects to pay £3.171 million directly to beneficiaries.

Basis for estimating assets and liabilities

The principal assumptions used by the independent qualified actuaries in updating the full March 2019 valuation figures as at 31 March 2020, for IAS19 purposes, are shown in the following table:

31 March 2019	Assumptions	31 March 2020
	Longevity at 45 for Current Pensioners (years)	
23.0	Men	23.2
25.9	Women	26.0
	Longevity at 65 for Current Pensioners (years)	
22.4	Men	22.2
24.8	Women	24.6
	Rates	
2.2%	Rate of Inflation - Consumer Price Index (CPI)	2.0%
3.2%	Rate of general increase in salaries*	3.0%
2.2%	Rate of increase to pensions in payment**	2.0%
2.2%	Rate of increase to deferred pensions	2.0%
2.4%	Discount rate for scheme liabilities	2.3%

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 Council does not invest in property or assets related to itself. However it is possible 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 2019				31 March 2020		
Quoted %	Unquoted %	Total %	Assets	Quoted %	Unquoted %	Total %
59.7	4.0	63.7	Equities	62.7	3.6	66.3
7.7	0.0	7.7	Property	6.9	0.0	6.9
10.7	0.0	10.7	Government Bonds	9.5	0.0	9.5
11.0	0.0	11.0	Corporate Bonds	15.8	0.0	15.8
1.5	0.0	1.5	Cash	1.4	0.0	1.4
5.4	0.0	5.4	Other*	0.1	0.0	0.1
96.0	4.0	100.0	Total	96.4	3.6	100.0

*Other holdings may include hedge funds, currency holdings, asset allocation futures and other financial instruments.

History of Asset Values, Present Value of Liabilities and Surplus/ (Deficit)

	31 March 2016	31 March 2017	31 March 2018	31 March 2019	31 March 2020
	£000	£000	£000	£000	£000
Fair value of assets	1,014,120	1,198,860	1,230,630	1,317,980	1,183,130
Present value of funded liabilities	(1,513,150)	(1,730,930)	(1,820,380)	(1,931,978)	(1,974,720)
Present value of unfunded liabilities	(46,650)	(47,490)	(46,520)	(48,720)	(44,120)
Surplus/(deficit)	(545,680)	(579,560)	(636,270)	(662,718)	(835,710)

Sensitivity Analysis of Present Value of Funded Liabilities

Results of sensitivity are shown below, in each case, only the assumption mentioned is altered and all other assumptions remain the same. The sensitivity of unfunded benefits is not included on materiality grounds.

Funded Defined Benefit Obligation £1,974,700	+0.1% p.a		-0.1% p.a	
Change in Assumptions on Present value of the funded defined benefit obligations	£000	% Increase /Decrease to Employee Liability	£000	
Adjustment to Discount rate	1,935,210	-2.0%	2.1%	2,016,170
Adjustment to Salary Increase rate	1,978,650	0.2%	-0.2%	1,970,750
Adjustment to Pension Increase rate	2,012,220	1.9%	-1.8%	1,939,160
Adjustment to Mortality rate	2,037,890	3.2%	-3.2%	1,911,510

16. Non-Current Assets

Property, Plant and Equipment	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	P, P & E under construction	Total Property, Plant & Equipment
Movements in Cost or Values	£000	£000	£000	£000	£000	£000	£000	£000
1 April 2018	574,175	744,734	37,887	624,214	19,736	39,572	67,725	2,108,043
Additions	22,682	45,396	6,462	18,396	10	3,844	23,270	120,060
Revaluations Increases/(Decreases) recognised in the RR*	17,507	(1,854)	0	0	0	(1,833)	0	13,820
Revaluations Increases/(Decreases) recognised in the SDPS**	(9,008)	(46,606)	0	0	0	130	156	(55,328)
Impairment Losses/Reversals to RR	0	(174)	0	0	0	(2,225)	0	(2,399)
Impairment Losses/Reversals to SDPS	(133)	(756)	0	0	0	(2,784)	(78)	(3,751)
Derecognition - Disposals	(711)	(2,608)	(3,932)	0	0	(81)	0	(7,332)
Reclassified (to)/from Held for Sale	0	0	0	0	0	(1,695)	0	(1,695)
Other Reclassifications - Transfers	277	42,387	795	6,748	60	3,271	(54,772)	(1,234)
31 March 2019	604,789	780,519	41,212	649,358	19,806	38,199	36,301	2,170,184
Additions	29,643	12,993	4,000	13,913	82	1,823	28,922	91,376
Revaluations Increases/(Decreases) recognised in the RR	0	645	0	0	0	7,084	0	7,729
Revaluations Increases/(Decreases) recognised in the SDPS	0	45,959	0	0	0	(1,717)	0	44,242
Impairment Losses/Reversals to RR	0	(1,940)	0	0	0	(417)	0	(2,357)
Impairment Losses/Reversals to SDPS	(168)	(2,884)	0	0	0	(1,292)	(152)	(4,496)
Derecognition - Disposals	(295)	0	(4,319)	0	0	(1,645)	0	(6,259)
Write Out of Joint Committees	0	0	(153)	0	0	0	0	(153)
Reclassified (to)/from Held for Sale	0	0	0	0	0	420	0	420
Other Reclassifications - Transfers	16,717	6,387	20	1,139	9	2,460	(26,732)	0
31 March 2020	650,686	841,679	40,760	664,410	19,897	44,915	38,339	2,300,686
Movements in Depreciation/Impairment								
1 April 2018	25,971	40,827	22,653	333,039	0	0	0	422,490
Depreciation Charge	9,908	17,307	5,422	21,217	0	0	0	53,854
Depreciation written out on Impairment	0	(130)	0	0	0	0	0	(130)
Depreciation written out to the RR	0	(10,192)	0	0	0	0	0	(10,192)
Depreciation written out to the SDPS	(25,971)	(14,759)	0	0	0	0	0	(40,730)
Derecognition - Disposals	0	(147)	(3,897)	0	0	0	0	(4,044)
Reclassifications - Transfers	0	(67)	0	0	0	0	0	(67)
31 March 2019	9,908	32,839	24,178	354,256	0	0	0	421,181
Depreciation Charge	10,908	20,895	5,336	20,877	0	0	0	58,016
Depreciation written out on Impairment	0	(450)	0	0	0	0	0	(450)
Depreciation written out to the RR	0	(11,446)	0	0	0	0	0	(11,446)
Depreciation written out to the SDPS	0	(12,564)	0	0	0	0	0	(12,564)
Derecognition - Disposals	(4)	0	(4,295)	0	0	0	0	(4,299)
Write Out of Joint Committees	0	0	(32)	0	0	0	0	(32)
Reclassifications - Transfers	0	(56)	0	0	0	0	0	(56)
31 March 2020	20,812	29,218	25,187	375,133	0	0	0	450,350

Net Book Value

At 31 March 2019	594,881	747,680	17,034	295,102	19,806	38,199	36,301	1,749,003
At 31 March 2020	629,874	812,461	15,573	289,277	19,897	44,915	38,339	1,850,336

* RR = Revaluation Reserve

** SDPS = Surplus or deficit on Provision of Services

Heritage Assets

2018/19		2019/20
£000		£000
54,099	Balance at 1 April	54,152
53	Additions	231
0	Revaluation increases /(decreases) to RR	4,233
54,152	Balance at 31 March	58,616

The Council has tangible heritage assets which consist mainly of the following three 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. In addition 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 <https://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 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. Details of these monuments are held within the scheduled ancient monuments in Cardiff information leaflet which is available on www.cardiff.gov.uk under Resident, Planning and Conservation of the Built Environment section.

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 £42.594 million undertaken externally as at 1 April 2019, by Mr A.N. 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.

Investment Properties

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

2018/19		2019/20
£000		£000
103,820	Balance at 1 April	118,003
12,679	Additions	58,624
(185)	Impairment	(6,413)
(318)	Disposals	(2,393)
0	Reclassified (to) / from Held for Sale	0
1,234	Other Reclassifications	0
0	Revaluation increases / (decreases) to RR*	0
774	Revaluation increases / (decreases) to SDPS**	2,323
118,003	Balance at 31 March	170,144

* Revaluation Reserve

** Surplus/Deficit on Provision of Services

Intangible Assets

Movements in intangible assets during 2019/20 are summarised as follows:

2018/19		2019/20		
		Other Intangible Assets	Intangible AUC	Total
£000		£000	£000	£000
	Cost or Valuation			
8,835	Balance at 1 April	9,317	0	9,317
482	Additions	1,309	0	1,309
0	Other reclassifications	(67)	0	(67)
9,317	Balance at 31 March	10,559	0	10,559
	Amortisation			
6,134	Balance at 1 April	7,095	0	7,095
961	Amortisation	1,172	0	1,172
7,095	Balance at 31 March	8,267	0	8,267
	Net Book Value:			
2,222	Balance at 31 March	2,292	0	2,292

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 Council that has yet to be paid for. Prudent provision for the repayment of external borrowing (note 14) reduces the CFR.

2018/19		2019/20
£000		£000
773,164	Opening Capital Financing Requirement *	788,558
	Capital Expenditure:	
120,060	Property, Plant and Equipment	91,376
53	Heritage Assets	231
0	Assets Held for Sale	0
12,679	Investment Properties	58,624
482	Intangible Assets	1,309
1,661	Loans / Equity	132
8,098	Expenditure on REFCUS	12,744
	Sources of Finance:	
(22,037)	Capital Receipts	(5,497)
(56,406)	Government grants and other contributions	(52,574)
(11,120)	Direct revenue contributions and reserves	(7,135)
(38,076)	Prudent revenue and capital provision for loan repayment	(38,871)
788,558	Closing Capital Financing Requirement *	848,897
	Explanation of movements in year:	
(2,254)	Increase / (Decrease) in underlying need to borrow (supported by government financial assistance)	2,659
17,648	Increase / (Decrease) in underlying need to borrow (unsupported by government financial assistance)	57,680
15,394	Increase in Capital Financing Requirement	60,339

*This includes a notional amount in respect of Landfill provision of 2018/19 £21.389 million and 2019/20 £20.369 million

Revenue Expenditure funded from Capital under Statute (REFCUS)

The following amounts were treated as capital expenditure to be paid for from capital resources. The table 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 capital resources.

2018/19		2019/20
£000		£000
	Expenditure:	
5,055	Housing Improvement Grants	4,843
3,033	Buildings not owned by Cardiff Council	2,901
10	Grants awarded (not Housing Grants)	5,000
8,098	Charged to Income and Expenditure Statement	12,744
	Funded by:	

(7,388)	Grants and Contributions	(11,041)
(710)	Borrowing, Receipts and other Capital Resources	(1,703)
(8,098)		(12,744)

Significant capital expenditure contractual commitments

At 31 March 2020, the significant capital expenditure commitments scheduled for completion in 2020/21 and future years is shown below (£14.034 million 2018/19)

	£000
Wood Street Infrastructure - City Centre	6,364
Ty Gwyn Demountable Classroom	1,691
Michaelston College Demolition	778
Ysgol y Wern	728
Cardiff Living - New Housing Willowbrook	642
Cardiff Living - New Housing Briardene	541
North Road Cycle Route	535
Tudor Street Shops	500
Total	11,779

17. 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, including the method of determining fair value in accordance with accounting policies for Financial Assets and Liabilities, and consideration of the Business Model for holding investments. Creditors are shown separately in the respective notes rather than as financial instruments:

31 March 2019				31 March 2020		
Long Term £000	Short Term £000	Total £000		Long Term £000	Short Term £000	Total £000
			Amortised Cost :			
0	69,000	69,000	Investments - Principal	0	76,000	76,000
0	32	32	Investments - Accrued Interest	0	106	106
0	20,852	20,852	Cash and Cash Equivalents	0	35,922	35,922
0	21	21	Cash and Cash Equivalents Accrued Interest	0	29	29
0	89,905	89,905	Total Investments at Amortised Cost Included in Investments	0	112,057	112,057
10,948	0	10,948	Total Investments at Fair Value through Other Comprehensive Income	9,723	0	9,723
1,188	1,189	2,377	Loans	577	784	1,361
9,063	94,143	103,206	Other Debtors	8,124	136,056	144,180
10,251	95,332	105,583	Total Debtors	8,701	136,840	145,541
21,199	185,237	206,436	Total Financial Assets	18,424	248,897	267,321
			Financial liabilities at Amortised Cost			

(717,700)	(4,221)	(721,921)	Loans (Principal)	(807,540)	(21,233)	(828,773)
0	(9,085)	(9,085)	Loans Accrued Interest	0	(8,392)	(8,392)
(717,700)	(13,306)	(731,006)	Total Borrowings	(807,540)	(29,625)	(837,165)

Investments at amortised cost include:

- temporary investments deposited for various maturities with financial institutions. The fair value is deemed to be the carrying value (Level 2)

Investments at Fair Value through Other Comprehensive Income 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 valuation estimate is based on the net worth of the company as per its draft set of financial accounts (Level 3). The valuation can fluctuate dependent on the company's performance and economic climate and so any accounting valuation should be used with caution. Any change in value is offset by a corresponding movement to the 'Financial Instruments Revaluation Reserve'; hence there is no impact on Council Tax payable. The fair value of the investment at 31 March 2020 is estimated to be £9.356 million (£10.470 million in 2018/19)
- various minority equity holdings in companies are included either at cost or at quoted prices where available.

The above are held or acquired for Council policy purposes and have been elected to be accounted for as Fair Value through Other Comprehensive Income.

Debtors include:

- loans to small to medium enterprises including those for town centre regeneration and car loans to eligible Council staff
- grants, income due from service users, partners, deferred capital receipts to be received and offset by an impairment for credit losses where applicable.

Liabilities at Amortised Cost include:

- external borrowing undertaken to fund capital expenditure and short term cash flow requirements. It includes Lender Option Borrower Option Loans (LOBO) 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. Where possible and viable, opportunities for early repayment are considered. The carrying amounts below also include accrued interest payable at 31 March 2020. Interest payable for 2019/20 is £8.392 million (£9.085 million in 2018/19).

31 March 2019		Valuation Method - Level	31 March 2020	
Carrying amount £000	Fair value £000		Carrying amount £000	Fair value £000
(669,314)	(969,502)	Public Works Loan Board Loans (PWLB)	(706,425)	(951,353)
(51,637)	(74,647)	Lender Option Borrower Option Loans	(51,641)	(71,457)
(4,496)	(3,786)	Welsh Government	(16,114)	(12,178)
0	0	Local Authorities	(58,440)	(58,263)

(5,559)	(5,095)	Other Loans and Temporary Balances	Level 2	(4,545)	(4,197)
(731,006)	(1,053,030)	Financial Liabilities		(837,165)	(1,097,448)

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 2020. An exit price fair value of £1.353 billion is also calculated using early repayment discount rates which are lower than equivalent loan rates. The Council 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:

Financial Liabilities	Financial Assets				Financial Liabilities	Financial Assets		
	Measured at Amortised Cost	Amortised Cost	Investments at Fair Value through Other Comprehensive Income			Total	Measured at Amortised Cost	Amortised Cost
2018-19					2019-20			
£000					£000			
32,176	0	0	32,176	Interest Payable & Similar Charges	32,960	0	0	32,960
0	(706)	0	(706)	Interest and Investment Income	0	(966)	0	(966)
0	0	3,172	3,172	(Gain)/loss arising on Revaluation or Disposal of Financial Assets	0	0	1,101	1,101
32,176	(706)	3,172	34,642	Net (gain) / loss for the year	32,960	(966)	1,101	33,095

Gains and losses include interest payable on borrowing, amounts receivable on investments, gains 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 Council'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.

Nature and Extent of Risks arising from Financial Instruments

The Council'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 Council. It arises from lending of temporary cash balances as part of the Council's Treasury Management activities, from exposure to the Council's customers and from organisations to whom a loan has been provided.

An impairment for bad debt is made where there is deemed to be a risk of expected credit losses. The following table summarises the Council's main exposures to credit risk.

31 March 2019 £000	Likelihood of Default	31 March 2020 £000
89,905	Deposits- Banks , Building societies	112,057
	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. A risk of non-recoverability applies to all of the Council's deposits, requiring rigorous monitoring of credit risk and credit criteria. The Council uses treasury management advisors who assist in this process. Using historic data adjusted for current financial market conditions and based on the level of counterparty exposure at 31 March 2020, the expected credit loss calculated on a historic risk of default basis is 0.01 % or £9,000. This is minimal, so no provision for expected credit loss is recognised.	
469	Car Loans	431
	Repayments are recovered directly from employees pay and indemnity insurance is a condition of the loan. Default experience is minimal.	
1,908	Loans to External bodies	930
	Includes loans to SME's. Where there is deemed to be a risk of non-repayment a provision or impairment is considered.	
17,553	Customers	28,342
	The Council 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. Other debt such as grant income due from government bodies and year-end accruals of income is considered to be 100% collectable and impairment for non-payment is not usually considered necessary. The impairment for bad debt in 2019/20 was based on the adjusted age profile disclosed as following :	
15,998	Less than one year	25,769
559	1-2 years	1,518
430	2-3 years	352
220	3-4 years	223
69	4-5 years	181
277	Over 5 years	299
109,835	Total	141,760

Liquidity and Refinancing Risk

This is the possibility that the Council may not have funds available to make payments or have to refinance a financial liability at disadvantageous interest rate or terms. The Council has ready access to funds from the financial markets and Public Works Loan Board in order to raise finance. 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 2019	Loans Outstanding	31 March 2020
£000		£000
660,866	Public Works Loans Board	698,866
51,000	Market Lender Option Borrower Option (LOBO)	51,000
4,496	Welsh Government	16,112
0	Local Authorities	58,250
5,559	Other Loans and Temporary Balances	4,545
721,921	Total	828,773
4,221	Under 12 months	21,234
1,207	12 months and within 24 months	26,988
15,500	24 months and within 5 years	30,431
41,980	5 years and within 10 years	53,798
161,000	10 years and within 20 years	174,310
168,000	20 years and within 30 years	169,000
212,689	30 years and within 40 years	212,689
112,324	40 years and within 50 years	135,323
5,000	50 years and within 60 years	5,000
721,921	Total	828,773

Currently, £46.000 million of the LOBO loans are subject to the lender having the right to change the rate of interest payable during the next financial year. 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	21/05/2020	6 months	21/11/2041
6	21/05/2020	6 months	21/11/2041
6	21/05/2020	6 months	23/05/2067
6	02/09/2020	6 months	23/05/2067
22	23/11/2020	5 years	23/11/2065
5	16/01/2023	5 years	17/01/2078

Interest Rate Risk

The possibility that financial loss might arise for the Council 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.	Production and Council approval of a Treasury Management Strategy at the start of each financial year, setting limits for fixed and variable rate exposure.
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.	Interest rate forecasts based on advice from treasury management advisors are built into the budget and monitored regularly throughout the year.
Fair value of fixed rate financial assets	Interest rate rises will have no material effect on fair value, hence fair value is not disclosed.	By borrowing and investing 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.
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 Council's sensitivity to interest rate change, the table below indicates the estimated impact on the Comprehensive Income and Expenditure Statement had interest rates during 2019/20 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	311
Increase in interest receivable on investments	(621)
Impact on Income and Expenditure Account	(310)
Increase in interest transferred to other balances and accounts	219
Net Income / (Expenditure)	(91)

Changes in Fair Value	£000
Decrease in Fair Value of Fixed Rate Investments	0
Decrease in Fair Value of Fixed Rate Borrowings	(156,402)

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 Council'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 £31,000 (£17,000 in 2018/19) which are quoted on a recognised stock exchange at 31 March 2020.

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 £468,000 gain or loss being recognised in the Movement in Reserves Statement.

18. Held for Sale Assets

31 March 2019		31 March 2020
£000		£000
6,375	Balance at 1 April	2,570
(5,500)	De-recognition	(290)
1,695	Reclassified to/(from) Held for Sale	(420)
0	Revaluation increases /(decreases) to RR*	0
0	Revaluation increases /(decreases) to SDPS**	0
2,570	Balance at 31 March	1,860

*Revaluation Reserve

** Surplus/Deficit on Provision of Services

19. Short Term Debtors

31 March 2019		31 March 2020
£000		£000
44,485	Central Government Bodies	79,309
27,052	Other Local Authorities & NHS Bodies	22,690
23,795	Other Entities and Individuals including Public Corporations	34,841
95,332	Total Short Term Debtors	136,840

20. Cash and Cash Equivalents

31 March 2019		31 March 2020
£000		£000
880	Cash	223
(4,327)	Bank (including cheque book schools)	(15,900)
24,320	Short-term deposit with banks and building societies	51,628
20,873	Total Cash and Cash Equivalents	35,951

In addition to the above, at 31 March 2020 the Council held £789,000 (£679,000 at 31 March 2019) 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.

21. Short Term Creditors

31 March 2019		31 March 2020
£000		£000
(11,667)	Central Government Bodies	(15,970)
(19,640)	Other Local Authorities & NHS Bodies	(13,000)
(75,277)	Other Entities and Individuals including Public Corporations	(90,166)
(106,584)	Total Short Term Creditors	(119,136)

22. Interests in Other Companies and Other Organisations

The Council has three wholly owned subsidiary companies. The interest in Cardiff City Transport Services Ltd is consolidated to form the Council's group accounts which are shown later in these Statements. The interests in the other two organisations are considered immaterial in terms of both the turnover and the net assets of the group and have therefore been excluded from consolidation in 2019/20. The Council does not depend upon these two organisations for statutory service provision and it is not considered that they expose the Council to a material level of commercial risk.

Cardiff City Transport Services Ltd. (Cardiff Bus) (company number 02001229)

Cardiff City Transport Services Ltd. is wholly owned by the Council and was set up in accordance with the provisions of the Transport Act 1985 to run the Council's municipal bus operation.

During the year, the company recruited a new managing director to support the Board to take the Company forward and to address a number of challenges. The Company has made significant headway in improving performance as part of a turnaround plan. In line with the entire public transport industry across the Country, the Covid-19 pandemic has resulted in reductions in income and patronage, whilst it continues to provide essential services. The Company, Shareholder, Welsh Government and Trustees of the company pension fund scheme are working closely to determine a feasible strategy that would protect the delivery of bus services; resolve the pension fund valuation; and provide comfort to Board members in undertaking responsibilities as Directors. This is part of the Council's wider pandemic actions and responsibilities as shareholder. This strategy will be the subject of a future Council report.

The company's draft operating results, which include any subsidiaries, are summarised below:

31 March 2019		31 March 2020
£000		£000
(32,925)	Turnover and other income	(32,935)
33,036	Operating and other expenditure	32,557
111	Net (Profit) / Loss before Taxation	(378)
0	Taxation	0
111	(Profit) / Loss after Taxation	(378)

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

31 March 2019		31 March 2020
£000		£000
20,102	Bus and other operating assets	17,958
2,378	Current Assets	3,711
(2,854)	Less Current Liabilities	(4,901)
	Creditors: Amounts falling due after more than one year	
(7,284)	Provisions & Long term liabilities	(3,839)
(604)	Deferred Taxation	(833)
(1,268)	Pension Liability	(2,740)
10,470	Total Assets less Liabilities	9,356
	Represented by:	
4,618	Share Capital	4,618
2,711	Retained Earnings	1,589
3,141	Revaluation Reserve	3,149
10,470	Net Worth	9,356

During 2019/20 the Council made payments totaling £9.474 million to Cardiff Bus (£10.366 million in 2018/19), of which £8.905 million related to concessionary fares payments (£8.958 million in 2018/19). The Council also received income of £169,000 (£69,000 in 2018/19).

At year-end, there is a balance due to Cardiff Bus of £164,000 (£144,000 at March 2019) and a balance due from Cardiff Bus of £5,000 (£45,000 at March 2019).

During 2018/19 and 2019/20 no dividend was paid to the Council.

The accounts for year ended 31 March 2020 are in draft status and are pending audit, prior to submission to Companies House at the end of December 2020. The company's auditors are Deloitte. The 2018/19 figures included in the table have not been updated for Cardiff Bus final accounts which were signed off after those of the Council, and remain as they were in the Council's Statement of Accounts 2018/19.

Cardiff Business Technology Centre Ltd. (CBTC) (company number 02074331)

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 Council's guarantee to CBTC is to pay costs not exceeding £10 in the event of the company being wound up. The draft operating results are shown as follows:

31 March 2019		31 March 2020
£000		£000
8	Net (Profit) / Loss before Taxation	19
(1)	Less: Taxation	(4)
7	(Profit) / Loss after Taxation	15

During 2019/20, the Council made payments of £86,000 to CBTC and received income of £36,000 (£0 in 2018/19) from CBTC. At year end, there is no balance due to CBTC (£0 at 31 March 2019) and a balance due of £3,000 from CBTC (£0 at 31 March 2019).

The company's auditors are Gerald Thomas.

Atebion Solutions Ltd. (company number 10411758)

Atebion Solutions Ltd. is wholly owned by the Council to deliver procurement and commercial services to the public sector. The draft operating results are shown below:

31 March 2019		31 March 2020
£000		£000
29	Net (Profit) / Loss before Taxation	3
(5)	Less: Taxation	0
24	(Profit) / Loss after Taxation	3

31 March 2019		31 March 2020
£000		£000
23	Total assets less current liabilities	17
(16)	Creditors: falling due after more than one year	(12)
7	Total Assets less Liabilities	5
	Represented by:	
7	Retained Profit	5
7	Net Worth	5

During 2019/20, the Council made no payments (£19,967 in 2018/19) to Atebion Solutions Ltd and received income of £50,215 (£112,666 in 2018/19) from Atebion Solutions Ltd. At year end, there is no balance due to Atebion Solutions Ltd (£0 at 31 March 2019) and a balance due of £50,215 from Atebion Solutions Ltd (£60,000 at March 2019).

The company's auditors are Baldwin Audit services.

23. Provisions

	Balance 1 April 2019	Utilised/ Released in year	Transfers to Provisions	Balance 31 March 2020	Not later than one year	Later than one year
	£000	£000	£000	£000	£000	£000
Insurance & MMI Scheme	(10,665)	3,484	(3,523)	(10,704)	(4,487)	(6,217)
Ferry Road Landfill	(8,277)	125	0	(8,152)	(242)	(7,910)
Lamby Way Landfill	(10,839)	311	0	(10,528)	(422)	(10,106)
City Deal	(229)	0	(114)	(343)	0	(343)
Other	(847)	405	(48)	(490)	(254)	(236)
Total	(30,857)	4,325	(3,685)	(30,217)	(5,405)	(24,812)

Insurance - represents sums set aside to meet the cost of claims received, but not yet settled. 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'.

Municipal Mutual Insurance (MMI) Scheme of arrangement levy - 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 27.

Landfill aftercare - reflects the financial obligations to address restoration and aftercare for Lamby Way and Ferry Road sites in accordance with initial permits for the disposal of waste. These obligations can stretch for over 60 years with potentially significant but uncertain capital and revenue expenditure.

Cardiff Capital Region City Deal (CCRCD) – primarily represents timing differences in relation to corporation tax.

Other – includes a Family Guarantor provision to aid the transfer of families from temporary accommodation into permanent homes.

24. Pension Strain

In addition to the costs of redundancy payments made to leavers, in some cases the Council 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 Council. The pension strain cost to the Council 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 and Vale of Glamorgan 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.

31 March 2019		31 March 2020
£000	Pension Strain	£000
(1,769)	Pension Strain due within 1 year	(1,496)
(2,560)	Pension Strain due later than 1 year	(3,688)
(4,329)	Total Pension Strain	(5,184)

25. Deferred Liabilities

These are amounts paid in advance by external bodies towards expenditure in future years.

	Balance 1 April 2019 £000	Utilised/ Released in year £000	Transfers to Deferred Liabilities £000	Balance 31 March 2020 £000	Not later than one year £000	Later than one year £000
Commuted Maintenance Sums	(8,218)	1,063	(1,106)	(8,261)	(514)	(7,747)
Rent Smart Wales Income in Advance	(5,130)	2,652	(1,736)	(4,214)	(2,700)	(1,514)
Total Deferred Liabilities	(13,348)	3,715	(2,842)	(12,475)	(3,214)	(9,261)

26. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement. Usable Reserves include Council Fund and HRA Balances, Earmarked Reserves and the Capital Receipts Reserve.

26.1 Council Fund and HRA Balances

	Balance	Contributions		Balance
	31 March 2019 £000	From Revenue £000	To Revenue £000	31 March 2020 £000
COUNCIL FUND AND HRA BALANCES				
Council Fund Balance	14,255	0	0	14,255
Housing Revenue Account Balance	8,983	0	0	8,983
Total Council Fund and HRA Balances	23,238	0	0	23,238

26.2 Earmarked Reserves

This note sets out the contributions to and from earmarked reserves during the year.

	31 March 2019 £000	From Revenue £000	To Revenue £000	31 March 2020 £000
COUNCIL FUND AND HRA BALANCES				
Council Fund Balance	14,255	0	0	14,255
Housing Revenue Account Balance	8,983	0	0	8,983
Total Council Fund and HRA Balances	23,238	0	0	23,238

	Balance	Contributions		Balance
	31 March 2019 £000	From Revenue £000	To Revenue £000	31 March 2020 £000
SCHOOLS BALANCES				
Schools Reserves	4,862	3,024	(2,569)	5,317
Cathays HS – Maintenance of Playing Field	3	0	0	3
Primary/Special Schools Repairs	492	215	0	707
	5,357	3,239	(2,569)	6,027
SCHOOLS RESERVES				
Out of School Childcare	77	28	(6)	99
Schools Catering	178	0	(178)	0
Schools Formula Funding	577	840	(1,191)	226
Schools Organisational Plan	1,233	8,356	(9,088)	501
	2,065	9,224	(10,463)	826
OTHER COUNCIL RESERVES				
Apprenticeships and Trainees	882	69	(361)	590
Bereavement Services	408	373	(644)	137
Building Control Regulations	319	0	(234)	85
Bute Park Match Funding	87	0	(14)	73
Capital Ambition Delivery	641	0	(391)	250
Cardiff Academy Training	102	0	(24)	78
Cardiff Capital Region City Deal	215	1	0	216
Cardiff Dogs Home Legacy	171	200	(59)	312
Cardiff Enterprise Zone	3,678	1,193	(2,494)	2,377
Central Market Works	289	0	(20)	269
Central Transport Service	137	0	(137)	0
City Wide Management and Initiatives	364	514	0	878
Community Based Services Transition	234	0	(65)	169
Community Initiatives	358	324	(7)	675
Connect to Cardiff Refurbishment	10	0	0	10
Corporate Events and Cultural Services	724	174	(69)	829
Corporate Landlord Function	189	0	(53)	136

Discretionary Rate Relief	100	0	0	100
Emergency Management, Safeguarding & Prevent	139	0	0	139
Employee Changes	6,451	2,798	(559)	8,690
Energy Conservation	217	0	(170)	47
Energy Market Volatility	586	0	(250)	336
Flatholm	27	0	(27)	0
Fraud Detection	97	0	(53)	44
Governance and Legal Services	208	0	(23)	185
Harbour Authority Project and Contingency Fund	42	21	0	63
Highways Section 278	508	0	(98)	410
Homelessness	1,736	300	(568)	1,468
Houses in Multiple Occupation Licensing	12	0	(12)	0
Housing Options Centre	685	0	(685)	0
Housing Support	965	0	(207)	758
ICT Holding Account	745	0	(29)	716
Inspectorate Support	208	0	0	208
Insurance	5,670	524	(19)	6,175
Invest to Save	261	0	0	261
Joint Equipment Store	221	0	0	221
Libraries Book Fund	19	0	(19)	0
Local Development Plan	99	0	(61)	38
Major Projects	480	0	0	480
Members Development	61	0	0	61
Municipal Election	421	153	(2)	572
Municipal Mutual Insurance	786	0	0	786
Non-Domestic Rates Due Diligence	60	0	0	60
Parking and Enforcement	1,491	7,764	(7,140)	2,115
Projects, Design and Development	32	0	(18)	14
Property Asset Management	83	51	(67)	67
Red Dragon Centre	0	1,532	0	1,532
Rentsmart	568	92	0	660
Resources	1,509	85	(751)	843
Schools Catering and Kitchen Improvements	25	0	(25)	0
Scrutiny Development and Training	124	0	(6)	118
Shared Regulatory Service	186	0	(186)	0
Social Care Technology	709	0	(54)	655
South East Wales Construction Framework	556	0	(21)	535
Strategic Budget	5,626	853	(2,500)	3,979
Treasury Management	0	4,725	0	4,725
Wales Interpretation and Translation Service	183	168	0	351
Waste Management	712	0	(712)	0
Welfare Reform	2,926	350	(1,423)	1,853
Workshops Asset Maintenance	107	0	(107)	0
Youth and Community Education	178	0	0	178
	44,627	22,264	(20,364)	46,527
SHARE OF JOINT COMMITTEE RESERVES				
Cardiff Capital Region City Deal (CCRCD)*	965	549	0	1,514
Other Joint Committees	700	0	(700)	0

	1,665	549	(700)	1,514
Total Council Fund Reserves	53,714	35,276	(34,096)	54,894
HRA RESERVES				
Housing Repairs and Building Maintenance	216	383	0	599
Welfare Reform	279	0	0	279
Total HRA Reserves	495	383	0	878
TOTAL EARMARKED RESERVES	54,209	35,659	(34,096)	55,772

*This balance primarily arises due to the consolidation of CCRCO including its subsidiary CSC Foundry.

Schools

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. Details of individual school balances will be available from 30 September 2020 on the Council's Schools Budget Forum website. As well as individual school balances, a deficit balance of £499,000 offsets the total net balance (£796,000 2018/19). This amount represents a cumulative liability in respect of the Mutual Supply Fund which reimburses schools that have incurred supply costs that fall within certain parameters. This amount is in the process of being repaid via school budgets.

Schools Organisational Plan

To manage the cash flow implications of the Schools Organisational Plan financial model.

Apprenticeships and Trainees

To support the Council's commitment to young people through funding for apprenticeships and trainees.

Cardiff Enterprise Zone

To fund expenditure on the Cardiff Enterprise Zone in future years.

City Wide Management & Initiatives

To fund city-wide management and initiatives including support for marketing and infrastructure.

Community Initiatives

To fund initiatives arising from the legacy of the Communities First Programme.

Corporate Events and Cultural Services

To support feasibility studies and costs of major events and to offset future pressures arising from fluctuations in income within Venues and Cultural Services.

Employee Changes

To meet the costs associated with voluntary redundancy and other employee costs.

Homelessness

To meet increase in homelessness pressures.

Housing Support

To improve sustainability by maintaining people's independence in their own homes.

ICT Holding Account

To fund future business process improvement and ICT initiatives.

Insurance

To protect the Council from future potential insurance claims.

Municipal Election Reserve

To support the cost of local elections.

Municipal Mutual Insurance Scheme

To protect the Council from a scheme that was triggered on 13 November 2012 and will involve the claw back of a percentage of previously paid claims, as well as a percentage of future claims.

Parking & Enforcement

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.

2018/19		2019/20
£000		£000
(5,059)	On-street pay car parking fees	(5,024)
(1,088)	Off-Street car parking fees	(1,186)
(368)	Residents parking permits	(386)
(2,385)	Penalty charge notices	(2,229)
(5,039)	Moving Traffic Offences	(5,082)
(290)	Camera Car	(366)
(212)	Traffic Enforcement Centre	(200)
(7)	Other income	(14)
(14,448)	Total Income	(14,487)
913	Operational costs / Parking and Permits	659
5,843	Enforcement service	6,064
6,756	Total Expenditure	6,723
(7,692)	Civil Parking Enforcement Net (Surplus)/Deficit	(7,764)
	Contributions (to) /from Parking Reserve	
701	Balance 1 April	1,491
7,692	Contributions from CPE	7,764
(6,902)	Contributions to revenue*	(7,140)
1,491	Balance 31 March	2,115

* Eligible expenditure totaling £7.140 million was drawn down from the reserve leaving a balance of £2.115 million at the 31 March 2020. This included a budgeted drawdown of £5.385 million which supported a range of Council services including ongoing support and improvements to transport, parking, highways and environmental services. It also included specific drawdowns for various improvement schemes and initiatives approved by the Director of Planning, Transport & Environment in consultation with the Cabinet Member for Strategic Planning & Transport.

Red Dragon Centre

To set aside revenue surpluses to support ongoing premises funding requirements.

Rentsmart

The Council is the single licensing authority across Wales, processing landlord registrations and grant licenses to landlords and agents who need to comply with the Housing (Wales) Act 2014. Further details can be found on the website <https://www.rentsmart.gov.wales/en/>. The purpose of the reserve is to reinvest in training and service delivery.

Resources

To provide funding to a number of areas within the Resources Directorate particularly where transition to new methods of operation are required.

Social Care Technology

To support Social Care ICT developments.

South East Wales Construction Framework

Ring-fenced levy payments to fund the administration of the South East Wales Construction Framework.

Strategic Budget

To support financial resilience and the future budget requirements of the Council over the Medium Term Financial Plan.

Treasury Management

To strengthen financial resilience and mitigate risks in respect of the Council's capital expenditure and its treasury management activities.

Welfare Reform

To mitigate pressures and reduced funding following the transfer of services as part of the rollout of the Universal Credit Scheme.

HRA Housing Repairs and Building Maintenance

To fund housing repairs and to mitigate against risk within the construction industry.

Share of Cardiff Capital Region City Deal Reserves

The Council's percentage share of the accumulated balances and earmarked usable reserves of Cardiff Capital Region City Deal.

26.3 Usable Capital Receipts Reserve

The Usable Capital Receipts Reserve represents the capital receipts available to finance future capital expenditure or to repay historical capital expenditure incurred.

2018/19		2019/20
£000		£000
21,320	Balance as at 1 April	8,488
	Movements during Year:	

7,246	Sale of Land, Buildings and other assets	9,249
1,838	Sale of Council Dwellings	626
148	Recoupments of grant/other	99
9,232		9,974
(22,037)	Finance Capital Expenditure	(5,497)
(27)	Provide for Repayment of External Loans	(2,009)
0	Other	(50)
(22,064)		(7,556)
8,488	Balance as at 31 March	10,906

27. Unusable Reserves

27.1 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council 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 realized.

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.

2018/19		2019/20
£000		£000
253,798	Balance as at 1 April	268,598
45,320	Upward revaluation of assets	35,801
(23,705)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(14,316)
21,615	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	21,485
(1,236)	Difference between fair value depreciation and historical cost depreciation (charged to Capital Adjustment Account)	(1,290)
(5,579)	Accumulated gains on assets sold or scrapped	(377)
(6,815)	Amount written off to the Capital Adjustment Account	(1,667)
268,598	Balance as at 31 March	288,416

27.2 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 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.

2018/19		2019/20
£000		£000
828,081	Balance as at 1 April	864,171
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(57,369)	Charges for depreciation and impairment of non-current assets	(63,880)
19,996	Reverse previous impairment on revaluation	106,849
(34,791)	Revaluation losses on Property, Plant and Equipment	(50,064)
(961)	Amortisation of intangible assets	0
(9,295)	Expenditure on REFCUS	(1,703)
(3,527)	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	(4,265)
(85,947)		(13,063)
1,236	Adjusting amounts written out of the Revaluation Reserve (historic cost adjustment)	1,290
(84,711)	Net written out amount of the cost of non-current assets consumed in the year	(11,773)
	Capital financing applied in the year:	
22,037	Capital Receipts	5,497
11,120	Direct Revenue Financing	7,135
49,018	Grants and contributions	41,333
38,048	Prudent Revenue Provision	36,862
28	Capital receipts to provide for repayment of external loans	2,009
(39)	Reduction in loan debtors	(1,230)
120,212		91,606
589	Movements in the value of Investment Properties	(4,090)
864,171	Balance as at 31 March	939,914

27.3 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 Council does not treat these gains as usable for financing new capital expenditure until they are realised.

2018/19		2019/20
£000		£000
4,511	Balance as at 1 April	5,008
500	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0
(3)	Transfers to the Capital Receipts Reserve upon receipt of cash	0
5,008	Balance as at 31 March	5,008

The balance in 2019/20 relates primarily to the deferred payment from disposal of land at Central Square, due in the financial year 2021/22.

27.4 Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the Council arising from increases in the value of its investments held as Financial Instruments that are elected to be classified as Fair Value

through other Comprehensive Income i.e. those held for service objectives or policy purposes. 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.

2018/19		2019/20
£000		£000
13,540	Balance as at 1 April	10,368
(3,172)	(Downwards) / Upwards revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(1,101)
10,368	Balance as at 31 March	9,267

The majority of the balance relates to the Council's shareholding in Cardiff Bus which is not listed on any quoted market, and for which a valuation is based on the company's reported net worth as per its Annual Accounts 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 offset in this reserve. Any valuation should be treated with care as it is for accounting purposes only.

27.5 Pensions Reserve

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

The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2018/19		2019/20
£000		£000
(647,960)	Balance as at 1 April	(674,020)
21,551	Actuarial gains or losses on pensions assets and liabilities	(127,222)
(95,835)	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	(89,038)
347	Reversal of amounts accrual in respect of pension strain for future years	(854)
47,891	Employer's pensions contributions and direct payments to pensioners payable in the year	50,240
(14)	Adjustment re. Joint Committee	0
(674,020)	Balance as at 31 March	(840,894)

27.6 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.

2018/19		2019/20
£000		£000
(9,333)	Balance as at 1 April	(8,901)
432	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 accounting requirements	(2,679)
(8,901)	Balance as at 31 March	(11,580)

28. Grant Income

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2019/20:

2018/19		2019/20
£000		£000
	Credited to Taxation and Non Specific Grant Income	
(325,564)	Revenue Support Grant	(328,126)
(115,383)	Non-Domestic Rates	(116,504)
(45,431)	Capital Grants	(39,599)
(3,587)	Developers' Contributions	(1,734)
(489,965)	Total	(485,963)
	Credited to Services (Revenue Grants & Contributions)	
(260,905)	Central Government Bodies	(263,502)
(18,490)	Other Local Authorities & NHS Bodies	(22,609)
(4,020)	Other Entities and Individuals including Public Corporations	(4,553)
(283,415)	Total	(290,664)

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

31 March 2019	Revenue Grants and Contributions Receipts in Advance	31 March 2020
£000		£000
(11,110)	Central Government Bodies	(13,067)
0	Other Local Authorities & NHS Bodies	0
(1,302)	Other Entities and Individuals including Public Corporations	(787)
(12,412)	Total	(13,854)

31 March 2019	Capital Grants Receipts in Advance	31 March 2020
£000		£000
(782)	Central Government Bodies	(1,424)
0	Other Local Authorities & NHS Bodies	0
0	Other Entities and Individuals including Public Corporations	0
(782)	Total	(1,424)

31 March 2019	Capital Contributions Receipts in Advance	31 March 2020
£000		£000
(9,961)	Balance as at 1 April	(14,485)
(8,630)	Contributions received during the year	(4,889)
3,781	Contributions applied to expenditure during the year	1,792
325	Reclassification	152
(14,485)	Balance as at 31 March	(17,430)

This represents amounts received from predominantly developers and other external sources, which are yet to be used to fund specific future expenditure.

29. Contingent Assets and 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 as a capital receipt in the year that it is received. The estimated total value of equity at 31 March 2020 is £4.722 million (£4.562 million at 31 March 2019).

In March 2015, the Council approved a request from Glamorgan County Cricket Club to write off 70% of a £6.534 million loan balance due to the Council and restructure remaining sums in line with other major creditors. This was actioned on 21 December 2015 resulting in an outstanding amount of £1.960 million. A review during 2018/19 identified positive indications of additional income to the Club in 2019/20 and beyond as a result of changes in tournaments and in the national game. Repayments on the loan, which the club are committed to repaying in accordance with contractual terms, were £98,000 during the year. However due to the current Covid-19 position, the Council's view is that risks of recovery still remain and the balance due of (£1.862 million) remains 100% impaired at 31 March 2020. Any balances due are not shown in the financial statements but are identified as a contingent asset to reflect the amounts potentially receivable in accordance with the proposed restructured loan.

In respect to an assessment received from HMRC for purportedly under-declared landfill tax assessment, associated penalties and interest, the Council made a payment on account of £2.452 million to HMRC during 2018/19. This is not an admission of liability and if the assessment is changed or cleared, then this will be refunded by HMRC.

Liabilities

As at 31 March 2020 four claims existed in excess of £10,000 against the Council for which there is no insurance cover. The claims include unfair dismissal, disability and race discrimination, and breach of contract. The potential liability in respect of the claims is estimated to be £120,000 (£195,000 at 31 March 2019) and the Council is resisting liability.

The former Authorities of South Glamorgan County Council, Cardiff City Council, Mid Glamorgan County Council and Taff Ely Borough 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. The Council's share of residual exposure is £2.782 million. The accounts reflect a provision of £110,059 with £786,777 held in an earmarked reserve towards any liability. This is considered prudent based on most recent actuarial advice, however, this is subject to the outcome of settled claims.

The Council has entered into a number of contracts for services involving the transfer of Council employees to the new service provider under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE). Admission agreements with the new employers allow transferred employees to remain in membership of the Cardiff and Vale of Glamorgan Pension Fund. In the event that a contractor fails to meet its obligations to the Pension Fund as set out in the admission agreement, the Council acts as guarantor for the accrued pension liabilities.

The Council and HMRC are continuing discussions with a view to resolving a purportedly under-declared landfill tax assessment received by the Council from 1 April 2015, for waste tipped at Lamby Way Landfill site. HMRC assess that some materials disposed of should have had the standard rate of tax applied rather than a lower rate, the difference in tax rates being £80 per tonne. Given this is a specialist and technical area, the Council has engaged PricewaterhouseCoopers environmental tax specialists to support the Council's approach to demonstrating that materials tipped were eligible for lower rate tax. Work is being undertaken to understand the quantity and nature of materials disposed of to demonstrate that the 'qualifying fines' regime does not apply. Subject to this, and relevant HMRC rules, there is the risk that the Council may be required to pay tax, as well as a penalty and interest on under declared tax. In the event of assessments being upheld, the Council would consider the merits of an appeals or mitigation process. Given the technical nature of the assessment, it is not possible to quantify or provide a reliable estimate of any liability at this stage and so no provision is created in the accounts as at 31 March 2020.

30. Notes to Cash Flow Statement

Adjust net surplus or deficit on the provision of services for non-cash movements

2018/19		2019/20
£000		£000
(73,162)	Depreciation, impairment & amortisation	(8,325)
(26,899)	Charges made for retirement benefits (IAS19) less employers contributions	(39,652)
(3,527)	Carrying amount of non-current assets sold or derecognised	(4,265)
137	Increase/(decrease) in stock	(193)
19,947	Increase/(decrease) in debtors	35,196
(18,015)	(Increase)/decrease in creditors	(9,354)

(18,213)	Other non-cash items affecting net surplus or deficit on provision of services	(3,560)
(119,732)		(30,153)

Items in net surplus/ deficit on provision of services that are investing and financing activities

2018/19		2019/20
£000		£000
9,728	Net gain/(loss) on sale of non-current assets	9,974
49,018	Capital grants/contributions recognised in CIES	41,333
468	Other cash items which effect investing or financing activities	0
59,214		51,307

31. Prior Period Adjustment

There are no prior period adjustments.

32. Exceptional Items

There are no exceptional items to disclose.

33 Events after the Reporting Period

There are no events after the reporting period to report.

34. Date of Authorisation of the Accounts for Issue

This Statement of Accounts was authorised for issue on xxxx 2020 by the Corporate Director Resources. Post Balance Sheet events have been considered up to this date.



Housing Revenue Account



Notes to Housing Revenue Account

The Local Government and Housing Act 1989 places a statutory duty on local authorities to maintain a separate account for the costs associated with the management and maintenance of Council dwellings. This is termed the Housing Revenue Account (HRA).



A 30 year business plan and financial model, completed on an annual basis for submission to Welsh Government, provides financial forecasts and performance and service information for the HRA. The plan includes our approach to maintaining the Welsh Housing Quality Standards, energy efficiency, remodelling homes, estate regeneration, fire safety works and community hubs.

Tenant participation in shaping and delivering services is welcome and encouraged in numerous ways including a dedicated Tenant Participation team, conferences, tenants voice meetings, community action days, information provision at the Citizen Hubs, the Tenants' Times publication and other social media.

A recent tenant satisfaction survey showed:

- 79% of tenants were satisfied with the way we deal with repairs
- 83% of tenants were satisfied with their neighbourhood as a place to live.

Risks and Financial Outlook

The HRA records income and expenditure in relation to Council Housing stock, including rent, service charges, housing allocations, repairs, capital financing charges and supervision and management.

Where the HRA spends capital monies, particularly where this is paid for by borrowing, this results in long term financial commitments for the rent payer and it is essential that expenditure decisions are prudent, sustainable and affordable, now as well as in the future. The Business Plan, which is reviewed annually, is

supported by regular monitoring against approved capital and revenue budgets underpinned by a thirty year financial model. The plan aims to demonstrate the long term sustainability of the HRA.

Whilst in the short term, a new Welsh Government 5 year rent policy approved from 2020/21 onwards has provided additional confidence around future planning; risk and uncertainty still exists over the medium to longer term. The management of the HRA and any risk to viability and sustainability is assessed through the analysis of a detailed risk matrix to ensure key variables are monitored and that essential mitigation/offsetting actions are in place to manage the achievement of key plans and desired outcomes. This is supported by an annual assessment of affordability linked to and demonstrating that homes and services represent value for money.

Financial Performance 2019/20

The Housing Revenue Account reported a balanced position for 2019/20 after a transfer to the Housing Repairs and Building Maintenance earmarked reserve of £383,000 to meet future liabilities and commitments. This position reflected a reduced spend on repairs and maintenance and lower capital financing costs reflecting the timing of capital investment.

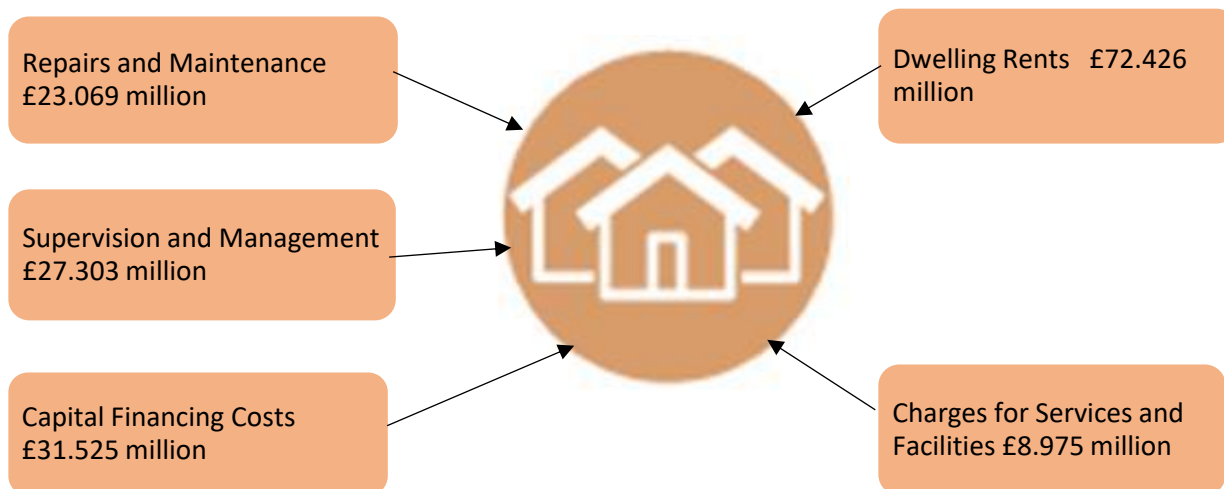
An increase in void rent allowances and bad debt requirements was offset by additional grant funding and by employee vacancy savings and other efficiencies. Void property levels were 1.89% as a percentage of overall stock (1.73% in 2018/19).

Earmarked reserves and the general balance are £878,000 and £8.983 million respectively.

Revenue Expenditure and Funding

Expenditure

Income

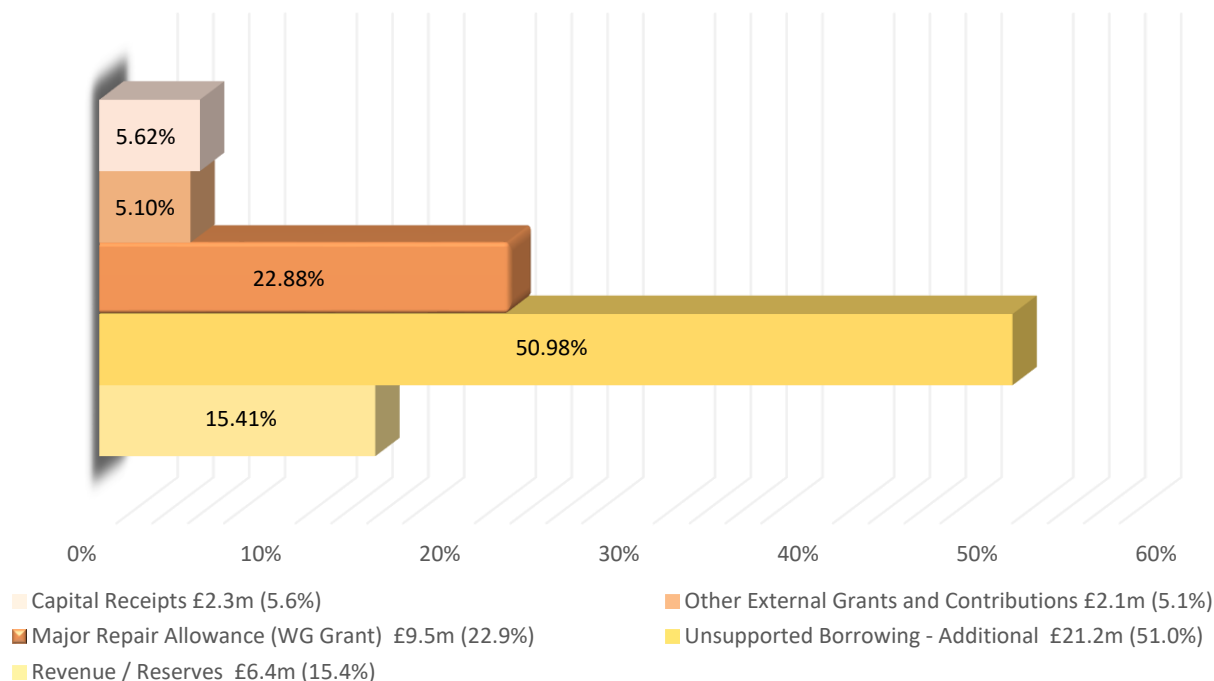


Our housing stock is valued in the accounts at £629.874 million. Dwellings were revalued in 2018/19 with the vacant possession value deemed to be £1.574 billion. In accordance with the valuation requirements, this was adjusted downwards, in our case by an adjustment factor of 37% in order to show the economic cost of providing social housing at less than market rent. The next valuation will take place in 2020/21.

Capital Expenditure and Funding

Capital expenditure represents money spent on improving, acquiring and enhancing assets. During the year we spent £41.520 million on estate regeneration, housing stock remodeling, and the fabric of dwellings, disabled adaptations and in the development of new Council Housing to meet new build targets.

Funding of Capital Expenditure



The Capital Financing Requirement is a measure of debt in relation to the HRA. At 31 March 2020, this stands at £290.232 million; an increase of £10.987 million compared to the previous year. This is forecast to increase significantly over the next few years as set out in the 2020/21 Revenue budget and MTFP approved by Council in February 2020. All borrowing must be affordable both now and in the future as it will be required to be repaid with interest.

Income and Expenditure 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. Councils charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost.

2018/19		Note	2019/20
£000			£000
	Management and maintenance comprising :		
22,434	Repairs and maintenance		23,069
24,499	Supervision and management		27,303
156	Rents, rates, taxes and other charges		91
1,327	Provision for bad and doubtful debts		1,232
(5,835)	Depreciation, impairment and revaluation losses of non-current assets	8	13,173
0	Sums directed by the Welsh Government that are expenditure in accordance with the Code	9	145
42	Debt management costs		43
42,623	Total Expenditure		65,056
(70,248)	Dwelling rents		(72,426)
(50)	Non-dwelling rents		(11)
(7,355)	Charges for services and facilities		(8,975)
(77,653)	Total Income		(81,412)
(35,030)	Net Cost of HRA Services as included in the Income and Expenditure Statement		(16,356)
	HRA share of the operating income and expenditure included in the Comprehensive Income & Expenditure Statement:		
(1,271)	(Gain)/loss on sale of HRA non-current assets		(603)
11,716	Interest payable and similar charges		12,275
(23)	Changes in fair value of investment properties		1
(1)	Interest and Investment income		(1)
(12,318)	Capital grants and contributions applied		(11,481)
(36,927)	(Surplus)/Deficit for year on HRA Services		(16,165)

Movement on HRA Balance

2018/19		Note	2019/20
£000			£000
(8,983)	Balance on the HRA at the end of the previous year		(8,983)
(36,927)	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement		(16,165)
39,655	Adjustments between accounting basis and funding basis under regulations	1	15,782
2,728	Net (increase)/decrease before transfers to or from reserves		(383)
(2,728)	Transfers to/(from) earmarked reserves		383
0	Increase or decrease in the year on the HRA		0
(8,983)	Balance on the HRA at the end of the current year		(8,983)

Notes to the Financial Statements

1. Adjustments between Accounting Basis and Funding Basis under Regulations

2018/19		Note	2019/20
£000			£000
	Adjustments primarily involving the Capital Adjustment Account:		
	<u>Reversal of items debited or credited to the HRA Income and Expenditure Statement:</u>		
10,560	Charges for depreciation and impairment of non-current assets		13,090
(16,523)	Revaluation losses of non-current assets	8	110
(35)	Reverse previous impairment on revaluation		(27)
163	Amortisation of intangible assets		0
(23)	Movement in the market value of investment properties		1
(12,318)	Capital grants and contributions applied		(11,481)
0	Sums directed by Welsh Government	9	145
605	Non-current assets written off as part of the gain/loss on disposal to the HRA Income and Expenditure Statement		1,848
(11,413)	Prudent Provision for the financing of capital investment		(12,807)
(9,469)	Capital expenditure charged against the HRA		(6,400)
20	Credit for disposal costs that qualify to be met from the resulting capital receipts		3
	Adjustments involving the Revaluation Reserve:		
(1,876)	Non-current assets written off as part of the gain/loss on disposal to the HRA Income & Expenditure Account		(2,451)
	Adjustments involving the Pensions Reserve:		
4,496	Net Retirement Benefits per IAS19		6,191
(3,783)	Employers Contributions to pension schemes	4	(4,138)
(199)	Pension Strain Accrual – future years		104
	Adjustments involving the Accumulated Absences Account:		
140	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		30
(39,655)	Total Adjustments		(15,782)

2. Rental Income

This is the total rent income due for the year after allowance is made for voids etc. Vacancies accounted for 1.93% of the total potential rental income (1.58% in 2018/19). Average rents were £104.53 per week (£101.68 in 2018/19) based on a 52 week year.

3. Rent Arrears, Service Charge Arrears and Bad Debt Provision

The following sums were due from tenants:

31 March 2019			31 March 2020	
Arrears £000	Bad debt provision £000		Arrears £000	Bad debt provision £000
		Rent Arrears		
4,618	3,465	Dwellings	5,433	4,048
36	36	Leasehold properties	0	0
345	345	Hostels /Other accommodation	627	627
4,999	3,846	Total Rent Arrears	6,060	4,675
		Other		
116	70	Service charges	95	57
479	479	Tenants recoverable	424	424
595	549	Total Other Arrears	519	481
5,594	4,395	Total	6,579	5,156

During 2019/20 debts totaling £386,029 were written off as irrecoverable (£424,533 in 2018/19).

4. Pension Costs

In accordance with International Accounting Standards 19 – Employee Benefits (IAS 19) the amount included within Supervision and Management in respect of employee costs includes the current service cost for pensions. In order that the 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:

2018/19 £000		2019/20 £000
4,496	Current service cost	6,191
(3,783)	Cost of employer's contributions plus discretionary benefits	(4,138)
(199)	Pension Strain Accrual - Future Years	104
514	Net transfer to Pensions Reserve	2,157

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.

5. Housing Stock

The Council's housing stock is shown below:

31 March 2019		31 March 2020
7,231	Houses	7,301
629	Bungalows	630
5,085	Flats/Bedsits	5,185
169	Maisonettes	169
352	Retirement complexes	352
13,466	Total	13,637

The Council also owns two hostels, providing the following accommodation:

31 March 2019		31 March 2020
36	Bed spaces in hostels	23
49	Flats in hostels	57
85	Total	80

6. Capital Expenditure and Capital Financing

2018/19		2019/20
£000		£000
266,709	Opening Capital Financing Requirement	279,245
	<u>Capital Expenditure:</u>	
38,859	Property, Plant and Equipment	41,375
0	Intangible assets including intangible AUC	0
18	Investment Properties	0
0	Expenditure on REFCUS	145
8,780	Appropriation of land	2,626
	<u>Sources of Finance:</u>	
(1,920)	Capital Receipts	(2,335)
(12,319)	Government grants and other contributions *	(11,617)
(9,469)	Direct revenue contributions and reserves	(6,400)
(11,413)	Prudent revenue and capital provision for loan repayment	(12,807)
279,245	Closing Capital Financing Requirement	290,232
	<u>Explanation of movements in year:</u>	
12,536	Increase / (Decrease) in underlying need to borrow (unsupported by government financial assistance)	10,987
12,536	Increase in Capital Financing Requirement	10,987

* £9.500 million (£9.514 million in 2018/19) of Major Repairs Allowance 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 was required to adhere to a debt cap set by Welsh Government. This was based on the Housing Capital Financing Requirement (CFR) calculation. The cap was removed by Welsh Government during 2018/19.

7. Capital Receipts

Proceeds from the disposal of HRA Assets during 2019/20 were as follows:

- Council Dwellings and Home Purchase Contributions £0.626 million (£1.838 million in 2018/19)
- Land £1.958 million (£0.366 million in 2018/19)

8. Depreciation, Impairment and Revaluation Charged

Depreciation and impairment were 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.

2018/19		2019/20
£000		£000
10,040	Council dwellings	11,075
202	Land and buildings	1,537
481	Vehicles, plant & equipment, intangibles and AUC	478
10,723	Total Depreciation, Amortisation and Impairment	13,090
(16,962)	Council dwellings	0
404	Land and buildings	83
0	Vehicles, plant & equipment, intangibles and AUC	0
(16,558)	Total Revaluation	83
(5,835)	Total	13,173

9. Revenue Expenditure Funded from Capital under Statute (REFCUS)

2018/19		2019/20
£000		£000
	Expenditure:	
0	Buildings not owned by Cardiff Council	145
0	Charged to Income and Expenditure Account	145
	Funded by:	
0	Grants and Contributions	135
0	Borrowing, Receipts and other Capital Resources	10
0		145



Group Accounts



Introduction

The group accounts that follow comply with the requirement of the 2019/20 Code, which states that a local authority with material 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) which is a wholly owned subsidiary with limited liability. At the point of drafting these accounts, the 2019/20 accounts for Cardiff Bus are in draft status.

During the year, the company recruited a new managing director to support the Board to take the Company forward and to address a number of challenges. The Company has made significant headway in improving performance as part of a turnaround plan. In line with the entire public transport industry across the Country, the Covid-19 pandemic has resulted in reductions in income and patronage, whilst it continues to provide essential services. The Company, Shareholder, Welsh Government and Trustees of the company pension fund scheme are working closely to determine a feasible strategy that would protect the delivery of bus services; resolve the pension fund valuation; and provide comfort to Board members in undertaking responsibilities as Directors. This is part of the Council's wider pandemic actions and responsibilities as shareholder. This strategy will be the subject of a future Council report.

The Council has interests in the following subsidiaries: Cardiff Business Technology Centre (CBTC) and Atebion Solutions Ltd. The interests in these two organisations are considered immaterial in terms of both the turnover and the net assets of the group. The Council does not depend upon these two organisations for statutory service provision and it is not considered that they expose the Council to a material level of commercial risk. Therefore they have been excluded from the consolidation in 2019/20. Details of the Council's interests in these organisations are included in note 22 to the Core Financial Statements.

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 with the following additions and exceptions:

Retirement Benefits

Cardiff City Transport Services Ltd. operates two defined benefit funded pension schemes which it accounts for in accordance with FRS102. 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.

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.

Goodwill

The Council's interest in its subsidiary dates back to its inception and therefore there is no goodwill to be accounted for.

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.

Group Comprehensive Income and Expenditure

2018/19				2019/20		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
35,699	(1,416)	34,283	Corporate Management	19,663	(5,971)	13,692
75,912	(40,445)	35,467	Economic Development	53,977	(40,254)	13,723
372,482	(92,979)	279,503	Education & Lifelong Learning	314,268	(77,419)	236,849
6,990	(1,067)	5,923	Governance & Legal Services	8,699	(2,223)	6,476
8,977	(6,073)	2,904	Harbour Authority	8,567	(5,724)	2,843
42,624	(77,654)	(35,030)	Housing Revenue Account	65,056	(81,412)	(16,356)
240,839	(194,522)	46,317	Housing and Communities	233,246	(184,215)	49,031
8,130	(4,767)	3,363	Performance and Partnerships	8,446	(5,499)	2,947
145,917	(74,658)	71,259	Planning , Transport and Environment	138,935	(75,535)	63,400
29,968	(10,477)	19,491	Resources	32,664	(11,288)	21,376
196,281	(24,084)	172,197	Social Services	211,533	(30,628)	180,905
3,688	(5,514)	(1,826)	Summary Revenue Account	2,870	(12,653)	(9,783)
1,167,507	(533,656)	633,851	Net Cost of Services	1,097,924	(532,821)	565,103
33,499	0	33,499	Police and Crime Commissioner for South Wales	37,469	0	37,469
367	0	367	Community Council Precepts	397	0	397
17,439	0	17,439	Levies & Contributions	17,696	0	17,696
9,106	(9,949)	(843)	(Gain)/loss on sale of non-current assets	4,642	(8,685)	(4,043)
60,411	(9,949)	50,462	Other Operating Expenditure	60,204	(8,685)	51,519
32,176	0	32,176	Interest Payable on debt	33,124	0	33,124
215	0	215	Interest element of finance leases	36	0	36
16,176	(11)	16,165	Interest on net defined liability/(asset)	14,872	0	14,872
0	(972)	(972)	Interest & Investment Income	0	(1,129)	(1,129)
5,066	(5,655)	(589)	Change in fair value of Investment Properties	6,566	(2,475)	4,091
53,633	(6,638)	46,995	Financing and Investment Income & Expenditure	54,598	(3,604)	50,994
0	(49,018)	(49,018)	Recognised Capital Grants & Contributions	0	(41,333)	(41,333)
0	(325,564)	(325,564)	Revenue Support Grant	0	(328,126)	(328,126)
0	(115,383)	(115,383)	Non-Domestic Rates	0	(116,504)	(116,504)
2,282	(202,564)	(200,282)	Council Tax Income	(766)	(217,118)	(217,884)
2,282	(692,529)	(690,247)	Taxation & Non-Specific Grant Income	(766)	(703,081)	(703,847)
131	0	131	Tax expenses - Corporation Tax payable/(owing)	129	0	129
1,283,964	(1,242,772)	41,192	(Surplus)/Deficit on Provision of Services	1,212,089	(1,248,191)	(36,102)
		(45,320)	Revaluation Gains			(35,802)
		21,306	Revaluation Losses			11,958

		2,399	Impairment losses on non-current assets charged to the Revaluation Reserve			2,357
		13	(Surplus)/Deficit on Financial Instrument Revaluation Reserve			(14)
		(23,066)	Actuarial gains/losses on pension assets/liabilities			127,222
		0	Group entity adjustment			1,493
		(44,668)	Other Comprehensive Income & Expenditure			107,214
		(3,476)	Total Comprehensive Income & Expenditure			71,112

Group Movement in Reserves

	Council Fund Balance	Council Fund Earmarked Reserves	HRA Balance	HRA Earmarked Reserves	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves Council	Unusable Reserves - Group Entities	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2018 carried forward	14,255	61,843	8,983	3,223	21,320	109,624	433,976	4,083	547,683
Movement in Reserves during 2018/19									
Surplus or (deficit) on the provision of Services	(78,008)	0	36,927	0	0	(41,081)	0	(111)	(41,192)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	43,138	1,530	44,668
Total Comprehensive Income and Expenditure	(78,008)	0	36,927	0	0	(41,081)	43,138	1,419	3,476
Adjustments between accounting basis & funding basis under regulations	69,879	0	(39,655)	0	(12,832)	17,392	(17,392)	0	0
Net Increase / (Decrease) before Transfers to/(from) Earmarked Reserves	(8,129)	0	(2,728)	0	(12,832)	(23,689)	25,746	1,419	3,476
Transfers to/(from) Earmarked Reserves	8,129	(8,129)	2,728	(2,728)	0	0	0	0	0
Increase / (Decrease) in 2018/19	0	(8,129)	0	(2,728)	(12,832)	(23,689)	25,746	1,419	3,476
Balance at 31 March 2019 carried forward	14,255	53,714	8,983	495	8,488	85,935	459,722	5,502	551,159
Movement in Reserves during 2019/20									
Surplus or (deficit) on the provision of Services	19,559	0	16,165	0	0	35,724	0	378	36,102
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	(105,721)	0	(105,721)
Group entity adjustment	0	0	0	0	0	0	0	(1,493)	(1,493)
Total Comprehensive Income and Expenditure	19,559	0	16,165	0	0	35,724	(105,721)	(1,115)	(71,112)
Adjustments between accounting basis & funding basis under regulations	(18,379)	0	(15,782)	0	2,418	(31,743)	31,743	0	0
Net Increase / (Decrease) before Transfers to/(from) Earmarked Reserves	1,180	0	383	0	2,418	3,981	(73,978)	(1,115)	(71,112)
Transfers to/(from) Earmarked Reserves	(1,180)	1,180	(383)	383	0	0	0	0	0
Increase / (Decrease) in 2019/20	0	1,180	0	383	2,418	3,981	(73,978)	(1,115)	(71,112)
Balance at 31 March 2020 carried forward	14,255	54,894	8,983	878	10,906	89,916	385,744	4,387	480,047

Group Balance Sheet

31 March 2019		31 March 2020
£000		£000
1,768,343	Property, Plant & Equipment:	1,867,640
54,152	Heritage Assets	58,616
118,003	Investment Properties	170,144
2,222	Intangible Non-Current Assets including AUC	2,292
478	Long-term Investments	367
10,251	Long-term Debtors	8,701
762	Deferred tax asset	654
1,954,211	Total Long-Term Assets	2,108,414
69,032	Short-term Investments	76,106
2,570	Assets held for Sale	1,860
2,594	Inventories	2,515
96,267	Short-term Debtors	137,597
21,799	Cash and Cash Equivalents	38,294
192,262	Total Current Assets	256,372
(13,306)	Short-term Borrowing	(29,625)
(109,249)	Short-term Creditors	(121,969)
(1,769)	Pension Strain	(1,496)
(6,876)	Provisions	(5,957)
(3,596)	Deferred Liabilities	(4,561)
0	Deferred Tax Liability	0
(134,796)	Total Current Liabilities	(163,608)
(717,700)	Long Term Borrowing	(808,440)
(25,706)	Provisions	(25,487)
(15,311)	Deferred Liabilities	(11,525)
(14,485)	Capital Contributions Receipts in Advance	(17,430)
(12,412)	Revenue Grants Receipts in Advance	(13,854)
(782)	Capital Grants Receipts in Advance	(1,424)
(2,560)	Pension Strain	(3,688)
(670,958)	Net Pensions Liability	(838,450)
(604)	Deferred tax liability	(833)
(1,460,518)	Total Long-Term Liabilities	(1,721,131)
551,159	NET ASSETS	480,047
	Financed by:	
14,255	Council Fund Balance	14,255
53,714	Council Fund Earmarked Reserves	54,894
8,983	Housing Revenue Account Balance	8,983
495	Housing Revenue Account Earmarked Reserves	878
8,488	Capital Receipts Reserve	10,906
85,935	Usable Reserves	89,916
271,739	Revaluation Reserve	291,565
864,171	Capital Adjustment Account	939,914
5,008	Deferred Capital Receipts	5,008
4,516	Financial Instruments Adjustments Reserve	4,529

(678,942)	Pensions Reserve	(848,114)
(8,901)	Accumulated Absences Adjustment Account	(11,580)
7,633	Reserves (Group Entities)	8,809
465,224	Unusable Reserves	390,131
551,159	TOTAL RESERVES	480,047

Group Cash Flow

2018/19		2019/20
£000		£000
41,192	Net (Surplus) /Deficit on the provision of services	(36,102)
(121,080)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(32,067)
59,214	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	51,307
(20,674)	Net cash flows from operating activities	(16,862)
133,361	Purchase of property, plant and equipment, investment property and intangible assets	151,540
35,000	Purchase of short-term and long-term Investments	7,000
(4,936)	Other payments for investing activities	(3,575)
(9,232)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(9,974)
(68,618)	Capital Grants and Contributions	(36,798)
85,575	Net cash flows from investing activities	108,193
(32,934)	Cash receipts from short-term and long-term borrowing	(111,060)
(4,145)	Other receipts from financing activities	(3,861)
1,895	Cash payments for the reduction of outstanding liabilities relating to finance leases	448
4,288	Repayments of short-term and long-term borrowing	6,647
0	Other payments for financing activities	0
(30,896)	Net cash flows from financing activities	(107,826)
34,005	Net (increase)/ decrease in cash and cash equivalents	(16,495)
55,804	Cash and cash equivalents at the beginning of the reporting period	21,799
21,799	Cash and cash equivalents at the end of the reporting period	38,294

Notes to Group Accounts

The following notes to the Group Accounts provide additional information in relation to Cardiff Bus. Further information can be found in the accounts of Cardiff City Transport Services Ltd (Cardiff Bus) company number 02001229.

1. Remuneration

The number of Cardiff Bus employees whose remuneration is over £60,000 per annum is disclosed below.

Number of Employees	Remuneration band £	Number of Employees
2018/19		2019/20
0	60,000-74,999	0
0	75,000-79,999	1
2	80,000-84,999	2
0	85,000-104,999	0
1	105,000-109,999	0
0	110,000-149,999	0
3	Total	3

The year-to-year change in the above remuneration banding is a result of a change to the management structure and the associated part year effects.

2. Related Parties Disclosures

Related party transactions and balances of the group are as contained in note 10 to the single entity financial statements. Cardiff City Transport Services Ltd have separately recognised related party transactions between itself and the Council, and also between itself and its own subsidiary, but not between itself and any other organisations.

3. Exceptional Items

There are no exceptional items reported in the 2019/20 Cardiff Bus Accounts.

4. Financial Instruments

In addition to the financial instrument disclosures in the single entity accounts it should be noted that the Council's shareholding in Cardiff Bus ceases to be a financial instrument, as the group balance sheet includes the net assets of the subsidiary and their corresponding net worth.

5. Prior Period Adjustment

There are no prior period adjustments.



Trust Funds



Trust Funds

During 2019/20, 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. Separate financial statements are produced for each, 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) – 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.

Norwegian Church Preservation Trust (519831) - 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 attraction on the Cardiff Bay Waterfront for future generations.

Cardiff Further Education Trust Fund/Craddock Wells Trust (525512) – Provision of premises for educational purposes and grants to eligible students. The property provided by the trust is used by the Council as the site for Cardiff High School.

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 the year ended 31 March 2020 have yet to be examined. This is to be undertaken in January 2021 which is within the statutory deadlines set.

The Council administers the following charities, the purposes of which are outlined below:-

R Fice Memorial Trust (702695) – Provide financial assistance to those playing brass instruments

The Howardian Trust (1019801) – Provide financial support to young people in the former catchment area of Howardian High School.

A financial summary for each fund follows. Detailed financial statements may be obtained from:

Christopher Lee
Corporate Director Resources
County Hall
Cardiff
CF10 4UW

	Balance as at 31 March 2019 £	Income £	Expenditure £	Asset Revaluation £	Balance as at 31 March 2020 £
Funds for which the Council is Sole Trustee					
Llandaff War Memorial Fund	1,428	12	(11)	0	1,429
Maindy Park Foundation	78,996	420	(11)	0	79,405
Norwegian Church Preservation Trust	(110,896)	36,580	(45,516)	0	(119,832)
Cardiff Further Education Trust/Craddock Wells	24,677,342	145,928	(68,193)	(560,435)	24,194,642
Total funds for which the Council is Sole Trustee	24,646,870	182,940	(113,731)	(560,435)	24,155,644
Funds administered by the Council					
R Fice Memorial Trust	64,046	2,441	(2,173)	(12,509)	51,805
The Howardian Trust	35,133	882	0	(475)	35,540
Total funds which are administered by the Council	99,179	3,323	(2,173)	(12,984)	87,345
Total	24,746,049	186,263	(115,904)	(573,419)	24,242,989

Please note that there will be differences in the income and expenditure figures quoted above compared to that included in the return to the Charity Commission. The figures above are calculated on an accruals basis whereas the returns are calculated on a cash basis.



Cardiff Harbour Authority



Narrative Report

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. The financial statements that follow are an extract from the accounts of the County Council of the City and County of Cardiff and have been prepared in line with International Financial Reporting Standards (IFRS) as well as the requirements of the Companies Act 2006. The extract has been amended to remove those entries required by the CIPFA Code of Practice 2019/20 that are not recognized by the IFRS

This narrative report replaces the Director's report required by the Companies Act 2006.

Annual Governance Statement

The Harbour Authority is not a separate entity to the Council and the financial transactions and systems, governance and controls of the Harbour Authority are integrated into those of the Council.

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 1993.

The Agreement has since been varied by the Deeds of Variation between the Welsh Ministers and the Council, with the latest dated 21 March 2019.

Review of the Financial Year

Welsh Government funding for the Harbour Authority is subject to three-year agreements, the latest of which expired on 31 March 2017. The Welsh Government advised they would like an opportunity to review such arrangements, however as negotiations remained ongoing at the time, it was agreed that the third review which was due to be completed by 1 April 2017, would be deferred by the parties and the Business Period extended to 31 March 2020. Subsequently, agreement was reached for the 2019/20 budget to be set at £5.326 million, which included an additional £103,000 due to grant funding approved because of Storm Dennis, representing a reduction of £74,000 or 1.4% on 2018/19.

The financial deficit after accounting adjustments for the year ended 31 March 2020 was £2.278 million (£2.791 million in 2018/19).

Total Capital Expenditure incurred during the year was £595,000 and of this, £565,000 was funded by Grant. This was a single year programme in 2019/20 for works at the harbour, barrage and surrounding environmental infrastructure. This includes works on the bascule bridges, replacement of electrical lock panels and replacement of the deck mounted crane on the harbour boat.

Key Achievements

- Delivered the business plan within budget at year end
- Retained Green Flag Status for the Barrage, Cardiff Bay Wetlands and Flat Holm

- Continued accreditation of the ISO14001 standard
- Effectively facilitated and delivered events on the Barrage and in the Roald Dahl Plas including supporting a new model for the International Food and Drink Festival
- High level compliance in maintaining statutory water quality standards comprising over 400,000 readings with an excellent monitoring regime and mitigation measures in place
- 512 tonnes of litter removed from the rivers and bay
- Runner up in the Arts and Environment Award Category for the 'Under the Bridge' project with Arts Active
- Community liaison with Penarth, Central, Splott and Adamsdown and the relevant properties outside the protected property line concerning the end of the Property Protection Scheme
- Excellent attendances and feedback on courses, activities and events at Cardiff International White Water (CIWW), Cardiff Bay Water Activity Centre (CBWAC) and Sailing Centre including 210 disabled Sailability sessions and 600 school sailing sessions. CIWW worked to secure GB SUP series, BC Prem Slalom, BC Boater X, and BC freestyle events for 2020
- Third year of record entries for the Welsh Indoor Rowing Championships & Schools Championships totaling over 1500 competitors and 700 spectators each day
- Effectively dealt with the consequences of the extreme weather conditions through Barrage operations, Harbour and Environment teams.

Guide to the Financial Statements

The main statements provided are shown in the pages that follow along with supporting notes. Cash flows of the Harbour Authority are integrated with those of the Council. A Cash Flow Statement has not been provided, in accordance with Section 394 of the Companies Act 2006.

Comprehensive Income and Expenditure Statement

Provides information on how the Harbour Authority has performed throughout the year and as a result, whether or not their operations have resulted in a surplus or a deficit. The Harbour Authority has operated within budget but statutory adjustments including capital charges are the reason the Comprehensive Income and Expenditure Statement is showing a deficit.

Balance Sheet

Provides a 'snap shot' of the Harbour Authority's assets, liabilities, cash balances and reserves at the year-end date.

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 except where policy changes have been noted in these accounts;
- made judgements and estimates that were reasonable and prudent.

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 its income and expenditure for the financial year 2019/20 and financial position of the Harbour Authority at 31 March 2020.



Christopher Lee
Corporate Director Resources

Date: 15 June 2020

Audit Report of the Auditor General to those Charged with Governance of Cardiff Harbour Authority

This page is intentionally left blank and will be updated upon receipt of the Auditor General's opinion following the audit of the accounts.

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

24 Cathedral Road
Cardiff
CF11 9LJ

Accounting policies used when formulating the accounts

In accordance with the Accounts and Audit (Wales) Regulations 2014, this Statement of Accounts summarises the Harbour Authority's transactions for the 2019/20 financial year and its financial position at 31 March 2020. 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:

1. 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. 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. There is a de minimis threshold of £500 under which income and expenditure may not be accrued.

2. Employee Benefits Payable during Employment

Short-term employee benefits such as wages and salaries, paid annual leave, sick leave and expenses are paid on a monthly basis and reflected as expenditure on an accruals basis within the Employee expenditure line in the Comprehensive Income and Expenditure Statement.

3. Grants and Contributions

Grants and other contributions are accounted for on an accruals basis and recognised when:

- there is reasonable assurance that the Authority will comply with the conditions for their receipt and
- there is reasonable assurance that the grant or contribution will be received.

Revenue

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 Income in the Comprehensive Income and Expenditure Statement. Where there is no longer any reasonable assurance that the conditions will be met, sums received will not be recognised as a receipt of grant but as a repayment due to the awarding body and held on the Balance Sheet as a liability if it remains unpaid.

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. Where a specific Capital grant or contribution has been received but remains unapplied, this is deemed to represent a condition and is shown as a Creditor.

4. 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 expenditure.

5 Overheads and Support Services Costs

Cardiff Council makes recharges in respect of the cost of support services to the 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.

6 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.

The Harbour Authority 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, excluding borrowing costs which are not capitalised. These assets are then carried in the Balance Sheet using the following measurement bases:

Asset Type	Measurement	Range of Remaining Useful Lives
Assets under Construction	Depreciated Historical Cost	n/a
Buildings	Existing Use or Depreciated Replacement Cost	14-57
Community Assets	Depreciated Historical Cost	n/a
Heritage Assets	Historic Cost and only measured at fair value where the benefits of doing so outweigh the costs	n/a
Infrastructure **	Depreciated Historical Cost	7-120
Investment Properties	Fair Value	n/a
Surplus Assets	Fair Value	n/a
Vehicles, Plant, Furniture & Equipment	Depreciated Historical Cost	7

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

Revaluation:

Land and buildings are revalued as part of a three year rolling programme.

Investment properties and Surplus Assets are reviewed annually for any material changes as a result of the overall Market with a formal revaluation of Investment properties at least every two years.

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:

The Capital charges line on the Harbour Authority Comprehensive Income and Expenditure Statement is debited with the following amounts to record the cost of holding assets during the year:

- depreciation attributable to the assets
- impairment losses on assets where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.

The Harbour Authority does not receive grants 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 impaired in value, either due to a significant reduction in service potential or significant permanent market value reduction. Where a material change in value is identified, the accounting treatment is as follows:

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

Where an impairment loss is reversed subsequently, the reversal is credited to the Capital charges line 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).

7. Reserves

The Harbour Authority holds a general reserve for accumulated operational surpluses and deficits and a revaluation reserve to manage the accounting processes for non-current assets.

8. 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. These accounts have been prepared exclusive of VAT, except where deemed irrecoverable.

Comprehensive Income and Expenditure Statement

2018/19		2019/20
£000		£000
	Income	
(5,202)	Government Grants	(4,818)
(104)	Capital Grants Applied	(565)
(958)	Fees and Charges	(906)
(6,264)	Total Income	(6,289)
	Expenditure	
2,867	Employees	2,801
1,171	Premises	1,121
57	Transport	68
1,647	Supplies and Services	1,343
481	Support Services	450
0	Third Party Payments	4
2,832	Capital Charges	2,780
9,055	Total Expenditure	8,567
2,791	Net Expenditure for the Year	2,278

Balance Sheet

31 March 2019		Note	31 March 2020
£000			£000
162,811	Property, Plant and Equipment	2	160,626
56	Heritage Assets	2	56
162,867	Total Long Term Assets		160,682
352	Inventory	3	352
40	Debtors	4	41
633	Cash		276
1,025	Total Current Assets		669
(853)	Creditors	5	(590)
(853)	Total Current Liabilities		(590)
163,039	Net Assets		160,761
	Funded by:		
158,550	General Reserve	1	156,272
4,489	Revaluation Reserve	1	4,489
163,039	Total Reserves		160,761

Notes to the Financial Statements

1. Reserves

2018/19			2019/20	
General Reserve £000	Revaluation Reserve £000		General Reserve £000	Revaluation Reserve £000
161,341	4,588	Balance as at 1 April	158,550	4,489
(2,791)	(99)	Movements in Reserves	(2,278)	0
158,550	4,489	Balance as at 31 March	156,272	4,489

Held within the General Reserve is an earmarked amount reserved for project activities and contingencies. This amount is £63,000 as at 31 March 2020 (£42,000 as at 31 March 2019).

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.

Property, Plant and Equipment	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus	Investment Assets	PP&E under construction	Total Property, Plant & Equipment	Heritage Assets
Movements in Cost or Value	£000	£000	£000	£000	£000	£000	£000	£000	£000
1 April 2018	6,749	1,357	219,249	1,103	0	333	222	229,013	56
Additions	0	72	129	0	0	0	0	201	0
Revaluations Increases/(Decreases) recognised in the RR*	(235)	0	0	0	0	0	0	(235)	0
Revaluations Increases/(Decreases) recognised in the CIES**	(126)	0	0	0	10	0	0	(116)	0
Impairment Losses/Reversals to RR	0	0	0	0	0	0	0	0	0
Impairment Losses/Reversals to CIES	0	0	0	0	0	0	0	0	0
Derecognition - Disposals	0	(156)	0	0	0	0	0	(156)	0
Reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
Other Reclassifications - Transfers	189	0	0	0	33	0	(222)	0	0
At 31 March 2019	6,577	1,273	219,378	1,103	43	333	0	228,707	56
Additions	0	86	509	0	0	0	0	595	0

Property, Plant and Equipment	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus	Investment Assets	PP&E under construction	Total Property, Plant & Equipment	Heritage Assets
Movements in Cost or Value	£000	£000	£000	£000	£000	£000	£000	£000	£000
1 April 2018	6,749	1,357	219,249	1,103	0	333	222	229,013	56
Revaluations Increases/(Decreases) recognised in the RR	0	0	0	0	0	0	0	0	0
Revaluations Increases/(Decreases) recognised in the CIES	0	0	0	0	0	0	0	0	0
Impairment Losses/Reversals to RR	0	0	0	0	0	0	0	0	0
Impairment Losses/Reversals to CIES	0	0	0	0	0	0	0	0	0
Derecognition - Disposals	0	0	0	0	0	0	0	0	0
Reclassified (to)/from Held for Sale	0	0	0	0	0	0	0	0	0
Other Reclassifications - Transfers	0	0	0	0	0	0	0	0	0
At 31 March 2020	6,577	1,359	219,887	1,103	43	333	0	229,302	56
Movements in Depreciation/Impairment									
1 April 2018	172	597	62,704	0	0	0	0	63,473	0
Depreciation Charge	72	182	2,496	0	0	0	0	2,750	0
Depreciation written out on Impairment	0	0	0	0	0	0	0	0	0
Depreciation written out to the RR	(136)	0	0	0	0	0	0	(136)	0
Depreciation written out to the CIES	(35)	0	0	0	0	0	0	(35)	0
Derecognition - Disposals	0	(156)	0	0	0	0	0	(156)	0
Reclassifications - Transfers	0	0	0	0	0	0	0	0	0
At 31 March 2019	73	623	65,200	0	0	0	0	65,896	0
Depreciation Charge	72	194	2,514	0	0	0	0	2,780	0
Depreciation written out on Impairment	0	0	0	0	0	0	0	0	0
Depreciation written out to the RR	0	0	0	0	0	0	0	0	0
Depreciation written out to the CIES	0	0	0	0	0	0	0	0	0
Derecognition - Disposals	0	0	0	0	0	0	0	0	0
Reclassifications - Transfers	0	0	0	0	0	0	0	0	0
At 31 March 2020	145	817	67,714	0	0	0	0	68,676	0
Net Book Value:									
At 31 March 2019	6,504	650	154,178	1,103	43	333	0	162,811	56
At 31 March 2020	6,432	542	152,173	1,103	43	333	0	160,626	56

* RR = Revaluation Reserve

**CIES = Comprehensive Income and Expenditure Statement

3. Inventory

2018/19		2019/20
£000		£000
362	Balance as at 1 April	352
(10)	Inventory written off to the CIES*	0
352	Balance as at 31 March	352

*Due to Covid 19, an Inventory count was not possible at the Balance Sheet date 31 March 2020

4. Debtors

31 March 2019		31 March 2020
£000		£000
0	Central Government Bodies	0
40	Trade Receivables	41
40	Total Debtors	41

5. Creditors

31 March 2019		31 March 2020
£000		£000
(93)	Central Government Bodies	(29)
(760)	Trade Payables	(561)
(853)	Total Creditors	(590)



Glossary of Accounting Terms



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 the goods or services are provided rather than when the payment is received, and expenses are recorded when goods or services are received rather than when the payment is made.

Actuarial Gains and Losses

For a defined benefit pension's scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation, or the actuarial assumptions have changed.

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 Council 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

A Council'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 Dwellings

Flats and Houses owned by the Council as part of its Housing Revenue Account and provided at an affordable level of rent which is lower than market rent.

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 (Pensions)

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.

Curtailement (Pensions)

For a defined benefit pension scheme an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service.

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 (Pensions)

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 (Pensions)

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 Council 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.

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.

Interest Cost (Pensions)

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

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.

Levy

An amount of money which a Local Authority is required to collect on behalf of another organisation.

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.

Projected Unit Method (Pensions)

An actuarial method of calculating the liabilities of a pension scheme which allows for projected future increases in pensionable pay up to retirement or date of leaving service

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 Council must maintain as a matter of prudence.

Revaluation Reserve

The Reserve records the accumulated gains on the non-current assets held by the Council 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 Council 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.

Settlement (Pensions)

An irrevocable action that relieves the employer of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement.

Surplus Assets

Assets that are not being used to deliver services, but which do not meet the criteria to be classified as either Investment Properties or Assets Held for Sale.

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.

Mae'r dudalen hon yn wag yn fwriadol



Cardiff & Vale of Glamorgan
Pension Fund



Draft Statement of Accounts 2019/20

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Narrative Report

The County Council of the City and County of Cardiff (Cardiff Council) is the Administering Authority for the Cardiff and Vale of Glamorgan Pension Fund (the Fund) which is itself part of the national Local Government Pension Scheme (LGPS) for England & Wales. The LGPS is the statutory occupational pension scheme for all local government employees (except teachers) and the regulations are determined by the UK Government. The Council's responsibilities as manager of the Fund are discharged through the Pensions Committee, which has oversight of the Fund's strategies and policies. Operational management of the Fund has been delegated to the Corporate Director Resources. The Local Pension Board assists the Council to secure compliance with the LGPS regulations and the requirements of the Pensions Regulator and to ensure the effective and efficient administration of the scheme.

The number of contributing members did not change significantly during the year, continuing at just over 16,000, but the number of pensions in payment continues to increase and there are now nearly 12,000 pensioners and dependents receiving benefits from the Fund. In addition, there was a slight increase in the number of deferred pensioners and dependents, now standing at just under 14,000.

The triennial actuarial valuation of the Fund as at 31 March 2019 was carried out during the year. The funding ratio improved from 85% to 96%. This was largely due to the growth in Fund assets over the three years, offset by an increase in liabilities due to changes in financial assumptions. The overall funding deficit was reduced from £300 million to £95 million and employer contributions have been set for the next three years with the aim of recovering deficits within 17 years. The contributions include an allowance for possible additional liabilities arising from the 'McCloud' judgement, which ruled that transitional protection arrangements for certain public sector pension schemes were illegal. The UK Government is considering changes to the protection arrangements for all public sector schemes, including the LGPS.

The value of the Pension Fund's assets fell by 6.7% during 2019/20, from £2.178 billion to £2.032 billion. Despite brief periods of volatility, investment markets made steady gains over the first nine months of the financial year. Market sentiment changed dramatically in the final quarter in response to the spread of Covid-19, resulting in losses across all regions and sectors on a scale not seen since the global financial crisis of 2008/09. The return for the year was -7.4% against a benchmark return of -7.2%. However, it is important to note that this is a snap shot of the position as at 31 March 2020. The Pension Fund is a defined benefit scheme, which means that members' benefits are not linked to stock market performance. The Pension Fund is a long term investor and members can be assured that contributions are reviewed as part of the triennial valuation.

The eight LGPS fund authorities in Wales continued to make progress during the year in the development of the Wales Pension Partnership (WPP) which was established in 2017 to oversee the pooling of the funds' investments. Following the launch of the first two pooled funds in January 2019, a third fund – the UK Equities Opportunities Fund – was launched in September. Cardiff participated in this launch with a transfer of £217 million (value at date of transfer) from its UK equities portfolios. Further funds will be launched in 2020/21 including five Fixed Income funds. During the year the WPP also launched its own website and has developed several strategic policy documents.

In July 2019, in response to the concerns of the Council and other stakeholders regarding climate change, Cardiff's Pensions Committee agreed to allocate 10% of Fund investments to a Low Carbon fund. This decision was implemented in February 2020 with a transfer of £235 million (value at date of transfer) into the Low Carbon Tracker Fund managed by BlackRock, the Fund's passive investments manager. The impact of this investment will be monitored carefully and options for further action will be considered during 2020/21.

During 2019/20 the Cardiff and Vale of Glamorgan Pension Fund was included in a pilot governance review by the Pensions Regulator of six funds in England, Wales and Northern Ireland. This review was conducted under the Pensions Regulator Code of Practice 14 which covers governance and administration of Public Sector Schemes. Whilst the fund was chosen at random the Regulator made it clear that if they identified any areas that merited concern they reserved the right to conduct an in depth review. The review was concluded in April 2019 and the regulator was satisfied that the fund is well managed and they didn't identify any areas for further in depth review. They made a number of

recommendations that were reported to the Pensions Committee in July 2019 which mainly focused on Governance issues for the Fund. These have been accepted and a number have already been implemented such as publishing Pension Board minutes and adopting a formal complaint policy. In addition to this review it was also decided to seek assurance that the Pensions in payment were accurate and an exercise was commissioned to review and identify any potential under or overpayments. This work is currently ongoing and is expected to be concluded by October 2020. Any over or underpayments identified are being dealt with in accordance with the over and under payment policy approved by the Pensions Committee.

The Fund's key objective continues to be to deliver an effective and efficient service to nearly 42,000 contributing employees, pensioners and deferred members, and to minimise the financial burden on contributing employers over the long term.

Christopher Lee
Corporate Director Resources

Actuarial Statement

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 2019 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

1. The valuation as at 31 March 2019 showed that the funding level of the Fund had increased since the previous valuation, with the market value of the Fund's assets as at 31 March 2019 (of £2.178 billion) covering 96% of the liabilities allowing, in the case of pre 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.

2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2020 was:

- 18.8% of pensionable pay. This is 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 (the primary rate),

Plus

- an allowance of 0.9% of pay for McCloud and cost management – see paragraph 9 below,

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 17 years from 1 April 2020, equivalent to 1.8% of pensionable pay (or £5.7M in 2020/21, and increasing by 3.1% p.a. thereafter), which together with the allowance above comprises the secondary rate.

3. In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon's report dated 30 March 2020 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

Total contributions payable by all employers over the three years to 31 March 2023 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£M)
2020	20.9%	1.6
2021	20.9%	1.8
2022	20.9%	2.0

4. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate, stepping of contribution increases and individual employers' recovery

periods as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances.

5. The valuation was carried out using the projected unit actuarial method for most employers and the main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service	
Scheduled body employers *	4.3% p.a.
Ongoing Orphan employers	4.3% p.a.
Low risk funding target	1.3% p.a.
Discount rate for periods after leaving service	
Scheduled body employers *	4.3% p.a.
Ongoing Orphan employers	1.6% p.a.
Low risk funding target	1.3% p.a.
Rate of pay increases	3.1% p.a.
Rate of increase to pension accounts	2.1% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.1% p.a.

* The scheduled body discount rate was also used for employers whose liabilities will be subsumed after exit by a scheduled body.

In addition, the discount rate for already orphaned liabilities (i.e. where there is no scheme employer responsible for funding those liabilities and employer has exited the Fund) was 1.3% p.a.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation, including the demographic assumptions, are set out in the actuarial valuation report.

6. The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2N mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience and a Fund membership postcode analysis using Aon's Demographic Horizons™ longevity model, and included an allowance for improvements based on the 2018 Continuous Mortality Investigation (CMI) Projections Model (CMI2018) with s_k of 7.5 and parameter A of 0.0 assuming a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	22.1	24.5
Future pensioners aged 45 at the valuation date	23.1	25.9

7. The valuation results summarised in paragraphs 1 and 2 above are based on the financial position and market levels at the valuation date, 31 March 2019. As such the results do not make allowance for changes which have occurred subsequent to the valuation date, although we comment on changes in market conditions to 31 March 2020 in paragraph 10 below.
8. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2020 to 31 March 2023 were signed on 30

March 2020. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2022 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

9. There are a number of uncertainties regarding the Scheme benefits and hence liabilities:

▪ **Increases to Guaranteed Minimum Pensions (GMPs):**

The 2019 valuation allows for the extension of the 'interim solution' for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 April 2021. However, the Government is still exploring various options, including conversion of GMPs to Scheme benefits, in order to achieve equalisation for GMPs as required by the High Court judgement in the Lloyds Bank case.

The results of the 2019 valuation do not allow for the impact of potentially extending this interim solution indefinitely, providing full pension increases on GMPs for members reaching State Pension Age after 5 April 2021 nor for conversion of GMPs to Scheme benefits. Based on approximate calculations, at a whole of fund level, the impact of providing full pension increases on GMPs for those members reaching State Pension Age after 5 April 2021 is an increase in past service liabilities of between 0.1% to 0.2% across the Fund as a whole.

● **Cost Management Process and McCloud judgement:**

Initial results from the Scheme Advisory Board cost management process indicated that benefit improvements / member contribution reductions equivalent to 0.9% of pay would be required. However, the cost management process was paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) constituted illegal age discrimination. Government confirmed that the judgement would be treated as applying to all public service schemes including the LGPS (where the transitional arrangements were in the form of a final salary underpin) and a consultation on changes to the LGPS is expected in June 2020.

The employer contributions certified from 1 April 2020 as part of the 2019 valuation include an allowance of 0.9% of pay in relation to the potential additional costs following the McCloud judgement / cost management process. This was a simplified approach which didn't take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the LGPS changes have been agreed depending upon the precise nature of the new final salary underpin, the members in scope, and how this affects the cost management process.

10. Since the valuation date, Fund asset returns have fallen short of the assumed return of around 4.3% over the year to 31 March 2020, on its own leading to a reduction in the funding level. In addition, reduced expectations of future asset returns and falls in gilt yields have led to a decrease in the discount rates, further reducing funding levels and increasing the primary rate. The Actuary, in conjunction with the Administering Authority, will monitor the position on a regular basis and the Administering Authority will take action where it deems it necessary.

11. This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. This Statement provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2019. 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 including any impact of Covid-19 .

Aon does not accept any responsibility or liability to any party other than our client, the County Council of the City and County of Cardiff, the Administering Authority of the Fund, in respect of this Statement.

12. The report on the actuarial valuation as at 31 March 2019 is available on the Fund's website at the following address:

<https://www.cardiffandvalepensionfund.org.uk/about-the-fund/actuarial-valuation-reports/>

Aon Hewitt Limited

June 2020

Statement of Responsibilities for the Financial Statements

The Council's responsibilities

As administering authority of the Cardiff and Vale of Glamorgan Pension Fund, Cardiff 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 2019/20 that officer was Christopher Lee, Corporate Director Resources;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the statement of accounts.

**Councillor McKerlich
Lord Mayor**

Date: 2020

The Corporate Director Resources responsibilities

The Corporate Director Resources (who holds the statutory post of Section 151 Officer) 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 2019/20 (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.

Corporate Director Resources Certificate

The financial statements for the Cardiff and Vale of Glamorgan Pension Fund give a true and fair view of its income and expenditure for the financial year 2019/20 and financial position at 31 March 2020.



**Christopher Lee
Corporate Director Resources**

Date: 17 July 2020

Audit Report of the Auditor General to the Members of the County Council of the City and County of Cardiff as administering authority for the Cardiff and Vale of Glamorgan Pension Fund

This page is intentionally left blank and will be updated upon receipt of the Auditor General's opinion following the audit of the accounts.

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

24 Cathedral Road
Cardiff
CF11 9LJ

Fund Account

2018/19		Note	2019/20
£000			£000
	Dealings with members, employers and others directly involved in the fund		
	Contributions		
(69,768)	From employers	7	(75,323)
(18,626)	From employees	7	(19,522)
(5,168)	Group transfers from other schemes or funds		0
(6,719)	Individual transfers from other schemes or funds		(8,864)
(2,825)	Other income (capitalised payments and interest on deficit funding)		(8,189)
(103,106)			(111,898)
	Benefits Payable		
65,790	Pensions	8	70,038
18,134	Lump sums, grants and other payments	8	19,166
	Payments to and on account of leavers		
188	Refunds of contributions		274
67	Group transfers to other schemes or funds		0
7,397	Individual transfers to other schemes or funds		6,621
91,576			96,099
(11,530)	Net (additions)/withdrawals from dealings with members of the Fund		(15,799)
8,083	Management expenses	9	8,429
(3,447)	Net (additions)/withdrawals including fund management expenses		(7,370)
	Returns on Investment		
(27,498)	Investment income	10	(27,397)
(80,299)	Change in market value of investments	11a	180,253
(107,797)	Net returns on investments		152,856
(111,244)	Net (increase)/decrease in the Fund during year		145,486
(2,066,584)	Opening net assets of the scheme		(2,177,828)
(2,177,828)	Closing net assets of the scheme		(2,032,342)

Net Assets Statement

2018/19		Note	2019/20
£000			£000
2,112,376	Investments at market value	11	1,975,769
51,029	Cash (including derivatives) and investment proceeds due	11	38,457
2,163,405	Total investments		2,014,226
42	UK & overseas tax		71
4,845	Contributions due from employers and deficit funding		4,599
443	Sundry debtors		839
2,177	Pension strain costs due within one year		3,819
7,507	Total current assets		9,328
6,947	Deficit funding (former employers)		4,654
2,560	Pension strain costs due after one year		6,248
9,507	Total non-current assets		10,902
(426)	Unpaid benefits		(163)
(1,358)	Sundry creditors		(1,214)
(105)	Provision - death grants	19	0
(1,889)	Total current liabilities		(1,377)
(702)	Provision - death grants	19	(737)
(702)	Total non-current liabilities		(737)
2,177,828	Net assets of the scheme		2,032,342

Notes to the Accounts

1. Basis of Preparation

The Statement of Accounts summarises the transactions and net assets of the Fund for the financial year 2019/20. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, 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.

The accounts have been prepared on a going concern basis.

2. Summary of Significant Accounting Policies

Accounting standards that have been issued but not yet adopted

At the balance sheet date, no accounting standards issued but not yet adopted have been identified.

Income and Expenditure

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 benefits in the future, which has been separately disclosed within the notes to the accounts.

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".

Valuation of Investments

Investments are included in the financial statements on a fair value basis as at the reporting date. The values of investments as shown in the net assets statement have been determined in accordance with the requirements of the Code and IFRS 13. Valuation methods employed by the fund are detailed within Note 13c.

Cash and Cash Equivalents

Cash is represented by cash in hand, the net balance on all of the Council's bank accounts including balances of cheque book schools. It includes deposits with financial institutions that are repayable on notice of not more than 24 hours without significant penalty. It also includes investments maturing and interest received on the first working day of April.

Foreign Currency Transactions

Overseas investments have been converted at WM/Reuters closing spot rates of exchange.

Taxation

Taxation	Treatment
UK Income Tax	The fund is an exempt approved fund able to recover UK Income Tax.
UK Capital Gains Tax	No Capital Gains Tax is Chargeable.
Value Added Tax	Accounts are shown exclusive of VAT. As the Council is the administering Authority, VAT is recoverable on all Fund activities.
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.

3. 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.

Pension fund liability

This is calculated in accordance with IAS19 every three years by the actuary, with an annual statement in the intervening years. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary.

4. 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
Actual present value of promised retirement benefits	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.
Private Equity Valuations	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 £89 million. There is a risk that this investment may be under, or overstated in the accounts.
Pooled Property Funds	Valuation techniques are used to determine the carrying amount of pooled property funds. Market activity is being impacted in many sectors by Covid-19. At the March 2020 reporting date, property fund managers consider that they can attach less weight to	Changes in the valuation assumptions used, together with significant changes in rental growth could affect (increase or decrease) the fair value of property-based investments. Indicative net asset statements for property funds are subject to uncertainty at the

	previous market evidence for comparison purposes. They are faced with an unprecedented set of circumstances upon which to case a judgement. The fall in transactions and lack of clarity on pricing means that all major industry valuers have now added Material Uncertainty clauses to their property fund valuations.	reporting date and the £165.2m valuation for pooled property funds is less reliable than usual. The 1 year expected volatility of 4.2% could increase the valuation to £172.2m or decrease it to £158.3m.
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5. Titles of Ownership

Evidences of ownership for the property unit trusts and private equity holdings are held by Cardiff Council. All other evidences of ownership were held at 31 March 2020 by The Northern Trust Company for the benefit of the Council. Statements of holdings have been provided by Northern Trust.

6. Membership

Fund membership at 31 March 2020 is as follows:

2018/19		2019/20
45	Contributing employers	48
45	Total contributing employers	48
16,193	Contributors	16,402
11,554	Pensioners	11,554
13,040	Deferred pensioners	13,608
40,787	Total membership	41,564

7. Employing Bodies – Contributions

2019/20	No. of contributors at 31/03/2020	Employers	Employees	Total	Additional lump sum*
		£000	£000	£000	£000
Administering Body:					
Cardiff Council	10,205	(45,650)	(12,074)	(57,724)	0
Scheduled Bodies:					
Vale of Glamorgan Council	3,832	(15,102)	(3,787)	(18,889)	(6)
Town and Community Councils	56	(275)	(62)	(337)	0
Education Bodies	1,473	(6,487)	(2,437)	(8,924)	(951)
Other Scheduled Bodies	10	(78)	(24)	(102)	0
Admitted Bodies:					
Admitted Bodies	826	(7,731)	(1,138)	(8,869)	(3,844)
Total	16,402	(75,323)	(19,522)	(94,845)	(4,801)

2018/19	No. of contributors at 31/03/2019	Employers	Employees	Total	Additional lump sum*
		£000	£000	£000	£000
Administering Body:					
Cardiff Council	10,036	(42,897)	(11,316)	(54,213)	0
Scheduled Bodies:					
Vale of Glamorgan Council	3,969	(14,127)	(3,809)	(17,936)	(4)
Town and Community Councils	58	(277)	(63)	(340)	0
Education Bodies	1,376	(6,071)	(2,245)	(8,316)	(1,006)
Other Scheduled Bodies	15	(114)	(33)	(147)	0
Admitted Bodies:					
Admitted Bodies	739	(6,282)	(1,160)	(7,442)	(2,420)
Total	16,193	(69,768)	(18,626)	(88,394)	(3,430)

*Memorandum account; totals included within Employers total.

Additional deficit funding

There was no additional deficit funding in 2019/20 (no additional deficit funding in 2018/19).

8. Employing Bodies - Benefits Payable

2019/20	Retirement Pensions	Lump Sums on Retirement	Death Grants	Commutation Payments
	£000	£000	£000	£000
Administering Body:				
Cardiff Council	44,584	10,289	1,755	543
Scheduled Bodies:				
Vale of Glamorgan Council	13,659	3,142	456	131
Town and Community Councils	222	29	169	0
Education Bodies	3,231	459	334	19
Other Scheduled Bodies	2,676	301	78	10
Admitted Bodies:				
Admitted Bodies	5,666	1,189	191	71
Total	70,038	15,409	2,983	774

2018/19	Retirement Pensions	Lump Sums on Retirement	Death Grants	Commutation Payments
	£000	£000	£000	£000
Administering Body:				
Cardiff Council	41,735	8,777	1,685	442
Scheduled Bodies:				
Vale of Glamorgan Council	12,801	3,689	554	173
Town and Community Councils	228	53	0	0
Education Bodies	3,037	882	332	58
Other Scheduled Bodies	2,604	212	0	0
Admitted Bodies:				
Admitted Bodies	5,385	1,060	212	5
Total	65,790	14,673	2,783	678

9. Management Expenses

Management Expenses fully charged to the Fund are:

2018/19		2019/20
£000		£000
1,120	Administration costs	1,880
32	Audit fees	32
1,152	Total administration costs	1,912
6,704	Management fees	6,221
126	Custody fees	151
6,830	Total investment management expenses	6,372
101	Oversight and governance costs	145
8,083	Total	8,429

10. Investment Income

2018/19		2019/20
£000		£000
(10,167)	UK fixed interest securities	(10,019)
(4,209)	Overseas fixed interest securities	(4,830)
(4,638)	UK equities and private equity funds	(4,209)
(1,650)	Pooled investments	(1,608)
(4,615)	Overseas equities	(5,445)
(1,922)	Pooled Property Unit Trust Income	(948)
(196)	Interest on UK cash	(218)
(101)	Securities lending	(120)
(27,498)	Total	(27,397)

11. Investments at Market Value

2018/19		2019/20
£000		£000
92,014	UK public sector fixed interest securities	105,875
286,132	UK other (pooled) fixed interest securities	289,045
186,911	Overseas public sector (pooled)	191,158
565,057	Total fixed interest	586,078
119,317	UK quoted equities & convertibles	0
179,868	Overseas quoted equities	164,067
299,185	Total quoted equities	164,067
425,357	UK unitised insurance policies (pooled)	209,032
96,964	UK other managed funds	228,080
411,205	Overseas unitised insurance policies (pooled)	294,639
76,440	Overseas other managed funds	239,958
1,009,966	Total pooled funds	971,709
155,944	Pooled property unit trusts (UK & Global)	165,246
82,224	Private equity	88,669
2,112,376	Subtotal	1,975,769
(1,243)	Derivatives: Forward currency contracts	3,212
(1,243)	Total derivatives	3,212
15,214	Fund manager's cash	6,730
34,355	Internal/custodian cash	26,051
2,703	Net investment proceeds due	2,464
52,272	Total cash	35,245
2,163,405	Total	2,014,226

The investments in UK quoted equities & convertibles were transferred to UK other managed funds during the year.

11a. Reconciliation in movement in investments

2019/20	Value at 31/03/19	Purchase at cost	Sale proceeds	Change in market value	Value at 31/03/20
	£000	£000	£000	£000	£000
Fixed interest securities	565,057	372,524	(377,841)	26,338	586,078
Equities	299,185	69,622	(203,202)	(1,538)	164,067
Pooled funds	1,009,966	368,719	(144,045)	(262,931)	971,709
Pooled property unit trusts	155,944	781	0	8,521	165,246
Private equity	82,224	8,860	(15,434)	13,019	88,669
Sub-total	2,112,376	820,506	(740,522)	(216,591)	1,975,769
Derivatives	(1,243)	2,921,655	(2,914,474)	(2,726)	3,212
Total derivatives	(1,243)	2,921,655	(2,914,474)	(2,726)	3,212
Managers' cash	15,214				6,730
Internal/custodian cash	34,355			39,064	26,051
Net investment proceeds due	2,703				2,464
Total cash	52,272			39,064	35,245
Total	2,163,405			(180,253)	2,014,226

2018/19	Value at 31/03/18	Purchase at cost	Sale proceeds	Change in market value	Value at 31/03/19
	£000	£000	£000	£000	£000
Fixed interest securities	552,919	294,150	(292,012)	10,000	565,057
Equities	294,107	54,983	(47,302)	(2,603)	299,185
Pooled funds	951,339	920	0	57,707	1,009,966
Pooled property unit trusts	134,177	14,633	0	7,134	155,944
Private equity	79,302	7,268	(18,214)	13,868	82,224
Sub-total	2,011,844	371,954	(357,528)	86,106	2,112,376
Derivatives	1,237	2,813,437	(2,813,426)	(2,491)	(1,243)
Total derivatives	1,237	2,813,437	(2,813,426)	(2,491)	(1,243)
Managers' cash	7,683				15,214
Internal/custodian cash	26,729			(3,316)	34,355
Debtors	2,177				2,703
Total cash	36,589			(3,316)	52,272
Total	2,049,670			80,299	2,163,405

Analysis of derivatives

Objectives and policies for holding derivatives

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 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 Financial, which hedges significant long term currency movements to limit losses. The portfolio covers US dollar, Yen, and Euro currencies.

12. Summary of manager's portfolio values

2018/19		Fund Manager	2019/20	
£000	% of Fund		£000	% of Fund
571,700	26.4	Aberdeen Asset Management	592,189	29.4
76,440	3.5	Aberdeen Emerging Markets	80,398	4.0
565,841	26.2	Blackrock Investment Management	503,671	25.0
96,964	4.5	Invesco Perpetual	64,256	3.2
88,835	4.1	JP Morgan	0	0.0
125,788	5.8	Majedie	0	0.0
91,782	4.2	Nikko	87,945	4.4
91,989	4.3	Schroder Investment Managers	82,417	4.1
181,886	8.4	State Street Global Advisers (SSGA)	159,560	7.9
0	0.0	Wales Pension Partnership - UK Opportunities	163,824	8.1
155,944	7.2	Property	165,246	8.2
82,224	3.8	Private Equity Managers	88,669	4.4
2,644	0.1	Mesirow currency overlay & cash with custodian	2,543	0.1
31,368	1.5	Internally managed (Cash)	23,508	1.2
2,163,405	100.0	Total	2,014,226	100.0

12a. Investments exceeding 5% of net assets

The following investments represent more than 5% of the net assets available to pay benefits (in either 2018/19, 2019/20 or both years).

2018/19		Fund Manager	2019/20	
£000	% of net assets		£000	% of net assets
336,522	15.5	BlackRock Aquila Life UK Equities Indexed Fund	209,032	10.3
229,320	10.5	BlackRock Aquila Life US Equities Indexed Fund	99,171	4.9
181,886	8.4	SSGA MPF Europe ex UK Equities Active Fund	159,560	7.9
174,416	8.0	Aberdeen Corporate Bond Fund	176,256	8.7
111,716	5.1	Aberdeen Target Return Bond Fund	112,789	5.5
107,749	4.9	Aberdeen Global Government Bond Fund	123,686	6.1
92,424	4.2	Aberdeen UK Fixed Interest Gilts	106,322	5.2
0	0.0	BlackRock Low Carbon Tracker Fund	195,469	9.6
0	0.0	Wales Pension Partnership - UK Opportunities	163,824	8.1

13. Financial Instruments

13a. Classification of financial instruments

Value at 31/03/19				Value at 31/03/20		
Fair value through profit and loss	Amortised Cost	Financial liabilities at amortised costs		Fair value through profit and loss	Amortised Cost	Financial liabilities at amortised costs
£000	£000	£000		£000	£000	£000
565,057	0	0	Fixed interest securities	586,078	0	0
299,185	0	0	Equities	164,067	0	0
1,009,966	0	0	Pooled funds	971,709	0	0
155,944	0	0	Pooled property trusts	165,246	0	0
82,224	0	0	Private equity	88,669	0	0
137,741	0	0	Derivatives	130,993	0	0
0	52,272	0	Cash	0	35,245	0
0	17,014	0	Debtors	0	20,230	0
2,250,117	69,286	0	Total financial assets	2,106,762	55,475	0
(138,984)	0	0	Derivatives	(127,781)	0	0
0	0	(1,784)	Creditors	0	0	(1,377)
(138,984)	0	(1,784)	Total financial liabilities	(127,781)	0	(1,377)
2,111,133	69,286	(1,784)	Net financial assets	1,978,981	55,475	(1,377)

13b. Net gains and losses on financial instruments

31/03/19		31/03/20
£000		£000
86,803	Fair value through profit and loss	(169,457)
86,803	Total financial assets	(169,457)
(6,821)	Fair value through profit and loss	(11,203)
317	Amortised cost	407
(6,504)	Total financial liabilities	(10,796)
80,299	Net financial assets	(180,253)

13c. Fair Value – Basis of Valuation

Investment	Valuation Method	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Level 1 Quoted prices for similar instruments.			
Quoted Bonds (Fixed Interest Securities)	Market value based on current yields	Not required	Not required
Market Quoted Investments	Published bid market price at close of business on the final working day of the accounting period	Not required	Not required
Level 2 Traded in a market which is not considered to be active, or where valuation techniques are used to determine fair value which use inputs that are based significantly on observable market data.			
Pooled Investments - Quoted Equity	Closing bid price where bid and offer prices are published. Closing single price where single price published	Net Asset Value (NAV) based pricing set on a forward pricing basis	Not required
Derivatives - Forward Currency Contracts	Market forward exchange rates at the year-end date	Exchange rate risk	Not required
Level 3 Inputs not based on observable market data			
Private Equity Funds	Valuations provided by the general partners to the private equity funds in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	Earnings before interest, tax, depreciation and amortisation (EBITDA) multiple, revenue multiple, discount for lack of marketability and control premium	Valuations may be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date (although updated to reflect calls/distributions made during this period), changes to expected cash flows and any differences between unaudited and audited accounts
Pooled Investments - Property Funds	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations may be affected by post balance sheet events, changes to expected cash flows and any differences between unaudited and audited accounts

13d. Fair Value Hierarchy

As detailed above, investments have been classified into three levels according to the quality and reliability of the information used to determine fair values. The following table provides an analysis of the assets and liabilities of the pension fund based on the level at which the fair value is observable.

Value at 31/03/20	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets at fair value	750,145	1,102,702	253,915	2,106,762
Amortised Cost	55,475	0	0	55,475
Total financial assets	805,620	1,102,702	253,915	2,162,237
Financial liabilities at fair value	0	(127,781)	0	(127,781)
Financial liabilities at amortised cost	(1,377)	0	0	(1,377)
Total financial liabilities	(1,377)	(127,781)	0	(129,158)
Net financial assets	804,243	974,921	253,915	2,033,079

Value at 31/03/19	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets at fair value	864,242	1,147,707	238,168	2,250,117
Loans and receivables	69,286	0	0	69,286
Total financial assets	933,528	1,147,707	238,168	2,319,403
Financial liabilities at fair value	0	(138,984)	0	(138,984)
Financial liabilities at amortised cost	(1,784)	0	0	(1,784)
Total financial liabilities	(1,784)	(138,984)	0	(140,768)
Net financial assets	931,744	1,008,723	238,168	2,178,635

13e. Reconciliation of fair value measurements within Level 3

2019/20	Market Value at 31/03/19	Transfers into level 3	Transfers out of level 3	Purchases	Sales	Unrealised gains/(losses)	Realised gains/(losses)	Market Value at 31/03/20
	£000	£000	£000	£000	£000	£000	£000	£000
Private equity	82,224	0	0	8,860	(15,434)	13,019	0	88,669
Pooled property unit trusts	155,944	0	0	781	0	8,521	0	165,246
Total	238,168	0	0	9,641	(15,434)	21,540	0	253,915

All transfers between levels are recognised at the end of the reporting period.

13f. Sensitivity of Assets Valued at Level 3

Having analysed historical data, current market trends, and consulted with independent investment advisors (Pensions and Investments Research Consultants Ltd (PIRC)), the fund has determined that the valuations methods described above for Level 3 investments are likely to be accurate to within the following ranges, and has set out the consequential impact below:

	Assessed valuation range	Value at 31/03/20	Value on increase	Value on decrease
	(%)	£000	£000	£000
Private Equity	7.5	88,669	95,333	82,004
Pooled Property Trusts	4.2	165,246	172,153	158,339
Total		253,915	267,487	240,343

14. 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.

Market risk is the risk that the fair value or future cash flows 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 Asset Management, 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 31/03/20	Change to the net assets available to pay benefits	
		+ 100bps	- 100bps
	£000	£000	£000
Cash and cash equivalents	38,456	385	(385)
Fixed interest securities	586,079	5,861	(5,861)
Total	624,535	6,246	(6,246)

Asset Type	Carrying Amount as at 31/03/19	Change to the net assets available to pay benefits	
		+ 100bps	- 100bps
	£000	£000	£000
Cash	51,029	510	(510)
Fixed interest securities	565,057	5,651	(5,651)
Total	616,086	6,161	(6,161)

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.

Following analysis of historical data and consulted with independent investment advisors Pensions and Investments Research Consultants Ltd (PIRC), the fund's aggregate currency change has been calculated as 7.35%. A 7.35% 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:

Currency exposure – asset type	Asset Value as at 31/03/20	Change to net assets available to pay benefits	
		+ 7.35%	- 7.35%
	£000	£000	£000
Overseas quoted equities	164,067	12,059	(12,059)
Overseas pooled funds	534,597	39,293	(39,293)
Overseas pooled property	58,499	4,300	(4,300)
Total change in assets available	757,163	55,652	(55,652)

Currency exposure – asset type	Asset Value as at 31/03/19	Change to net assets available to pay benefits	
		+ 6.1%	- 6.1%
	£000	£000	£000
Overseas quoted securities	179,868	10,972	(10,972)
Overseas pooled funds	487,645	29,746	(29,746)
Overseas pooled property	52,325	3,192	(3,192)
Total change in assets available	719,838	43,910	(43,910)

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.

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 below for total assets 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 at 31/03/20	Percentage change	Value on increase	Value on Decrease
	£000	%	£000	£000
UK Equities	437,112	16.30	508,361	365,863
Overseas Equities	698,664	12.32	784,739	612,589
Fixed Interest (Bonds)	586,078	4.28	611,162	560,994
Cash and Cash Equivalents	38,457	0.15	38,515	38,399
Private Equity	88,669	7.52	95,337	82,001
Property	165,246	4.18	172,153	158,339
Total Assets	2,014,226	8.59	2,187,248	1,841,204

Asset type	Value at 31/03/19	Percentage change	Value on increase	Value on Decrease
	£000	%	£000	£000
UK Equities	641,638	8.95	699,065	584,211
Overseas Equities	667,513	10.13	735,132	599,894
Fixed Interest (Bonds)	565,057	3.64	585,625	544,489
Cash	51,029	0.13	51,095	50,963
Private Equity	82,224	10.48	90,841	73,607
Property	155,944	4.12	162,369	149,519
Total Assets	2,163,405	6.09	2,295,156	2,031,654

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 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 accounts are held with Lloyds Bank and NatWest. Surplus cash is not invested with these but is placed with a selection of AAA Money Market institutions. The Fund's internally managed cash holding under its treasury management arrangements is held with the following institutions:

	Fitch Rating	31/03/19	31/03/20
		£000	£000
Money market funds			
Aberdeen Standard Liquidity - Sterling Fund	AAA	12,000	11,750
Blackrock ICS Sterling Liquidity Fund	AAA	12,000	11,230
Deutsche Global Liquidity - Sterling Fund	AAA	7,650	0
Bank current account			
Lloyds Bank	A	(282)	479
NatWest	A	0	49
Total		31,368	23,508

The pension fund has experienced no defaults from fund managers, brokers or bank accounts over the past ten years, therefore no expected credit loss provision is required.

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 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.

15. Actuarial Present Value of Promised Retirement Benefits

CIPFA's Code of Practice requires the disclosure of the actuarial present value of promised retirement benefits calculated on an IAS 19 basis, as set out in IAS 26.

Therefore, in addition to the triennial funding valuation, the fund's actuary undertakes a valuation of the pension fund liabilities on an IAS 19 basis at the same date. The IAS 19 valuation is carried out using updated actuarial assumptions from those used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The most recent actuarial valuation based on IAS 19 is shown below:

31/03/2016		31/03/2019
£m		£m
2,274	Actuarial Present Value of Promised Retirement Benefits	3,168

16. Additional Voluntary Contributions (AVC)

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 in accordance with section 4(2)b of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093). However, as the administering authority, we oversee the following AVC arrangements:

2018/19		2019/20
£000		£000
648	AVC paid during the year	577
3,902	Market Value of separately invested AVC's	3,724

17. Contractual Commitments

As at 31 March 2020 the Fund had outstanding private equity commitments of a maximum of £53.446 million (£44.264 million at 31 March 2019).

As at 31 March 2020 the Fund had forward currency contracts amounting to £130.993 million of purchases and £127.781 million of sales, showing an unrealised profit of £3.212 million.

18. Securities Lending

At the year end the value of quoted equities on loan was £311.147 million (£68.619 million at March 2019) in exchange for which the custodian held collateral of £329.301 million (£72.760 million at March 2019). For

the year ending 31 March 2020, the Fund received income of £120,000 from the lending of stock (£101,000 in 2019/20).

19. Provisions and Contingent Liabilities

A number of death grants have been identified where the Fund has been unable to trace the next of kin meaning no payment has been made to date. In all of the outstanding cases, there has been difficulty in making contact, meaning that the payments are not likely to be settled within the next financial year.

Due to the uncertainty surrounding the timing of these payments and final amounts payable, a long term provision for £0.737 million has been included in the accounts, which consists of £0.591 million death grants payable and £0.146 million of estimated interest.

The Fund has no material contingent liabilities.

20. 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.

Other related party transactions with the Council are:

- Cash invested internally by the Council (for working capital purposes) – see Note Summary of manager's portfolio values
- Administration expenses charged to the Fund by the Council are shown in Note Management Expenses
- 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 Cardiff Council Statement of Accounts.

21. Contributing Employers

The active contributing employers as at 31 March 2020 are detailed below:

Administering Body	
Cardiff Council	
Scheduled Bodies	
Councils	Town and Community Councils
Vale of Glamorgan Council	Barry Town Council
Education Bodies	Cowbridge Town Council
Cardiff and Vale College	Lisvane Community Council
Cardiff Metropolitan University	Llantwit Major Council
St David's Sixth Form College	Penarth Town Council
Stanwell Comprehensive	Penllyn Community Council
Other Scheduled Bodies	Pentyrch Community Council
Cardiff Bus	Radyr & Morganstown Community Council
Public Services Ombudsman For Wales	Wenvoe Community Council
Admitted Bodies	
A and R Cleaning Gabalfa	Eisteddfod Genedlaethol Cymru
A and R Cleaning Greenway	Glen Cleaning (Barry Comprehensive)
A and R Cleaning High Street*	Glen Cleaning (Eastern High)
A and R Cleaning Lansdowne	Glen Cleaning (Gladstone Primary)
A and R Cleaning Trowbridge	Glen Cleaning (Llandough)
A and R Cleaning Whitchurch	Greenwich Leisure Limited (GLL)
Adult Learning Wales	Grangetown Primary Cleaning (APP)
Big Fresh Cleaning*	Mirus Wales
Cardiff Business Technology Centre	National Trust (Dyffryn)
Cardiff University	One Voice Wales
Careers Wales (Cardiff And Vale)	Play Wales
Children In Wales	Sports Council for Wales
Circle IT (Cowbridge Comprehensive)	St Teilo's Cleaning (APP)
Circle IT (Eastern High)	Wales & West Housing Association*
Colegau Cymru - Colleges Wales	Wales Council For Voluntary Action
Design Commission For Wales	

*Employers contributing to the Fund in 2019/20 that were not contributing to the Fund in 2018/19.

22. Events after the Reporting Period

There are no events after the reporting period to report.

23. Date of Authorisation of the Accounts for Issue

This Statement of Accounts was authorised for issue on (TBC following audit) by the Corporate Director Resources. Post balance sheet events have been considered up to this date.

Glossary

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.

Active / Passive Management

Active management is the traditional form of investment management involving a series of individual investment decisions that seek to maximise returns by exploiting price inefficiencies i.e. 'beat the market'. Passive management is a low cost alternative where managers normally hold stocks in line with a published index, such as the FTSE All-Share, not seeking to outperform but to keep pace with the index being tracked.

Actuary

An independent consultant who advises on the long-term viability of the Fund. Every three years the Fund actuaries review the assets and liabilities of the Fund and report to the Council on the financial position and recommended employer contribution rates. This is known as the actuarial valuation.

Actuarial Gains and Losses

For a defined benefit pensions scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation, or the actuarial assumptions have changed.

Active Member

Current employee who is contributing to a pension scheme.

Admitted Body

An organisation, whose staff can become members of the Fund by virtue of an admission agreement made between the Council and the organisation. It enables contractors who take on the Council's services with employees transferring, to offer those staff continued membership of the Fund.

Asset Allocation

Apportionment of investment funds among categories of assets, such as Bonds, Equities, Cash, Property, Derivatives, and Private Equity. Asset allocation affects both risk and return.

Benchmark

A measure against which the investment policy or performance of an investment manager can be compared.

Bonds

Investments, mainly in government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

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.

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.

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.

Custodian

Bank or other financial institution that keeps custody of stock certificates and other assets of a client, collects dividends and tax refunds due, and settles any purchases and sales.

Debtors

These are sums of money due to the Council that have not been received at the date of the Balance Sheet.

Deferred Pensioner

A member who has stopped paying into the scheme but is not yet retired.

Defined Benefit Scheme (Pensions)

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 (Pensions)

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.

Derivative

A derivative instrument is a contract whose value is based on the performance of an underlying financial asset, index, or other investment.

Emerging Markets

Relatively new and immature stock markets for equities or bonds. Settlement and liquidity can be less reliable than in the more established 'developed' markets, and they tend to be more volatile.

Employer Contribution Rates

The percentage of the salary of employees that employers pay as a contribution towards the employees' pension.

Equities

Ordinary shares in UK and overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and may normally vote at shareholders' meetings.

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.

Financial Assets

Financial assets are cash, equity instruments within another entity (e.g. shares) or a contractual right to receive cash or another asset from another entity (e.g. debtors) or exchange financial assets or financial liabilities under potentially favourable conditions (e.g. derivatives).

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.

Financial Liabilities

Financial assets are contractual obligations to deliver cash or another financial asset (e.g. creditors) or exchange financial assets or financial liabilities under potentially unfavourable conditions (e.g. derivatives).

Fixed Interest Securities/Bonds

Investments, especially in government stocks, with a guaranteed rate of interest. Conventional bonds have fixed rates, whilst Index Linked vary with inflation. They represent loans repayable at a stated future date, and which can be traded on a stock exchange in the meantime.

Fund Manager

A fund that handles investments on behalf of the pension fund according to an agreed investment mandate.

Fund of Funds

A pooled fund that invests in other pooled funds. They are able to move money between the best funds in the industry, and thereby aim to lower stakeholder risk with greater diversification than is offered by a single 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 an asset's market value.

Index

A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

ISS

The Investment Strategy Statement which each LGPS fund is required to prepare and keep under review.

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.

LGPS

The Local Government Pension Scheme, governed by regulations issued by the Department for Communities and Local Government.

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.

Pension Fund

A fund built up from deductions from employees' pay, contributions from employers and investment income from which pension benefits are paid.

Pensioner

A scheme member who received a pension from the Fund.

Pooled Funds

Pooled investment vehicles issue units to a range of investors. Unit's prices move in response to changes in the value of the underlying portfolio, and investors do not own directly the assets in the fund. The main types are: unit trusts, open-ended investment companies (OEICs), insurance linked vehicles and investment trusts.

Portfolio

A collective term for all the investments held in a fund, market or sector. A segregated portfolio is a portfolio of investments of a specific type held directly in the name of the investor e.g. Global Bonds, or a specific market e.g. UK Equities, Far East Equities.

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.

Private Equity

Investments made by specialist managers in all types of unlisted companies rather than through publicly tradable shares.

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.

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.

Return

The total gain from holding an investment, including both income and any increase or decrease in market value. Returns over periods longer than a year are usually expressed as an average annual return.

Scheme Employers

Local authorities and bodies specified in the LGPS Regulations, whose employees are entitled automatically to be members of the Fund, and Admission Bodies including voluntary, charitable and similar bodies, carrying out work of a public nature, whose staff can become members of the Fund by virtue of an admission agreement with the Council.

Scheduled Body

An organisation that has the right to become a member the Local Government Pension Scheme under the scheme regulations. Such an organisation does not need to be admitted, as its right to membership is automatic.

Unit Trust

A collective investment fund that is priced, bought and sold in units that represent a mixture of the securities underlying the fund.

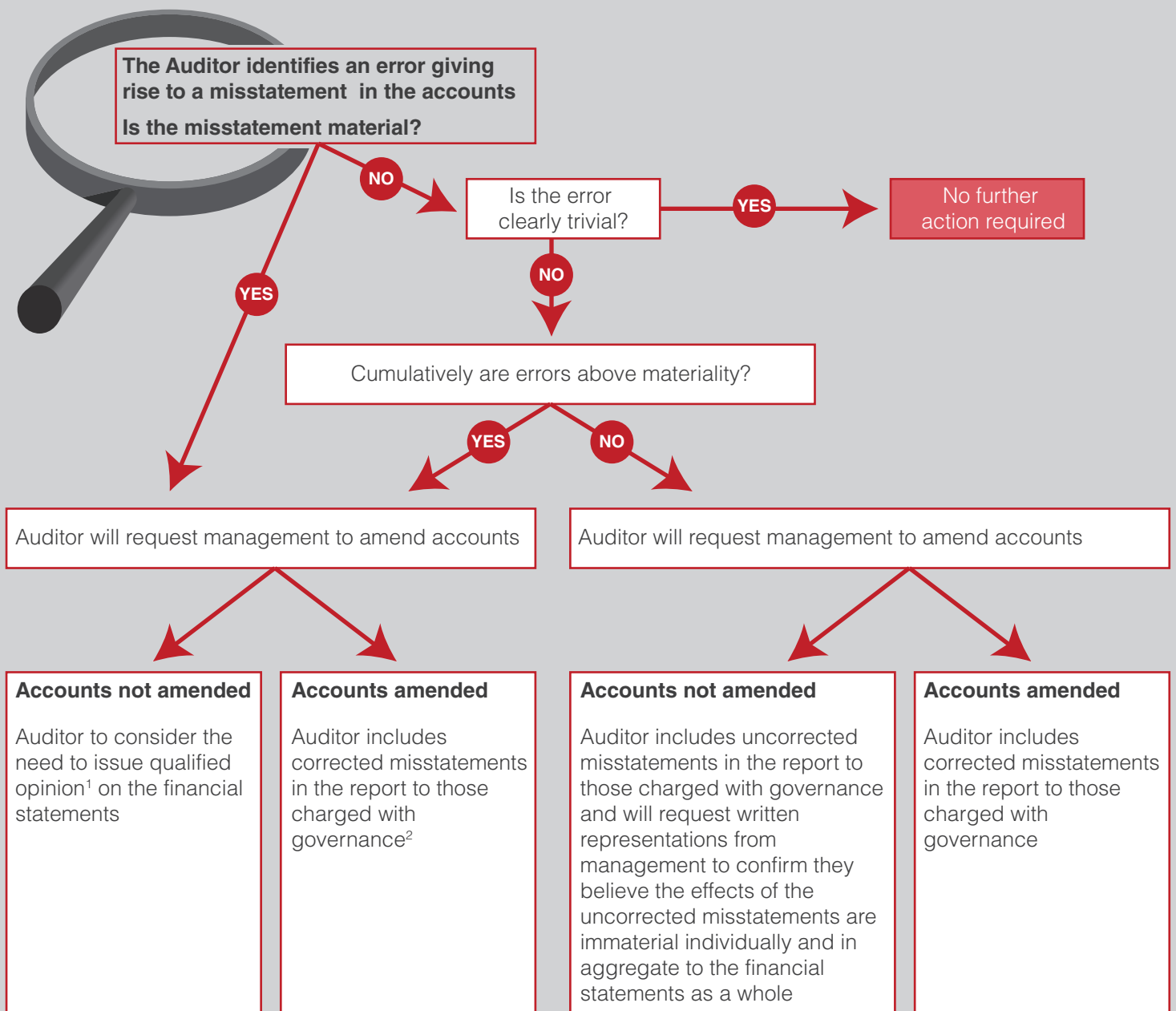
Unrealised Gains / Losses

The increase or decrease in the market value of investments held by the fund since the date of their purchase. Note: values throughout these accounts are presented rounded to whole numbers. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match to the core statements or other tables due to rounding differences.

Guidance for those charged with governance when evaluating misstatements identified during the audit

Prior to approving the financial statements you will receive a report from the Wales Audit Office on the financial statements that may talk about misstatements.

The flow chart sets out the implications of misstatements identified during the audit to help you understand their impact.



We will also report any significant deficiencies in control to those charged with governance relating to those errors for consideration.

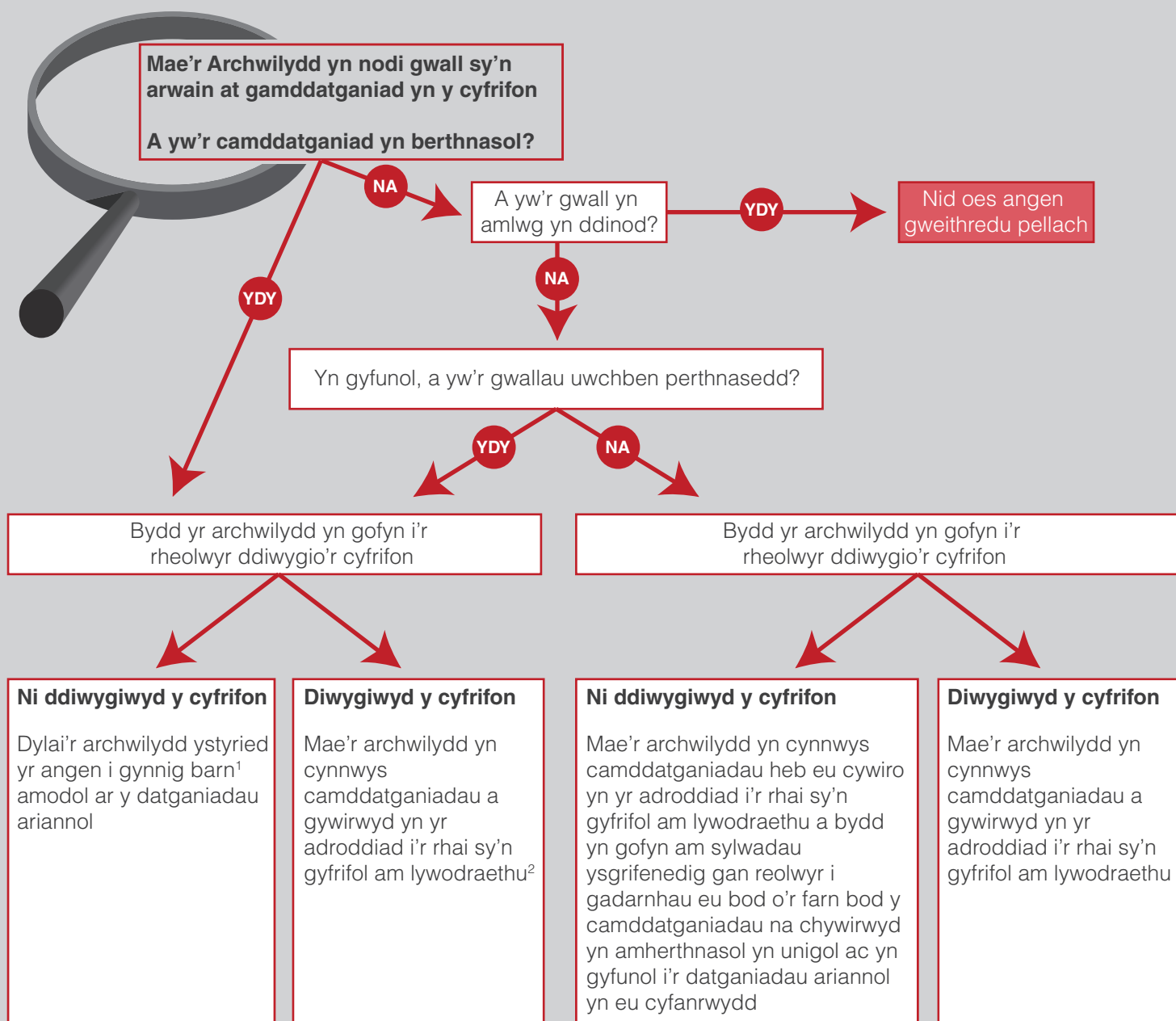
¹ The auditor is required to consider materiality by value and nature.

² Those charged with governance are defined as persons, such as an Audit Committee, with responsibility for the accountability of the entity including overseeing the financial reporting process.

Canllawiau i'r rhai sy'n gyfrifol am lywodraethu wrth werthuso camddatganiadau a nodwyd yn ystod yr archwiliad

Cyn cymeradwyo'r datganiadau ariannol, byddwch yn derbyn adroddiad gan Swyddfa Archwilio Cymru ar y datganiadau ariannol a allai drafod camddatganiadau.

Mae'r siart llif yn nodi goblygiadau camddatganiadau a nodir yn ystod yr archwiliad i'ch helpu i ddeall eu heffaith.



Byddwn hefyd yn adrodd i'r rhai sy'n gyfrifol am lywodraethu ar ddiffygion sylweddol mewn rheolaeth a ddaeth i'r amlwg drwy'r gwallau hynny, er mwyn eu hystyried.

¹ Mae'n ofynnol i'r archwilydd ystyried perthnasedd yr amlwg drwy'r gwallau hynny.

² Unigolion diffiniedig, fel Pwyllgor Archwilio, yw'r rhai sy'n gyfrifol am lywodraethu, sy'n gyfrifol am atebolrwydd y colff gan gynnwys goruchwyllo'r broses adrodd ariannol.

understanding local authority financial statements

2016

\ introduction

Local authority financial statements have a key part to play in accountability to taxpayers and other stakeholders as to how public money is used. However, the complexity of the financial statements has not always helped this accountability, particularly allowing the amounts in the statements to be easily reconciled to management accounting and in-year monitoring of budgets.

The introduction of the Expenditure and Funding Analysis to the 2016/17 Code is intended to allow a clear link to be made between in-year monitoring and General Fund information and final outturn as set out in the audited financial statements, thus closing the accountability loop from budgets through to outturn.

A key to achieving the aims of the changes will be to use the information not just in the narrative section of the financial statements to explain performance during the year, but more widely to all stakeholders, including elected members as citizens' representatives, in a range of formats and media to provide a definitive position on financial performance. Local authorities are also urged to look to their balance sheets as a part of this explanation and the key messages that can be drawn out.

At the same time it is important that opportunities are taken to cut the clutter and remove immaterial disclosures or through the use of technical appendices to separate out the more complex disclosures. Working in partnership CIPFA/LASAAC will itself continue to review opportunities for improvement and explore links with other published information to ensure that the definitive position remains clear.

This briefing note is intended to help chief financial officers and other senior staff to present the financial statements to members and other stakeholders by explaining how the formats can be used to convey key information. It is also designed to give elected members and stakeholders an introduction to the format of the accounts and provide them with key questions on the financial statements.

An important element of financial reporting which will assist local authorities to tell the story of their financial performance is the narrative report (management commentary in Scotland). This report accompanies the financial statements and should provide a commentary on how the authority has used its resources to achieve desired outcomes in line with its objectives and strategies. It should provide an explanation of the main messages of financial performance, financial position and cash flows in the financial statements.

This publication includes extract financial statements to demonstrate key issues. It is important to note that the Code sets out the minimum requirements for the financial statements of the authority, but authorities are free to include more detail if they think it will help them to explain the accounts to members and other stakeholders.

This publication also highlights the opportunities to simplify presentation and make the messages clearer in a number of areas:

- comparisons with budgets (General Fund and Housing Revenue Account performance)
- reserves position, and
- cash flows.

comparisons with budgets

For members, probably the most important issue will be whether the authority has a surplus or deficit on General Fund or Housing Revenue Account (HRA) balances against its budget for the year.

The financial statements will enable individual authorities to demonstrate performance both in the way in which they organise themselves and, more importantly, in how they budget against the General Fund to provide services.

The introduction of the new expenditure and funding analysis

The financial statements primarily follow accounting standards rather than local government legislation. Although some information is provided on General Fund and HRA balances this hasn't always been easy to identify in the past. However, the new Expenditure and Funding Analysis provides users of the financial statements with more information to make that analysis (for example, by comparison with their budget reports).

The Expenditure and Funding Analysis brings together local authority performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund (including the HRA).

Proper accounting practices measure the resources that have been generated and consumed in the year including such things as the use of property (depreciation) and the value of pensions benefits earned by the employees. Statutory provisions determine how much of the authority's expenditure needs to be met from council tax each year.

The Expenditure and Funding Analysis:

- shows for each of the authority's services or directorates a comparison of the net resources applied and the net charge against council tax, and
- provides an opportunity to explain significant differences between the two within the authority's framework for accountability.

The Expenditure and Funding Analysis promotes accountability and stewardship by providing a more direct link with the annual decision making process of the authority and its budget ie the General Fund. The changes are more transparent and follow the performance framework of the authority.

The Expenditure and Funding Analysis takes the net expenditure that is chargeable to taxation and rents and reconciles it to the Comprehensive Income and Expenditure Statement. To demonstrate accountability and to meet segmental reporting requirements it is necessary to reconcile to the statutory position on the General Fund balance. The service analysis for both the Expenditure and Funding Analysis and the Comprehensive Income and Expenditure Statement are now both provided in the way in which an authority organises itself and manages financial performance.

The Expenditure and Funding Analysis needs to be positioned in the financial statements where it is most accessible and relevant to its users. This means it could be placed before the main statements, to accompany the Comprehensive Income and Expenditure Statement, or even included as the first note. An authority will be able to decide for itself.

Expenditure and Funding Analysis (extract)

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

20X0/20X1	Net Expenditure Chargeable to the General Fund and HRA Balances £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
People Directorate	47,385	898	48,283
Neighbourhoods	5,929	13,608	19,537
Business Change	30	224	254
Corporate and Central Services	19,358	833	20,191
Net Cost of Services	72,702	15,563	88,265
Other Income and Expenditure	(72,658)	(1,019)	(73,677)
Surplus or Deficit	44	14,544	14,588
Opening General Fund and HRA Balance at 31 March 20X0	(25,247)		
Less Deficit on General Fund and HRA Balance in Year	44		
Closing General Fund and HRA Balance at 31 March 20x1*	(25,203)		

*for a split of this balance between the General Fund and the HRA – see the Movement in Reserves Statement

comprehensive income and expenditure statement

The Comprehensive Income and Expenditure Statement shows how resources have been generated and expended in accordance with International Financial Reporting Standards. It shows whether the authority's operations resulted in a surplus or deficit. The key lines that summarise performance are highlighted below.

Comprehensive Income and Expenditure Statement (extract)

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

Comprehensive Income and Expenditure Statement 20X0/X1	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
People Directorate	74,297	(26,014)	48,283
Neighbourhoods	58,225	(38,688)	19,537
Business Change	11,624	(11,370)	254
Corporate and Central Services	24,021	(3,830)	20,191
Cost of Services	168,167	(79,902)	88,265
Other Operating Expenditure (Note 9)	2,218	–	2,218
Financing and Investment Income and Expenditure (Note 10)	11,340	(2,359)	8,981
Taxation and Non-specific Grant Income and Expenditure (Note 11)	–	(84,876)	(84,876)
(Surplus) or Deficit on Provision of Services			14,588
(Surplus) or Deficit on Revaluation of Property, Plant and Equipment Assets			(36,597)
(Surplus) or Deficit on Revaluation of Available-for-Sale Financial Assets			(101)
Remeasurement of the Net Defined Benefit Liability (Asset)			(8,444)
Other Comprehensive Income and Expenditure			(45,142)
Total Comprehensive Income and Expenditure			(30,554)

Expenditure of continuing operations, analysed by service segment, these lines are reconciled to the General Fund in the Expenditure and Funding Analysis

Operational costs of providing the services of the authority.

Total income and expenditure of the authority for the year, this line is also reconciled to the General Fund in the Expenditure and Funding Analysis

From 2016/17 local authorities are required to report their service segments based on the way in which they operate and manage services. There is no longer a requirement for that service analysis to be based on the definition of total cost or the service expenditure analysis in the *Service Reporting Code of Practice* in the financial statements. This new format means that the service section of the Comprehensive Income and Expenditure Statement supports accountability and transparency as it reflects the way in which services operate and performance is managed.

Where an authority uses alternative service reporting formats it will need to select the presentation most commonly used by the individual or group within the authority who has the most significant role in allocating resources and assessing performance of services when considering the allocation of resources.

This format of the Comprehensive Income and Expenditure Statement is also more meaningful for both local authority members and users of the financial statements as it follows their budget and performance monitoring and other key documents such as their council tax leaflets.

Treatment of overheads will depend on an authority's arrangements for accountability. If an authority operates and manages some or all of its corporate and support services separately then these service segments would be shown separately on the face of the Comprehensive Income and Expenditure Statement and not apportioned.

The test is whether the expenditure relating to these activities is reported to key decision makers as separate activities or spread across services as overheads for the financial statements. Therefore, there is no longer an absolute requirement to apportion support service overheads to services. However, local authorities will not need to change any of their financial reporting requirements for internal management processes. Whatever you are doing internally determines the structure for external reporting statements.

The Comprehensive Income and Expenditure Statement is then split into two parts.

The first part reflects the full economic cost of providing the services of the authority with the results summarised at the Surplus or Deficit on the Provision of Services line, highlighted above. It represents the operating costs of providing the services of the authority in the year. In the private sector this would be equivalent to the profit or loss of a company.

The second part, other comprehensive income and expenditure, shows the gains or losses in the measurement of the assets and liabilities of the authority. These gains or losses arise as a result of changes in market valuations, interest rates or changes in measurement assumptions in relation to pensions assets and liabilities.

movement in reserves statement

The Comprehensive Income and Expenditure Statement shows the income and expenditure on the authority's services in the year in accordance with International Financial Reporting Standards as adopted by the Code. However, the amount chargeable to council tax and an authority's General Fund is limited by statutory requirements and requires a number of adjustments. The statutory adjustments largely relate to arrangements for funding local authority capital expenditure or the timing with which some items are charged to council tax. The reserves of the authority represent its net worth; the usable reserves show the resources currently available to spend on services.

The movements in the financial position of the authority are summarised in the Movement in Reserves Statement.

The Movement in Reserves Statement shows how:

- the authority has generated and expended resources in the year; and
- the resourcing position is adjusted under statutory rules to show the funds available to be spent at year end.

The Movement in Reserves Statement prescriptions have been reduced to the absolute minimum in the Code. Authorities can provide additional rows to these minimum requirements if they consider that they need to do so to provide a true and fair presentation of their reserves.

Movement in Reserves Statement (extract)

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

	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve* £000	Major Repairs Reserve** £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 20X0	22,118	3,129	10,065	1,600	450	37,362	1,350,567	1,387,929
Movement in reserves during 20X0/X1								
Total Comprehensive Income and Expenditure	(14,983)	395	–	–	–	(14,588)	45,142	30,554
Adjustments from income & expenditure charged under the accounting basis to the funding basis	14,835	(291)	(750)	–	–	13,794	(13,794)	–
Increase or (decrease) in 20X0/X1	(148)	104	(750)	–	–	(794)	31,348	30,554
Balance at 31 March 20X1 carried forward	21,970	3,233	9,315	1,600	450	36,568	1,381,915	1,418,483

* Capital Fund Scotland

** Applicable in England Only

An overall increase in usable reserves can arise despite a loss being shown in the Comprehensive Income and Expenditure Statement where statutory provisions allow a different charge to revenue from the authority expenditure incurred (eg replacement of depreciation by minimum revenue provision (MRP)). The adjustment to usable reserves is balanced by a movement in unusable reserves.

Unusable reserves such as the Capital Adjustment Account and the Pensions Reserve with debit balances will need to be funded in the future, even if it is over a long period, so increases in these balances show an increasing burden on future taxpayers.

balance sheet

The balance sheet in local authorities is very similar to other public sector or private sector balance sheets. The balance sheet presents an authority's financial position, ie its net resources at the financial year end. The balance sheet is composed of two main balancing parts: its net assets and its total reserves. The net assets part shows the assets the authority would have control of after settling all its liabilities. The balance of these assets and liabilities is then shown as being attributable to the various reserves of the authority.

For local authorities balance sheet presentation is split between the usable reserves and unusable reserves. Usable reserves are those which the authority can utilise to support future service provision. Unusable reserves cannot be used to support services and include gains and losses where amounts can only become available to support services if the assets are sold. These gains and losses are referred to as unrealised.

Balance sheet (extract)

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

Balance Sheet	Notes	31 March 20X1 £000	
Property, plant and equipment	12	628,924	The authority's property portfolio
Highways Network Asset	13	1,028,700	The Highways Network Asset (not applicable to district councils). This will be the largest asset balance in a local highways authority balance sheet
Heritage assets	14	3,379	
Investment property	15	4,020	
Intangible assets	16	709	
Long-term investments	17	948	Long term assets ie those expected to provide benefits to the authority beyond 12 months
Long-term debtors	17	3,798	
Long-term assets		1,670,478	
Short-term investments	17	24,060	Current assets ie those anticipated to be consumed in 12 months – the normal operating cycle for the authority
Assets held for sale	22	1,409	
Inventories	18	1,769	
Short-term debtors	20	15,351	
Current assets		42,589	Reconciles to the cash and cash equivalents balance in the cash flow statement
Bank overdraft		(13,767)	
Short-term borrowing	17	(9,500)	Current liabilities ie those liabilities anticipated to be settled within 12 months
Short-term creditors	23	(21,960)	
Current liabilities		(45,227)	
Provisions	24	(4,297)	
Long-term borrowing	17	(89,733)	Long-term liabilities ie those liabilities that are anticipated to be settled beyond 12 months
Other long-term liabilities	17	(155,327)	
Long-term liabilities		(249,357)	
Net assets		1,418,483	Total assets less total liabilities

\ reserves

Reserves – including the General Fund and (where relevant) the Housing Revenue Account – are an indication of the resources available to an authority to deliver services at the balance sheet date. The key messages that members will be looking for in terms of reserves – especially the General Fund and the HRA – are how the balances have changed over the year, whether the balances are still adequate, and what the balances mean in terms of future budgets and services.

Information on the level of reserves can be found in the balance sheet and related notes, and in the Movement in Reserves Statement (and related notes). This latter statement will be more useful in explaining the changes that have taken place during the year.

	Notes	31 March 20X1 £'000
Usable reserves	24	36,568
Unusable Reserves	25	1,381,915
		<u>1,418,483</u>

The minimum requirement in presenting resources is to include only two lines – usable reserves (such as General Fund) and unusable reserves (such as the Revaluation Reserve and the Capital Adjustment Account).

If there are some reserves you do want to show on the balance sheet, that's fine, as long as these totals are shown.

While the balance sheet aims to show those reserves over which members have control, don't forget that some of the unusable reserves will become a charge against the revenue account – or usable reserves – over time. And in some cases, such as the Unequal Pay Back Pay Account, this might be within a year or two.

As indicated above, not all reserves can be used to deliver services, and the Code reflects this by reporting reserves in two groups – 'usable' and 'unusable' reserves. Usable reserves such as the General Fund are those where members will be involved in deciding on the levels maintained, and their use. Unusable reserves such as the Revaluation Reserve and the Capital Adjustment Account are not subject to such member influence.

cash flows

The final statement required by the Code is the cash flow statement.¹ The cash flow statement shows changes in cash flows of the authority during the financial year. It shows net cash flows split into three activities: operating, investing and financing. The cash flow statement shows the resulting movement in the authority's cash and cash equivalents. Cash and cash equivalents include short term investments that are readily convertible and which are subject to only insignificant risk of changes in value.

Cash Flow Statement (extract)

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

	20X0/X1 £000	
Net (surplus) or deficit on the provision of services	14,588	Surplus or deficit taken from the Comprehensive Income and Expenditure Statement
Adjustments to net surplus or deficit on the provision of services for non-cash movements	(36,267)	
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	11,523	
Net cash flows from Operating Activities (Note 26)	(10,156)	Three groups of transactions: <ul style="list-style-type: none"> ■ Operating ■ Investing ■ Financing
Investing Activities (Note 27)	(24,585)	
Financing Activities (Note 28)	35,140	
Net increase or decrease in cash and cash equivalents	399	
Cash and cash equivalents at the beginning of the reporting period	(14,166)	
Cash and cash equivalents at the end of the reporting period (Note 19)	(13,767)	Cash and cash equivalents figure in the balance sheet

¹ Note the format of the cash flow statement shown is produced under the indirect method.

a checklist of questions to ask about a local authority's financial statements

To assist with the understanding of local authority financial statements a checklist about the core financial statements and the Expenditure and Funding Analysis has been included below.

Checklist	
Expenditure and Funding Analysis	
1	Have any significant differences between budget reports and net expenditure chargeable to General Fund and Housing Revenue Account balances been explained?
2	Are the major statutory adjustments clearly explained and easily understood?
Comprehensive Income and Expenditure Statement	
3	Is the purpose of the Comprehensive Income and Expenditure Statement clear (ie does it show actual financial performance under accounting standards before fiscal adjustments)?
4	Do the service net expenditure figures clearly demonstrate the financial performance of the services on the face of the Comprehensive Income and Expenditure Statement during the year?
5	Are the material items of income and expenditure in the Comprehensive Income and Expenditure Statement presented separately on the face of the Statement or explained in the notes?
6	Do the notes to the Comprehensive Income and Expenditure Statement provide easily understandable information relating to the Statement (or lines within the Statement)?
7	Are there any unexplained significant variances between current and previous year information?
Movement in Reserves Statement	
8	Can the major movements in net worth that occur within the Movement in Reserves Statement be easily identified? Are these explained within the financial statements or Narrative Report?
9	Do the opening balances in the Movement in Reserves Statement match with the closing balances of the preceding year? Are any adjustments to opening balances explained on the face of the Statement and/or in the notes?
10	Is there a clear explanation of the statutory adjustments in the adjustments from income and expenditure charged under the accounting basis to the funding basis line in the Movement in Reserves Statement? (Note this may be linked with the Expenditure and Funding Analysis.)
11	Do the entries on the statutory adjustment line net to nil?
12	Do the related notes on reserves clearly explain the line or columnar items not explained in the Statement?

Checklist

13	Does the Total Comprehensive Income and Expenditure line in the Movement in Reserves Statement agree with the information in the Comprehensive Income and Expenditure Statement?
14	How have the balances of usable reserves moved during the year? Are these balances sufficient to support an authority's financial plans in the immediate future and over the medium term?

Balance Sheet

15	Does the property, plant and equipment information tell the story of the authority's property portfolio during the year (including the major movements in that portfolio ie major disposals and acquisitions)? Do these balances reflect the authority's asset management strategy? (Note the same question can be asked for local authorities with substantial portfolios of investment properties.)
16	For highways authorities – do the movements in the Highways Network Asset represent the transport management/investment decisions of the authority?
17	Has there been any substantial movement in the pension asset or liability? If yes, has the reason for such a movement been explained and the subsequent consequences described in the financial statements or the Narrative Report?
18	Have there been any new provisions or significant movements in provisions in the year? If yes, have the reasons for making these provisions been set out in the financial statements or any material movements been explained?
19	Have there been any significant movements in the authority's borrowings during the year? Are these movements reflected in your council's borrowing strategy and what impact will this have on the prudential indicators or future investment plans?
20	Are there any significant movements in an authority's investment portfolio? Do these agree with the plans in the authority's treasury management strategies and statutory investment plans?
21	Are there any other significant movements in balances in the balance sheet that are not clearly explained?
22	Do the balance sheet reserves agree with the totals in the Movement in Reserves Statement?

Cash Flow Statement

23	Do the cash balances in the cash flow statement agree with the relevant balances in the balance sheet?
24	Are the council's cash balances reflected adequately in the council's treasury management strategies?

reminders and questions raised on the IFRS-based code

IFRS – what is it?

International Financial Reporting Standards (IFRSs) are a suite of accounting standards used across the world. The Code of Practice on Local Authority Accounting is based on IFRS standards as adapted or interpreted for local authority circumstances.

The pension deficit is meaningless – why do we have to show it?

The deficit doesn't have to be funded from this year's budget, but it's still a true cost estimated by actuaries – it represents the amount that will need to be found from future budgets to pay for pension entitlements already incurred in delivering services. So it's a real call on future funding arising from past activity. Not showing this would hide the liability that the authority has incurred.

This also applies to other reserves. Like the Pension Reserve, the Capital Adjustment Account, the Unequal Pay Back Pay Account and similar reserves all do one thing: they hold expenditure that the authority has incurred but not yet financed. Think of them as being a bit like a credit card balance – these amounts will have to be funded in future, either from taxation or from usable reserves.

Concerns have been expressed that all these reserves make the balance sheet incomprehensible. But all that needs to be shown on the balance sheet itself are 'usable reserves' and 'unusable reserves' – the details can all go in a note. This will help to declutter the balance sheet.

The financial statements do not clearly demonstrate traditional measures of local authority performance ie General Fund and HRA balances

The IFRS-based Code sets out that local authority financial statements are intended to be used for assessing the stewardship of local authority resources and for making economic decisions. Thus the information is intended for two purposes. The Comprehensive Income and Expenditure Statement presents information on the real economic cost of providing services in the year and it does not show the movement in General Fund and HRA balances. This reconciliation is provided in the Movement in Reserves Statement, whose bottom line shows the General Fund and HRA resources available at year end. CIPFA has reviewed options for making this even clearer. The new Expenditure and Funding Analysis brings together both the accounting measures of performance and the performance against General Fund for council tax setting purposes.

The accounts are too long!

Yes, the accounts can be long, but local authorities have a complex story to tell. But notes only need to be produced if they are material – leaving out notes that aren't material or required by legislation is a good start. CIPFA/LASAAC as standard setter is continuously challenging the need to introduce disclosures and reporting requirements for local government.

What changes were made to the 2016/17 Code?

CIPFA and CIPFA/LASAAC consulted widely in preparation for these changes, particularly the Telling the Story consultation in the summer of 2015. CIPFA also engaged a working group to consider a wide range of proposals for change. Following feedback from consultations from local authority accounts preparers and the work of the Working Group, the Telling the Story consultation set out proposals for change that CIPFA/LASAAC considers will reconnect the financial statements of local authorities with the way those authorities are both organised and funded.

The changes to the 2016/17 Code therefore have two main strands:

- to allow local authorities to report on the same basis as they are organised by breaking the formal link between the Service Reporting Code of Practice (SeRCOP) and the Comprehensive Income and Expenditure Statement
- to introduce a new Expenditure and Funding Analysis which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the Comprehensive Income and Expenditure Statement in a way that is accessible to the lay reader. This analysis is supported by a streamlined Movement in Reserves Statement and replaces the current segmental reporting note.

The changes to the Code will for the first time allow local authorities to bring together the funding framework and the accounting framework in one analysis.

further reading

Financial Statements: A Good Practice Guide for Local Authorities (CIPFA, 2013)

Clear out the Clutter (Public Finance, April 2014)

Simplified Accounts: Small Isn't Always Beautiful (Public Finance, September 2015)

Code of Practice on Local Authority Accounting in the United Kingdom (CIPFA, issued annually)

Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for Practitioners
(CIPFA, issued annually)



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Cardiff Council – Audit Committee Update 8th September 2020

Performance Audit work

2019-20 Performance Audit Work	Scope	Status
Well-being of Future Generations Act (Wales) 2015 (WFG Act) examinations	Examination of the extent to which the Council has acted in accordance with the sustainable development principle when taking steps to meet its priority for 2019-20 to Support Sports, Leisure, Culture and Green Spaces.	Report to be issued as final September 2020.
Financial Sustainability	A project common to all local councils that will assess financial sustainability in light of current and anticipated future challenges.	Final report issued 3 April 2020.
Waste Management/recycling	A project to look at the pressures in this area and understand the Council's plans to improve performance.	Final letter issued 10 July.
Budget pressures in Social Services	This project has been withdrawn from our work programme for 2019-20 as discussed with officers. Due to the COVID-19 pandemic, we are now refocussing our work to recovery planning.	Withdrawn. We will reconsider this topic during our 2020-21 Assurance and risk assessment work.
Annual Improvement Report (AIR)	Annual report summarising the audit work undertaken in the last year which also includes a summary of the key findings from reports issued by 'relevant regulators'.	Autumn 2020

2020-21 Performance audit work	Scope	Status
Improvement Plan audit Performance audit	Compliance with Local Government Measure (Wales) 2009.	Certificate issued 29 May 2020 Due October 2020
Annual Improvement Report (AIR)	Annual report summarising the audit work undertaken in the last year which also includes a summary of the key findings from reports issued by 'relevant regulators'.	June/July 2021
Assurance and risk assessment	Project to identify the level of audit assurance and/or where further audit work may be required in future years in relation to risks to the Council putting in place proper arrangements to secure value for money in the use of resources.	Underway
Recovery Planning	We intend to support and challenge recovery planning in real-time. Collectively we need assurance that recovery takes due account of the multitude of risks, but also that it grasps the opportunities for a different and sustainable future. We have taken the decision to replace the 'prevention' themed work that we set out in audit plans with this work on recovery planning.	Planning
Financial Sustainability	<ul style="list-style-type: none"> • Phase 1 will be a baseline assessment of the initial impact of Covid-19 on local authorities' financial position that will draw on the year-end position for 2019-20 as well as the position at the end of quarter 1 for 2020-21. The output from phase 1 will be a short national summary report that will include comparative data for year-end 2019-20 as well as a summary of common themes and issues identified by local authorities. • Phase 2 will be undertaken over the remainder of 2020-21. This work will draw on the position and themes identified during phase 1 to enable a focus on financial recovery planning. At the conclusion 	Phase 1 – underway

	of Phase 2 we will produce a local output for each council and a national summary report.	
Modernisation of workforce	A review looking at workforce modernisation, linking to the Council's estate, digital and post-Covid plans for delivering future services.	Planning. Scope to be discussed with officers.
Covid 19 learning project	<p>To help public bodies capture and share the lessons they are learning, we have established the 'COVID-19 learning project'. Rather than the traditional audit approach of examining actions after the event, our aim here is to get alongside public services to capture and share learning in real time.</p> <p>We have released blogs and tweets. All the blogs can be found on our Wordpress site. They include an overview of Welsh Government funding, showing the breakdown of spend, what sources are available and how sources have changed; blogs on mental health, homelessness governance arrangements during a pandemic.; and how councils are signposting test, track and trace.</p> <p>We have also put out a series of Tweets under #COVID19learning / #DysguCOVID19. Under this general hashtag, you will find information from various bodies, as well as some Audit Wales have come across. You will find the ones we have shared on our Good Practice team Twitter feed - https://twitter.com/AuditWales_GPX</p>	Ongoing

The Auditor General for Wales has recently published a [positioning statement](#) outlining that 'we are moving to a third phase, maintaining our natural focus on good governance, sound financial management and resilience while also supporting recovery planning'.

National Studies

'Raising our Game' Tackling Fraud in Wales	Published 30th July 2020 link is found HERE
Rough Sleeping in Wales – Everyone's Problem; No One's Responsibility	Published 23 rd July 2020 link is found HERE
Findings from the Auditor General's Sustainable Development Principle Examinations	Published 5 th May 2020 link is found HERE
Financial management and governance - Community and town councils 2018-19	Published 5 th February 2020 link is found HERE

**AUDIT COMMITTEE: 8 September 2020**

**'RAISING OUR GAME' TACKLING FRAUD IN WALES
REPORT OF THE AUDITOR GENERAL FOR WALES****REPORT OF THE CORPORATE DIRECTOR RESOURCES****AGENDA ITEM: 5.2**

Reason for this Report

1. The Audit Committee's Terms of Reference requires that Members:
 - monitor the Counter-fraud strategy, actions and resources;
 - review the assessment of fraud risks and potential harm to the Council from fraud and corruption.
2. This report has been prepared to provide Audit Committee Members with an overview of the findings of a national report of the Auditor General for Wales, together with information on the finding most pertinent to Cardiff Council.

Background

3. As reported to Audit Committee in September 2019, the Auditor General for Wales published a report in June 2019, titled 'Counter-Fraud Arrangements in the Welsh Public Sector', the report gave an overview of the scale of fraud in the Welsh public sector, together with a description of counter-fraud arrangements across the Welsh Government, the NHS and Local Government. The report was followed by a one-day conference organised by the Public Accounts Committee in July 2019.
4. This subsequent report of Auditor General for Wales, 'Raising Our Game' Tackling Fraud in Wales, was published in July 2020. This latest report was based on a more extensive programme of fieldwork, with the audit structured around seven key lines of enquiry to help answer the overall question: 'Are the arrangements for preventing and detecting fraud in the Welsh public sector effective?' The audit fieldwork was carried out by local audit teams between November 2019 and February 2020, comprising structured interviews with key individuals in order to understand counter-fraud arrangements in place at each audited body, and via document review.

Issues

5. The foreword to the report refers to the scale of fraud in the Welsh public sector, as originally reported in the June 2019 publication, whereby the sums lost annually in Wales could be anywhere between £100 million and £1 billion, and the importance of appropriate

investment in counter-fraud arrangements and training is emphasised. The foreword notes the Welsh Government's positive response to the June 2019 publication, the one-day conference organised by the Public Accounts Committee in July 2019, and the Permanent Secretary's commitment to provide Wales-wide leadership in raising the profile of counter-fraud activity. The foreword concludes, with a recognition of the risk of fraud associated with the COVID-19 pandemic, and outlines the extended scope of the National Fraud Initiative (NFI) to help identify fraudulent COVID-19 support grant claims.

6. The report examined the following seven 'key themes' that it considered all public bodies need to focus on, in raising their game to tackle fraud more effectively:
 - leadership and culture;
 - risk management and control frameworks;
 - policies and training;
 - capacity and expertise;
 - tools and data;
 - collaboration; and
 - reporting and scrutiny
7. The national report is structured around each of the themes, and includes information about their importance, what was found during the audit, and what the Welsh public sector can do to improve. There are fifteen recommendations, which have been raised on a national basis. The report contains two appendices, represented by an outline of the audit methods, and the Welsh Government's response to the July 2019 recommendations of the Public Accounts Committee.
8. Appended to this report in **Appendix A**, is a presentation from Audit Wales, who completed the fieldwork in respect of Cardiff Council, as part of the national study. As part of this agenda item, Audit Committee members will receive a verbal overview from Audit Wales of the scope and findings of the national study, as well as insight on the findings within the context of Cardiff Council.
9. For the information of the Audit Committee, **Appendix B** contains management commentary against each of the themes, and associated recommendations, and **Appendix C** contains the full publication.

Legal Implications

10. There are no direct legal implications arising from this report.

Financial Implications

11. There are no direct financial implications arising from this report.

RECOMMENDATIONS

12. That the Committee notes and considers the content of the report.

Christopher Lee
Corporate Director Resources

The following is attached:

Appendix A: Audit Wales Presentation

Appendix B: Management Commentary – Thematic findings and Recommendations

Appendix C: Counter-Fraud National Report: Raising our Game ‘Tackling Fraud in Wales’

Mae'r dudalen hon yn wag yn fwriadol

‘Raising our Game’: tackling fraud in Wales

A national and local picture

Please ensure external presentations slides are bilingual if required by the [Welsh Language Preference Survey](#) – delete [ext]

The scale of fraud I



- The Crime Survey for England and Wales recognises fraud as one of the most prevalent crimes in society today.
- The Association of Certified Fraud Examiners (ACFE) estimates that organisations lose 5% of their annual revenues to fraud. Worldwide, this yields an annual economic loss of £60 trillion.
- Cabinet Office estimate an upper and lower range for likely losses in government spend between 0.5% and 5% of expenditure.
- Applying the Cabinet Office estimates to annual devolved expenditure in Wales of around £20 billion gives a possible estimated value of losses to fraud and error in the Welsh public sector of £100 million to £1 billion per annum.



The scale of fraud II

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- Some public sector leaders are sceptical about the levels of fraud within their organisations.
- They put little resource into counter-fraud arrangements and assign a low priority to investigating cases of potential fraud identified to them by the National Fraud Initiative.
- Their stance runs contrary to all the research being done by recognised leaders in the field such as CIPFA and the UK Government.
- Such scepticism is not based on any significant local counter-fraud work or fraud risk assessments.
- Fraudsters appear the very instant that an opportunity presents itself. Fifteen individuals have to date been jailed for fraud in the light of the Grenfell fire tragedy. Scammers were quickly on the scene whilst the flooding in South Wales was ruining the homes and lives of local people. There has been an explosion in fraudulent activity, and especially in cyber-crime, during the current Covid-19 pandemic.

Counter fraud Phase I Study



- Our Phase 1 report (June 2019) provided an overview of the counter-fraud landscape across the Welsh public sector.
- The report does not examine the scope or effectiveness of arrangements at a local level. But:
 - the losses caused by fraud in the public sector are significant. In a time of austerity, every pound lost to fraud is a pound that could be spent on public services;
 - fraud in all its forms is constantly evolving, so counter-fraud measures need to keep pace with the fraudsters; and
 - resources devoted to counter-fraud activity vary widely across the public sector in Wales. We believe there is scope for greater collaboration and cross-agency working to combat the fraudsters.

Phase II study



We asked the following questions at 40 audited bodies in Wales:

- Does the top tier demonstrate a commitment to counter-fraud and provide the necessary leadership to fight fraud?
- Does the organisation have a suitable structure and sufficient skilled resources to prevent and detect fraud?
- Does the organisation have a sound policy framework to support effective counter-fraud arrangements?
- Does the organisation have an effective fraud risk assessment together with appropriate responses to emerging issues?
- Does the organisation's internal control environment support effective arrangements for preventing and detecting fraud?
- Does the organisation have an appropriate response to fraud?
- Does the organisation have proper reporting and scrutiny in place to ensure its counter-fraud culture and framework is operating effectively?

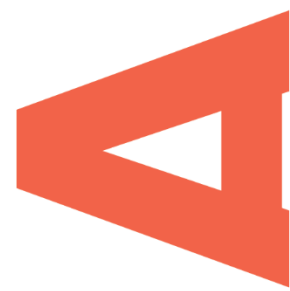
Key national findings



We have identified a number of improvement opportunities to:

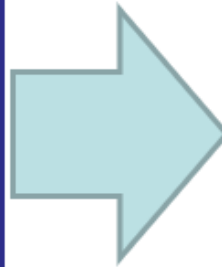
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- strengthen strategic leadership, co-ordination and oversight for counter-fraud across the Welsh public sector;
 - increase counter-fraud capacity and capabilities, especially across local government, and exploring the potential for sharing resources and expertise across public bodies;
 - get the right balance between proactive and reactive counter-fraud activities;
 - improve awareness-raising and staff training in counter-fraud; and
 - better evaluate fraud risks and sharing of fraud information, both within and across sectors.

Phase I overview of sector: Local Government



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Resources



- Austerity measures have led to a reduced internal capacity to investigate fraud.
- In 2014 most of the skilled fraud investigators within HB teams transferred to the Single Fraud Investigation Service and were not replaced
- Most councils no longer have a dedicated council-wide counter-fraud team or resource
- Internal Audit has filled the gap in many cases – however many teams have not received training.
- In councils where internal audit undertake the investigations, increases in volume often means they do not deliver other programmed work on time due to limited resources.
- Our 2018 National Fraud Initiative (NFI) report found considerable variation in the level of commitment being shown by Councils

Phase I overview of sector: Local Government



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Work and Collaboration

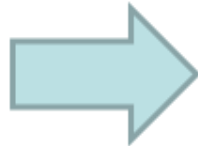


- Individual councils are responsible for developing their own counter-fraud policies and culture.
- Councils tend to focus more on investigations rather than prevention due to a lack of resources and competing priorities.
- There are some informal local networks in regions e.g. North Wales Chief Auditors, South Wales creditors group which act as an additional forum to discuss counter-fraud issues
- The Welsh Chief Auditors group meets twice a year but counter-fraud is not a standing agenda item for this forum.
- Councils recognise the benefit of collaboration, but barriers of time, cost and data sharing sensitivities, are some of the reasons preventing this from happening

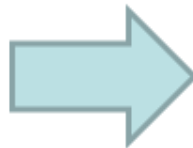
Phase I overview of sector: Local Government



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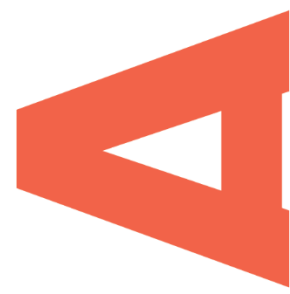


- Councils typically provide information to their respective Audit Committees on cases of identified fraud and investigations.
- This information varies in terms of format and frequency
- The level of scrutiny of the CF function varies between Councils



- Aggregate information on identified losses and types and incidence of fraud, sanctions and recoveries is not currently collected across the councils.
- Information about fraud cases is not formally shared between councils to raise awareness and strengthen counter-fraud controls.

Key national findings: Local Government



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- Across local authorities there is an absence of sector-wide strategic leadership, guidance, co-ordination and oversight of counter-fraud.
- Within the individual authorities we found statements espousing a zero tolerance of fraud in policies and strategic documents but there is much more that can be done to re-enforce the tone from the top at a practical level.
- Many local authorities have invested so little in counter-fraud arrangements that they have only a few of the key components in place.
- Many local authorities have not prepared a fraud risk assessment for several years.
- Lack of capacity remains a challenge as reported in phase I.
- A small number of authorities have retained experienced and skilled counter-fraud staff, but the workload has mostly fallen on Internal Audit teams.
- Counter-fraud arrangements are generally more advanced in the local authorities that retained a dedicated and specialist counter-fraud resource.
- Where Internal Audit teams carry out the counter-fraud work we found a trade-off between counter-fraud work and the general programme of assurance work due to limited resources and competing priorities.

Key national findings: Local Government



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- Pooling and sharing resources needs to be considered as a solution.
- Other than NFI, only a few examples found of data analytics being used as a means of preventing fraud.
- Within some local authorities, several teams play a role in counter-fraud work; for example, Internal Audit, Council Tax, and Human Resources teams all contribute. Whilst helpful in terms of adding capacity, this can result in a lack of coordination and integration between these teams and a lack of clarity in the overall picture of counter-fraud activity.
- Some local authorities did not have a fraud response plan that was communicated to all staff and which made it clear that all allegations of fraud would be investigated.
- There were very few examples of local authorities working frequently across internal and external boundaries and sharing information. Common reasons for this lack of collaboration was lack of time and resources, and concerns about the sharing of data.
- Fewer than half the authorities report information about fraud cases, losses and recoveries to their audit committees on a regular basis
- Audit committees outside of the NHS Wales have not been sufficiently proactive in recognising the increasing risk of fraud and in asking the searching questions necessary about the matching of resources to risk or about the lack of information being supplied about fraud risk.

Key local findings



- We carried out the local work in late 2019/early 2020. Key findings were:
 - Senior management demonstrate a commitment to counter-fraud and promote a zero tolerance message
 - Counter-fraud training is now mandatory for all staff
 - There is a suitable structure and skilled resource to prevent and detect fraud
 - There is a sound policy framework to support effective counter-fraud arrangements
 - At the time of our local work fraud risk assessments were not fully developed across Directorates but plans were in place to address that
 - The Council has an appropriate fraud response plan
 - The Council's internal control arrangements for preventing and detecting fraud appear robust, however there was room for improvement for the time taken to act on recommendations to strengthen controls



1. Leadership and Culture

<p>Local Government Findings:</p> <p>Across local authorities there is an absence of sector-wide strategic leadership, guidance, coordination and oversight of counter fraud. Within the individual authorities we found statements espousing a zero tolerance of fraud in policies and strategic documents. But there is much more that can be done to re-enforce the tone from the top at a practical level. We found examples where the leadership team actively promotes the importance of a good anti-fraud culture through awareness campaigns, newsletters to staff and active engagement with counter-fraud teams. But we also found in many authorities that there was little evidence that the message is driven down from the top and little priority is given to counter-fraud work. There were often competing priorities and, as a result, little time was given to counter-fraud and it often had a low profile.</p>	<p>Management Response:</p> <p>Strategic leadership and coordination Council officers actively participate in a number of groups and forums in order to continue to understand fraud risks, trends and best practice approaches to prevent and detect fraud. The primary groups include the Welsh Chief Auditors Group, in which strategic and operational fraud matters are discussed, and the Wales Fraud Officers Group, which is a networking and best practice engagement mechanism for Council counter-fraud practitioners.</p> <p>The Council is a member of the National Anti-Fraud Network (NAFN), which acts as a hub for the collection, collation and circulation of intelligence alerts, and officers attend the Wales Fraud Forum and Audit Wales Good Practice Exchange events for best practice advice and insight.</p> <p>Championing anti-fraud culture In the last 12 months, significant attention has been given to reinforcing the Council’s counter-fraud culture. In July 2019, Cabinet approved a Counter-Fraud and Corruption Strategy, which represented a strong corporate commitment to retaining and enhancing resilience in fraud risk management.</p>
<p>Recommendations:</p> <p>R1. The Welsh Government should enhance its strategic leadership of counter-fraud across the public service in Wales, playing a coordinating role where it can, while recognising that individual bodies remain responsible for their own counter-fraud activities.</p> <p>R2. All public bodies should champion the importance of a good anti-fraud culture and actively promote its importance to give confidence to staff and members of the public that fraud is not tolerated.</p>	<p>The Strategy contained a joint foreword from the Leader of the Council and the Chief Executive, and was supplemented by a combination organisational-wide awareness and training, to engage the whole workforce to reaffirm the responsibility of all of us to prevent, detect and report potential fraud. A schools version of the Strategy was prepared, advocated to all schools via Headteachers and Chairs of Governors, and followed up with a counter-fraud control risk self-assessment (CRSA) exercise during the autumn term 2019 and targeted audit testing to reinforce messages within Cardiff schools.</p> <ul style="list-style-type: none"> • <u>Fraud awareness training</u> has been delivered through a combination of eLearning for those with computer access, and on a face-to-face training for non-pc using officers, Headteachers, and school governors. • <u>The Council participated in International Fraud Awareness week</u> (17-23 November 2019). The campaign included video messages, articles and guidance for all staff from the Head of Finance on Mandate fraud, the Head of Procurement on Procurement Fraud, and the Chief Digital Officer on Cyber Crime. There is a commitment to participating in the forthcoming International Fraud Awareness week (15 - 21 November 2020).

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2. Risk management and Control framework

Local Government Findings:

While some local authorities have undertaken fraud risk assessments, there were many who had not prepared a fraud risk assessment for several years. Some bodies in these sectors did not have a fraud risk assessment and therefore had not properly assessed the likelihood or impact of the risk. Without this key component, bodies cannot direct resources appropriately or adequately mitigate the risks of losses due to fraud.

Our work also identified that, even where risk assessments were undertaken, they may not be integrated within the wider risk management framework. Fraud is not commonly reflected in corporate risk registers. We did not find many coordinated mechanisms for ensuring that fraud risks are appropriately communicated, owned and monitored within the audited body. Instead, fraud risk assessments are often held as standalone documents without any corporate ownership or active management of the risk. As a result of this approach, fraud risks are not adequately shared across departments.

There were good examples in local authorities of raising awareness of scams with local residents. We found that, in general, public bodies across all sectors have internal control frameworks that are well established and internal audit teams test controls as part of their annual programmes of assurance work. However, we found that internal audit teams do not always consider the fraud risks associated with systems as part of their work programmes. Furthermore, where new systems and processes are established, we found that organisations are not always using counter-fraud contacts and internal audit teams to try to design fraud out of systems.

Recommendations:

R3. All public bodies should undertake comprehensive fraud risk assessments, using appropriately skilled staff and considering national intelligence as well as organisation-specific intelligence.

R4. Fraud risk assessments should be used as a live resource and integrated within the general risk management framework to ensure that these risks are appropriately managed and escalated as necessary.

Management Response:

Comprehensive fraud risk assessments

The risk of fraud, bribery and corruption is included on the corporate risk register, and reviewed by the Senior Management Team at least quarterly, considered by Audit Committee quarterly and subject to twice-yearly Cabinet review.

The management of fraud, bribery and corruption is included within Senior Management Assurance Statements (SMAS). Processes require each directorate to provide a management response and self-assessed rating of governance maturity twice a year as part of SMAS returns.

A number of directorate risk registers contain risks associated with fraud, bribery and corruption. Risk registers are subject to regular Internal Audit review.

Integrated fraud risk assessments

The Investigation Team reviewed the mid-year SMAS responses in 2019/20, and provided commentary on the consistency of the responses with the knowledge and awareness of the Team.

The Team has developed a checklist for circulation as part of forthcoming SMAS assessments to support a comprehensive and consistent of fraud, bribery and corruption assurance.

All Directorates participated in a fraud and corruption tracker exercise during 2019/20, based on a model designed by the Chartered Institute of Public Finance and Accountancy (CIPFA). This enabled a focussed verification and discussion on the volumes and values of fraud across the Council, and the pertinent areas of risk. There is a commitment to continuing to engage Senior Management Team in the annual fraud tracker exercise.

As part of the year-end fraud and corruption tracker exercise for 2019/20, due for response to CIPFA on 25 September 2020, the Investigation Team will offer support and guidance to directorates in the assessment, monitoring and management of fraud risks.

Directorate 234



3. Policies and Training

Local Government Findings:

Whilst NHS bodies have each developed comprehensive counter-fraud strategies, we found that only a few other public sector bodies had done so. Such strategies set out clear approaches to managing fraud risks along with responses and actions, they define roles and responsibilities and are cross-referenced to other policies so that they can be readily understood by staff.

The NHS has a policy of proactively publicising successful fraud cases. The NHS Counter Fraud Service does this by issuing press releases and engaging with local media for interviews and promotional opportunities. Publicity helps raise awareness of fraud risks and also deters staff and contractors from committing fraud. By publicising counter-fraud work and raising awareness of the effects of fraud, the NHS involves staff, key stakeholders and the public in the fight against fraud.

Some local authorities take the view that publicising cases can be reputationally damaging and are therefore reluctant to publish such information.

Our audit work also identified wide variation in levels of training and awareness-raising specifically relating to counter-fraud across the Welsh public sector.

Recommendations:

R5. All public bodies need to have a comprehensive and up-to-date set of policies and procedures which together represent a cohesive strategy for identifying, managing and responding to fraud risks.

R6. Staff working across the Welsh public sector should receive fraud awareness training as appropriate to their role in order to increase organisational effectiveness in preventing, detecting and responding to fraud.

R7. Cases where fraud is identified and successfully addressed should be publicised to re-enforce a robust message from the top that fraud will not be tolerated.

Management Response:

Policies and Procedures

The Council has a suite of operational policies in place to support Counter-Fraud and Corruption Strategy. All policies are subject to ongoing review, and are updated as appropriate. Following review, an updated Anti-Money Laundering Policy will be due for Audit Committee consideration this municipal year, ahead of a request for Cabinet approval.

Fraud Awareness Training

Since July 2019, fraud awareness training has been delivered through a combination of eLearning for those with computer access, and on a face-to-face training for non-pc using officers, Headteachers, and school governors.

- More than three thousand, eight hundred employees have completed the eLearning module or attended one of the thirty-seven face-to-face sessions delivered
- More than seventy Headteachers have received Fraud Awareness Training during their conferences
- Two face-to-face sessions have been delivered to School Governors, with thirty-five attendees.

Publicising Fraud Cases and Outcomes

The Council has a Fraud Publicity Policy, which includes the aim to communicate positive action effectively, to provide reassurance to the public that it is taking a firm line on counter fraud issues and that it has robust and effective procedures in place to tackle fraudulent activity.

Whilst there have been significant internal communications on counter-fraud in recent years, there has been limited external communication. Appropriate opportunities for communication will continue to be considered as part of counter-fraud activities.



4. Capacity and Expertise

Local Government Findings:

Insufficient capacity arose frequently as a key challenge faced by public bodies in their efforts to combat fraud.

In local government, some officers are sceptical about the levels of fraud within their organisations and question the need for additional resources. However, these same local authorities allocate little resource to counter-fraud arrangements, do not have robust fraud risk assessments and the following up of matches from the National Fraud Initiative is assigned a low priority. Their assumptions about low levels of fraud run contrary to all the research being done by recognised leaders in the field such as CIPFA and the National Crime Agency

Local authorities suffered a significant loss in counter-fraud capacity when the independent Single Fraud Investigation Service (SFIS) was created in 2014. Our work found that the counter-fraud arrangements were generally more advanced in the local authorities that retained a dedicated and specialist counter-fraud resource.

In 2018 the UK government launched the Counter-Fraud Profession to enhance overall counter-fraud capability across government. The profession develops the skills of specialist staff and moves beyond the traditional focus of investigations, placing greater emphasis on fraud prevention and the use of data analytics.

Recommendations:

R8. All public bodies need to build sufficient capacity to ensure that counter-fraud work is resourced effectively, so that investigations are undertaken professionally and in a manner that results in successful sanctions against the perpetrators and the recovery of losses.

R9. All public bodies should have access to trained counter-fraud staff that meet recognised professional standards.

R10. All public bodies should consider models adopted elsewhere in the UK relating to the pooling /sharing of resources in order to maximise the availability of appropriately skilled staff.

Management Response

Capacity

The corporate Investigation Team comprises 2.5 Fte, dedicated to the prevention, detection and investigation of suspected fraud or financial impropriety.

There is also an established pool of trained officers in place across the Council, to support the delivery of internal disciplinary investigations, as required.

Trained counter-fraud staff

Two members of the corporate Investigation Team are professionally qualified counter fraud officer's, accredited with Portsmouth University, with the third team member being a former police officer with many years of professional expertise.

Pooling / Sharing of resources

There was an investment in the corporate Investigation Team in September 2019, with the appointment of an additional Investigator. This post was considered as necessary capacity to deliver the caseload of professional investigations, and to support the aspirations of the Counter-Fraud and Corruption Strategy, in reinforcing the Council's counter-fraud culture.

The Council has a dedicated Investigation Team, which is not the case across all local authorities in Wales. The Team used to contain housing benefit / council tax benefit investigators who were transferred to SFIS in 2014. A core corporate investigation resource was retained, and the responsibility for housing benefit / council tax benefit investigations transferred to the DWP alongside the investigation resource.

There is active officer participation in professional networks, but there has not been a requirement to date for pooling/sharing of counter-fraud resources in the delivery of counter-fraud and investigation activities.

The Audit Manager will continue to monitor, report and respond to the caseload, activities and resources of the corporate Investigation Team.

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5. Tools and Data

Local Government Findings:

Generally speaking, we found that more work is needed to bring counter-fraud tools and methodologies up to date to reflect the new world of cyber attacks and digitally-facilitated crimes. Many local authorities and central government bodies we looked at as part of our fieldwork did not have information security policies that reflected the risks associated with cyber crime.

Our review identified only a few examples of data analytics being used as a means of preventing fraud.

We found that some local authorities and central government bodies did not have a fraud response plan that was communicated to all staff

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Recommendations:

R11. All public bodies need to develop and maintain dynamic and agile counter-fraud responses which maximise the likelihood of a successful enforcement action and re-enforces the tone from the top that the organisation does not tolerate fraud.

R12. All public bodies should explore and embrace opportunities to innovate with data analytics in order to strengthen both the prevention and detection of fraud.

Management Response

Dynamic and agile counter-fraud responses

The Council has a suite of information security policies, and the Council's privacy policy allows for the lawful use and sharing of data for fraud prevention and detection.

Internal Audit staff advocate the use of data analytics to prevent the risk of fraud or error at the point of processing applications and claims. This will continue in audit engagements going forward.

The Council participates in the proactive NFI data matching exercise, and appropriately investigates matches.

All fraud alerts received from NAFN, wider networks, and colleagues in other local authorities are actively followed up.

Explore and embrace opportunities to innovate with data analytics

There is ongoing consideration of data analytics for the prevention and detection of fraud.

In 2020/21, there was use of targeted data analytics to provide assurance on the administration of grants to businesses on behalf of Welsh Government.

- The Council has used data analytics to verify bank and business credentials and flag anomalies and fraud risks for review.
- Additionally, the Team is participating in a pilot NFI data matching exercise coordinated by Audit Wales, to provide further post award assurance.



6. Collaboration

Local Government Findings:

Our field work across forty public sector bodies in Wales found that collaboration was insufficiently developed, reinforcing the findings of our 2019 review

Within local authorities and central government bodies there are some good examples of bodies working jointly and some regional networks, but these tend to be informal arrangements and there is no consistency in approach.

We found that some local authorities do not invest much resource into following up NFI matches and these are often the same authorities in which counter-fraud arrangements were limited.

There were very few examples of organisations working frequently across internal and external boundaries and sharing information. Common reasons for this lack of collaboration was lack of time and resources, and concerns about the sharing of data.

Recommendations:

R13. Public bodies should work together, under the Digital Economy Act and using developments in data analytics, to share data and information to help find and fight fraud.

Management Response

Collaborative data / information sharing to fight fraud, via data analytics

There are effective informal officer networks in place to share fraud intelligence, risks and good practice at practitioner and chief auditor levels.

NFI matches are progressed, with details of cases identified, closed and associated outcomes, reported to Audit Committee.

The Investigation Team has supported the development of, data analytics in NFI, with ongoing participation in a business grants pilot exercise.

To date, the Council has made use of data analytics through participation in NFI and wider initiatives, coordinated by professional organisations in which risk indicators have been integrated for targeted investigation.

There is ongoing consideration of the use of data sharing and fraud hubs at practitioner and chief auditor levels within Welsh networks. Data sharing activities require careful consideration of the purpose, scope, resourcing and benefits.

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7. Reporting and Scrutiny

Local Government Findings:

In the local government sector, fewer than half the authorities report information about fraud cases, losses and recoveries to their audit committees on a regular basis

Audit committees outside of the NHS Wales have not been sufficiently proactive in recognising the increasing risk of fraud and in asking the searching questions necessary about the matching of resources to risk or about the lack of information being supplied about fraud risk.

Recommendations:

R14. Public bodies need to collate information about losses and recoveries and share fraud intelligence with each other to establish a more accurate national picture, strengthen controls, and enhance monitoring and support targeted action.

R15. Audit committees must become fully engaged with counter-fraud, providing support and direction, monitoring and holding officials to account.

Management Response

Collating, reporting and sharing information

The Audit Committee receives regular counter-fraud progress reports, which contain details of the activities, campaigns and work led by the corporate Investigation Team.

Progress reports include *(with a comparison to the same period in the prior year)*:

- Details of the number of cases identified for investigation, the number of ongoing cases, and the number of concluded cases over each reporting period.
- A breakdown of the financial value of closed investigations.
- The outcomes of concluded investigations - the value identified for recovery, and details of sanctions.

The Internal Audit and Investigation Teams work in synergy, through which audit engagements are planned to follow up and provide assurance on the control environment, where control gaps have been identified.

Audit Committee engagement

The Audit Committee:

- Receives regular reports on the counter-fraud activities and work led by the corporate Investigations Team.
- Receives regular reports on the work and findings of the Internal Audit Team.
- Receives updates on SMAS exercises twice a year and corporate risk management quarterly.
- Invites senior officers to Audit Committee meetings, to provide an account of the control environment for their areas of responsibility.

Updated 2019

Mae'r dudalen hon yn wag yn fwriadol

'Raising Our Game' Tackling Fraud in Wales

Report of the Auditor General for Wales

July 2020



This report has been prepared for presentation to the Senedd under the Government of Wales Acts 1998 and 2006 and the Public Audit (Wales) Act 2004.

The Audit Wales study team comprised Rachel Davies, Christine Nash and Ian Hughes, under the direction of Mike Usher.

The Auditor General is independent of the Senedd and government. He examines and certifies the accounts of the Welsh Government and its sponsored and related public bodies, including NHS bodies. He also has the power to report to the Senedd on the economy, efficiency and effectiveness with which those organisations have used, and may improve the use of, their resources in discharging their functions.

The Auditor General also audits local government bodies in Wales, conducts local government value for money studies and inspects for compliance with the requirements of the Local Government (Wales) Measure 2009.

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.

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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Foreword by the Auditor General

- 1 In June 2019, I published a report giving an overview of the scale of fraud in the Welsh public sector, together with a description of counter-fraud arrangements across the Welsh Government, the NHS and Local Government. I noted that the sums lost annually in Wales to fraud and error are significant – and could be anywhere between £100 million and £1 billion. The Crime Survey for England and Wales recognises fraud as being one of the most prevalent crimes in society today.
- 2 However, some senior public sector leaders are sceptical about the levels of fraud within their organisations. As a result, they are reluctant to invest in counter-fraud arrangements and assign a low priority to investigating cases of potential fraud identified to them by the National Fraud Initiative, even though there are many examples of a good return on investment in this area. Their stance runs contrary to all the research being done by recognised leaders in the field such as CIPFA and the UK Government's Counter Fraud Function. This latest report, which examines the effectiveness of counter-fraud arrangements at over 40 public-sector bodies in Wales, has found that where such scepticism arises, it is not based on any significant local counter-fraud work or robust fraud risk assessments.
- 3 But we also know that fraudsters appear the very instant that an opportunity presents itself. Fifteen individuals have to date been jailed for fraud in the light of the Grenfell fire tragedy. Fraudsters and scammers were quickly on the scene earlier this year whilst the flooding in South Wales was ruining the homes and lives of local people. There has been an explosion in fraudulent activity, and especially in cyber crime, during the current COVID-19 pandemic. I welcome the proactive steps which the Welsh Government has taken to raise awareness across the public sector in Wales about this risk.

- 4 Public sector bodies can mitigate these risks by having the right organisational culture supported by strong counter-fraud arrangements. Many local authorities have invested so little in counter-fraud arrangements that they have only a few of the key components in place. Whilst the position is generally much more robust across the NHS in Wales, there is still a challenging agenda to make counter-fraud fit for the next decade where globalisation and the advent of digital technology have created new risks, and opportunities, for the fraudsters.
- 5 I was heartened to see the Welsh Government's positive response to my 2019 report and, following the one-day conference organised by the Public Accounts Committee in July 2019, the Permanent Secretary's commitment (see **Appendix 2**) to provide Wales-wide leadership in raising the profile of counter-fraud activity.
- 6 In this latest report, based on a more extensive programme of field work, we identify a significant range of further opportunities to improve on the current national position, including:
 - a strengthening strategic leadership, coordination and oversight for counter-fraud across the Welsh public sector;
 - b increasing counter-fraud capacity and capabilities, especially across local government, and exploring the potential for sharing resources and expertise across public bodies;
 - c getting the right balance between proactive and reactive counter-fraud activities;
 - d improving awareness-raising and staff training in counter-fraud; and
 - e better evaluation of fraud risks and sharing of fraud information, both within and across sectors.
- 7 There is also significant potential for Wales to take advantage, where appropriate, of many of the counter-fraud initiatives underway across the wider UK public sector. These include the recent establishment of a recognised government counter-fraud profession, with defined competencies and career paths, and the increasing focus on tackling fraud by smarter use of data analytics.

- 8 As I publish this report, Wales continues to grapple with the effects of the COVID-19 pandemic. This report contains a timely illustration of some of the ways in which fraudsters have moved rapidly in recent months to exploit the pandemic for criminal gain. I have already taken steps to extend the scope of our National Fraud Initiative (NFI) to enable local authorities in Wales to undertake eligibility checks on applications for COVID-19 support grants. I am also proposing to mandate that all local authorities, together with the Welsh Government, should submit COVID-19 grant and payment data to the NFI, to help identify fraudulent applications.



Adrian Crompton

Auditor General for Wales

Summary and recommendations

Ensuring that the arrangements for preventing and detecting fraud in the Welsh public sector are effective

This report examines seven '**key themes**' that all public bodies need to focus on in raising their game to tackle fraud more effectively:

- leadership and culture;
- risk management and control frameworks;
- policies and training;
- capacity and expertise;
- tools and data;
- collaboration; and
- reporting and scrutiny.

For each theme in turn, the report examines:

- why it is important;
- what our audit fieldwork identified in terms of current working practices and their effectiveness across the 40 Welsh public sector bodies that we examined (listed in **Appendix 1**); and
- what needs to happen next to generate improvement.

Our **recommendations for improvement** which are addressed to all public bodies in Wales within the Auditor General's remit, are as follows:

Theme

What needs to happen next?

Leadership and Culture



- R1** The Welsh Government should enhance its strategic leadership of counter-fraud across the public service in Wales, playing a coordinating role where it can, while recognising that individual bodies remain responsible for their own counter-fraud activities.
- R2** All public bodies should champion the importance of a good anti-fraud culture and actively promote its importance to give confidence to staff and members of the public that fraud is not tolerated.

Risk management and Control framework



- R3** All public bodies should undertake comprehensive fraud risk assessments, using appropriately skilled staff and considering national intelligence as well as organisation-specific intelligence.
- R4** Fraud risk assessments should be used as a live resource and integrated within the general risk management framework to ensure that these risks are appropriately managed and escalated as necessary.

Policies and Training



- R5** All public bodies need to have a comprehensive and up-to-date set of policies and procedures which together represent a cohesive strategy for identifying, managing and responding to fraud risks.
- R6** Staff working across the Welsh public sector should receive fraud awareness training as appropriate to their role in order to increase organisational effectiveness in preventing, detecting and responding to fraud.
- R7** Cases where fraud is identified and successfully addressed should be publicised to re-enforce a robust message from the top that fraud will not be tolerated.

Theme

Capacity and Expertise



What needs to happen next?

- R8** All public bodies need to build sufficient capacity to ensure that counter-fraud work is resourced effectively, so that investigations are undertaken professionally and in a manner that results in successful sanctions against the perpetrators and the recovery of losses.
- R9** All public bodies should have access to trained counter-fraud staff that meet recognised professional standards.
- R10** All public bodies should consider models adopted elsewhere in the UK relating to the pooling /sharing of resources in order to maximise the availability of appropriately skilled staff.

Tools and Data



- R11** All public bodies need to develop and maintain dynamic and agile counter-fraud responses which maximise the likelihood of a successful enforcement action and re-enforces the tone from the top that the organisation does not tolerate fraud.
- R12** All public bodies should explore and embrace opportunities to innovate with data analytics in order to strengt hen both the prevention and detection of fraud.

Collaboration

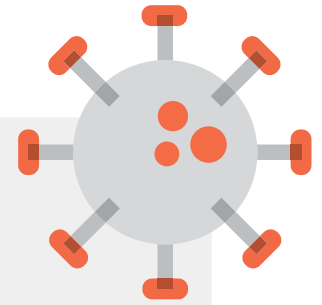


- R13** Public bodies should work together, under the Digital Economy Act and using developments in data analytics, to share data and information to help find and fight fraud.

Reporting and Scrutiny



- R14** Public bodies need to collate information about losses and recoveries and share fraud intelligence with each other to establish a more accurate national picture, strengthen controls, and enhance monitoring and support targeted action.
- R15** Audit committees must become fully engaged with counter-fraud, providing support and direction, monitoring and holding officials to account.



The COVID-19 pandemic: a case study in how scammers and fraudsters are ready to exploit a crisis

We know from experience that fraudsters appear the very instant that an opportunity presents itself. Fifteen individuals have to date been jailed for fraud in the light of the Grenfell fire tragedy. Fraudsters and scammers were quickly on the scene earlier this year whilst the flooding in South Wales was ruining the homes and lives of local people.

Predictably, there has been an explosion in fraudulent activity, and especially in cyber crime, during the current COVID-19 pandemic.

The first reported positive cases of COVID-19 were reported in the UK on 31 January 2020. By this time the fraudsters and scammers had mobilised and were already hard at work.

The first fraud report relating to COVID-19 was received on February 9 by Action Fraud, the UK's fraud reporting centre. Since that time, the number of reports has increased significantly across the UK – the media reporting an unprecedented number of scams linked to the virus.

We have seen examples of good practice by some public bodies and organisations in Wales in identifying the fraud risks and sharing them with other bodies and citizens. The Welsh Government is liaising with the UK Cabinet Office and is sharing its guidance and learning on counter-fraud with the rest of the public service in Wales, including Local Authority Counter Fraud leads. Welsh Government officials have agreed to maintain and develop this group post-COVID. The intelligence obtained from these meetings has also assisted the Head of Counter Fraud with fraud intelligence sharing with Cabinet Office and the three other devolved administration fraud leads.

But has the Welsh public sector response been more reactive than proactive? What can we do better? Whilst globalisation has benefited the fraudsters it can also be to the advantage of counter-fraud specialists; we had early notice of scams from thousands of miles away a few weeks before the first case of COVID-19 was identified in the UK.

The COVID-19 pandemic: a case study in how scammers and fraudsters are ready to exploit a crisis

We believe that the COVID-19 pandemic provides an important opportunity for the Welsh counter-fraud community to come together (by appropriate means) and reflect on the speed and effectiveness of its response to the scammers and fraudsters.

The key issues and recommendations set out in this report could help set an agenda or framework for such an event. There has never been a timelier opportunity for Welsh public sector leaders and counter-fraud specialists to consider how to:

- create stronger strategic leadership, coordination and oversight for counter-fraud across the Welsh public sector;
- make best use of counter-fraud capacity and capabilities and explore the potential for shared arrangements, resources and expertise;
- get a better balance between proactive and reactive counter-fraud activities;
- raise awareness amongst employees and provide the necessary training to those most likely to come across a fraud; and
- evaluate fraud risks more effectively and share fraud information both within and across sectors.

So, what do we already know about the fraudsters' response to the pandemic?

The mobilisation of fraudsters has benefited from a number of factors, for example:

- more people are spending time online to shop and socially interact. Elderly people are seen as particularly vulnerable, being generally less computer literate and more susceptible to scams such as phishing emails and ordering fake products such as face masks and sanitisers.
- working patterns have changed at short notice which can leave weaknesses in processes and procedures.
- an unprecedented amount of public money has been put into a range of new and innovative financial support schemes to businesses and individuals.

The COVID-19 pandemic: a case study in how scammers and fraudsters are ready to exploit a crisis

Fraudsters and scammers mobilised quickly for a number of reasons:

- they are very good at evaluating risks and exploiting vulnerabilities which can be at a process or at an individual level;
- they have well-established tools and methodologies and can adapt them at short notice to a new opportunity; and
- they do not recognise geographical boundaries and can be effective individually and by collaborating with like-minded individuals.

There are more examples of COVID-19 frauds and scams coming to light than can be mentioned here. There are, however, a number of themes emerging:

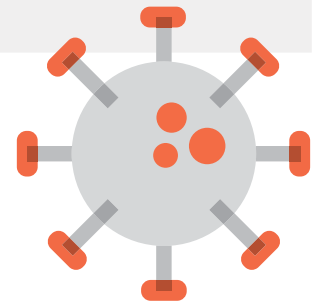
- the early reports related to the sale of Personal Protective Equipment such as face masks and hand sanitiser and testing kits. Typically, the items were fake or often failed to arrive after payment had been made¹.
- the next to emerge were phishing emails. For example, one claiming to be from the Department for Work and Pensions (DWP) asking the individual for debit or credit card details by saying that they are entitled to a council tax refund.
- as the attentions and resources of organisations were diverted to new ways of working and many staff were laid off, the incidence of cyber security attacks to steal business-sensitive and personal data increased.
- with more people working from home following the UK-wide lockdown, phishing campaigns then targeted applications that are being relied upon during remote working, in particular popular conference calling applications and parcel delivery firms.

¹ NHS in Wales introduced arrangements to mitigate against this fraud risk and it did not become an issue.

The COVID-19 pandemic: a case study in how scammers and fraudsters are ready to exploit a crisis

- as the national focus turned to test and track, the fraudster's net became wide and indiscriminate, as shown by a fake text message attempting to dupe people into believing they have been in contact with someone who has tested positive for the virus, directing recipients to a website for more information. The link is then used to harvest personal and financial data.

A world-leading counter-fraud response would mean that counter-fraud specialists had identified the risks at least at the same pace as the fraudsters, if not sooner. It would also mean they had the right tools to prevent and detect fraudsters exploiting any new opportunities; and that the counter-fraud response was mobilised rapidly through effective collaboration and information sharing.





Culture and leadership across the Welsh public sector

01

Tudalen 254

Why is it important?

- 1.1 The Crime Survey for England and Wales recognises fraud as one of the most prevalent crimes in society today. Every pound stolen from the public sector means that there is less to spend on key services such as health, education and social services. Public sector bodies can mitigate the risks from fraud by having the right organisational culture supported by effective counter-fraud arrangements.
- 1.2 Strong leadership sets the appropriate tone from the top of an organisation and plays a crucial part in fostering a culture of high ethical standards. It is important that senior management leads by example and sends a clear message that fraud will not be tolerated either from inside or outside of the organisation. A strong tone at the top can raise the profile of fraud risks and promote the best standards and approaches in counter-fraud work.

What did we find?

- 1.3 Other than in the NHS there is an absence of any overarching strategic approach, guidance, coordination and oversight.
- 1.4 In NHS Wales, the NHS Counter Fraud Service² provides leadership, specialist investigation skills, support and guidance to the sector and a Counter Fraud Steering Group³ provides strategic direction and oversight. This leadership model delivers a coordinated approach to counter-fraud across the NHS in Wales and a good counter-fraud culture complemented by inbuilt scrutiny of the arrangements. The legal framework specific to the NHS Wales and the levels of investment give counter-fraud a high profile and robust enforcement and recovery mechanisms. At a local level, strategic leadership was evident within Health Boards through the dissemination of a consistent message, both internally and externally, that fraud is not tolerated.

2 Which is hosted by the NHS Wales Shared Services Partnership

3 A sub-group of the All Wales Directors of Finance

- 1.5 Across local authorities there is an absence of sector-wide strategic leadership, guidance, coordination and oversight of counter fraud. Within the individual authorities we found statements espousing a zero tolerance of fraud in policies and strategic documents. But there is much more that can be done to re-enforce the tone from the top at a practical level. We found examples where the leadership team actively promotes the importance of a good anti-fraud culture through awareness campaigns, newsletters to staff and active engagement with counter-fraud teams. But we also found in many authorities that there was little evidence that the message is driven down from the top and little priority is given to counter-fraud work. There were often competing priorities and, as a result, little time was given to counter-fraud and it often had a low profile.
- 1.6 In Central Government, the position is mixed. Within Welsh Government, we found evidence that counter-fraud is taken seriously, and a small team has achieved many successful outcomes, albeit its emphasis leans towards reactive rather than proactive work. We have been encouraged to see that the Welsh Government has accepted both of the recommendations made by the Public Accounts Committee following our first report. However, there remains a leadership gap that still needs to be addressed.
- 1.7 Across the other central government bodies that we examined, counter-fraud is not always given such a high priority. One reason for this appears to be the very low incidence of fraud being identified and reported; this poses the difficult question of whether this is due to a lack of investment in counter-fraud or a genuine low incidence of crime taking place. However, this latter explanation runs contrary to all the research being done by recognised leaders in the field such as CIPFA and the National Crime Agency.

- 1.8 The threat posed by fraud is also getting greater recognition within the UK. The UK government, for example, is working to make central government, and the public sector more widely, a place where fraud is actively found and robustly dealt with. It is transforming its whole approach to counter-fraud by:
- a establishing a counter-fraud function;
 - b developing and launching a Government Functional Standard (GovS013);
 - c establishing a 'Government Counter Fraud Profession' to develop people and increase capability;
 - d providing expert advice to the rest of government on how to deal with fraud;
 - e delivering specialist services to assist public bodies; and
 - f collaborating with overseas governments to bring further expertise to the UK.

What can the Welsh public sector do to improve?

Recommendations

- R1** The Welsh Government should enhance its strategic leadership of counter-fraud across the public service in Wales, playing a co-ordinating role where it can, while recognising that individual bodies remain responsible for their own counter-fraud activities. In doing so it could consider:
- forming strategic partnerships with the key players nationally and internationally;
 - developing and delivering an all Wales counter-fraud strategy and vision;
 - advocating/promoting minimum standards in terms of public sector counter-fraud arrangements similar to those established by the UK Government;
 - elevating the status of counter-fraud staff by recognising counter fraud as a profession with essential competencies;
 - supporting the other sectors by, for example, providing invest-to-save funding opportunities, and supporting the development of professional competencies across the Welsh public sector; and
 - providing timely advice and guidance on 'hot' issues by gathering and disseminating important information and analysing trends.
- R2** All public bodies should champion the importance of a good anti-fraud culture and actively promote its importance to give confidence to staff and members of the public that fraud is not tolerated.



Risk management and control frameworks

02

Why is it important?

- 2.1 Fraudsters are becoming more sophisticated and are evaluating opportunities and risks on a real-time basis. The management and mitigation of risk in public bodies often fails to keep up with changes in the nature and impact of potential fraud. The recent flooding in South Wales created opportunities for scams within days of the floods. Security experts have reported an explosion in fraudulent activity during the COVID-19 outbreak as the pandemic has created a myriad of opportunities for fraudsters (see **Case Study on page 10**).
- 2.2 A fraud risk assessment should be an honest appraisal of risks using a range of sources such as national intelligence, local intelligence, audit reports, brainstorming exercises and data-matching results. Risk assessments should be live documents and kept under constant review. Having identified the risks, bodies can then evaluate them, assessing their likelihood and the impact if the fraud were to occur. It is only when risks are properly identified and evaluated that public bodies can tackle the risks in a prioritised and proportionate way and put appropriate actions and controls in place to manage or mitigate these risks.
- 2.3 It is important that organisations have an effective control framework to help mitigate the risks identified. A strong internal control environment can help to prevent fraud from happening in the first place and detect fraud if an instance has occurred. Fraudsters will try to circumvent established controls and it is important that controls are regularly reviewed. A strong control programme whereby fraudsters are faced with a real prospect of detection helps mitigate the risk. When frauds are discovered, controls should be reviewed to identify weaknesses and introduce improvements. Internal Audit have expertise in designing and testing controls and they should undertake work on key systems on a risk-based approach.

What did we find?

- 2.4 The quality of counter-fraud risk assessment and mitigation varies significantly in the Welsh public sector and there is generally scope to improve their quality and timeliness.
- 2.5 In the NHS, National Fraud Risk Alerts are produced by the NHS Counter Fraud Authority. These are routinely circulated to all Local Counter Fraud Specialists (LCFS) and Directors of Finance across NHS Wales. The LCFS are also required to conduct their own local risk assessments. This is a relatively new requirement and we found that these assessments are still being developed and embedded. The NHS Fighting Fraud Strategy recognises that a key challenge for the sector is the need to develop a comprehensive analysis of specific fraud risks to ensure counter-fraud resources are being directed to the most appropriate areas within the sector. The Counter Fraud Steering group has undertaken an overall risk assessment and produced assurance maps in respect of each main area of fraud. These maps will be used to target area of proactive work.
- 2.6 Our work identified that while some local authorities and central government bodies have undertaken fraud risk assessments, there were many who had not prepared a fraud risk assessment for several years. Some bodies in these sectors did not have a fraud risk assessment and therefore had not properly assessed the likelihood or impact of the risk. Without this key component, bodies cannot direct resources appropriately or adequately mitigate the risks of losses due to fraud. As a result, fraud strategies and work programmes are not particularly useful or relevant as they are not targeting the key areas of risk.
- 2.7 Our work also identified that, even where risk assessments were undertaken, they may not be integrated within the wider risk management framework. Fraud is not commonly reflected in corporate risk registers. We did not find many coordinated mechanisms for ensuring that fraud risks are appropriately communicated, owned and monitored within the audited body. Instead, fraud risk assessments are often held as standalone documents without any corporate ownership or active management of the risk. As a result of this approach, fraud risks are not adequately shared across departments.

- 2.8 We did identify some good practice in the sharing of fraud risks. In response to the Coronavirus pandemic, the Welsh Government issued a fraud risk bulletin early in April 2020, highlighting the emerging risks to the Welsh public sector. Ahead of the Welsh Government's bulletin, the UK Government Counter Fraud Function published its own guide: [Fraud Control in Emergency Management – COVID-19 UK Government Guidance](#). The guide highlights the importance of risk assessment, effective payment verification and due diligence arrangements and the need for robust claw-back arrangements to recover funds that are paid out incorrectly. There were also good examples in local authorities of raising awareness of scams with local residents.
- 2.9 We found that, in general, public bodies across all sectors have internal control frameworks that are well established and internal audit teams test controls as part of their annual programmes of assurance work. However, we found that internal audit teams do not always consider the fraud risks associated with systems as part of their work programmes. Furthermore, where new systems and processes are established, we found that organisations are not always using counter-fraud contacts and internal audit teams to try to design fraud out of systems.

What can the Welsh public sector do to improve?

Recommendations

- R3** All public bodies should undertake comprehensive fraud risk assessments, using appropriately skilled staff and considering national intelligence as well as organisation-specific intelligence.
- R4** Fraud risk assessments should be used as a live resource and integrated within the general risk management framework to ensure that these risks are appropriately managed and escalated as necessary.



Policies and training

03

Why is it important?

- 3.1 A sound policy framework enables organisations to direct their approach to counter-fraud and to promote good ethical behaviour. There should be a suite of policies and procedures in place that set out what is expected and what the consequences are for breaking the rules. Codes of conduct should set out the standards expected of employees and highlight the importance of declaring conflicts of interest and establish rules around gifts and hospitality.
- 3.2 Publicising frauds and the recovery action undertaken, helps to re-enforce the message from the top that fraud will not be tolerated. Publicity can help to discourage wrongdoing by others as it can highlight the damaging repercussions of their actions.
- 3.3 Staff are often the first to notice something irregular or potentially fraudulent and are often the first line of defence in the fight against fraud. These staff need easy access to a good counter-fraud policy and whistleblowing policy so they can be clear about their roles and responsibilities and the process they must follow if they suspect a fraud.
- 3.4 Effective training helps staff interpret policies and codes of conduct, giving them the confidence and skills to report suspected fraud. However, training and awareness-raising campaigns should be kept under continual review and must be linked to the live risk assessments so that new frauds or risks facing public bodies are quickly shared amongst staff and contractors if appropriate.

What did we find?

- 3.5 Generally, we found that public bodies have prepared and approved a range of policies setting out the processes to follow if staff suspect that they have uncovered a fraud. However, we identified that some policies were outdated, some were still in draft form and some were not easily accessible to staff.
- 3.6 Whilst NHS bodies have each developed comprehensive counter-fraud strategies (informed by an over-arching national strategy), we found that only a few other public sector bodies had done so. Such strategies set out clear approaches to managing fraud risks along with responses and actions, they define roles and responsibilities and are cross-referenced to other policies so that they can be readily understood by staff.

- 3.7 The NHS has a policy of proactively publicising successful fraud cases. The NHS Counter Fraud Service does this by issuing press releases and engaging with local media for interviews and promotional opportunities. Publicity helps raise awareness of fraud risks and also deters staff and contractors from committing fraud. By publicising counter-fraud work and raising awareness of the effects of fraud, the NHS involves staff, key stakeholders and the public in the fight against fraud.
- 3.8 We did not identify the same level of proactive publicity work in other sectors. Some local authorities take the view that publicising cases can be reputationally damaging and are therefore reluctant to publish such information. The Welsh Government recognises that more can be done to publicise fraud cases. The very low levels of fraud identified at central government bodies also means there is little publicity that can act as a further deterrent.
- 3.9 Our audit work also identified wide variation in levels of training and awareness-raising specifically relating to counter-fraud across the Welsh public sector. We found that a few public bodies provide fraud awareness training to all their staff. Some others provide training as part of the induction of new staff but do not provide this training for longstanding staff. We found some examples of refresher training sessions and e-learning modules provided for staff, but these are not widespread. There are many bodies that do not provide any counter-fraud training or awareness-raising events.
- 3.10 These findings suggest that there could be a significant proportion of the public sector workforce in Wales who have either received no fraud-awareness training at all or have not received training for several years.
- 3.11 There are good examples of awareness-raising in the NHS where the LCFS has an ongoing work programme to develop and maintain an anti-fraud culture within their health board. These programmes include the preparation of presentations and publications to raise awareness of fraud. There are also examples of LCFS undertaking staff surveys to capture the levels of staff awareness of fraud in order to act if necessary. In addition, the NHS has developed a fraud awareness e learning package for all staff and levels of compliance across organisations is reported the Directors of Finance on a quarterly basis. However, even in the NHS sector, counter-fraud training for new staff is generally not a mandatory requirement.

What can the Welsh public sector do to improve?

Recommendations

- R5** All public bodies need to have a comprehensive and up-to-date set of policies and procedures which together represent a cohesive strategy for identifying, managing and responding to fraud risks.
- R6** Staff working across the Welsh public sector should receive fraud-awareness training as appropriate to their role in order to increase organisational effectiveness in preventing, detecting and responding to fraud.
- R7** Cases where fraud is identified and successfully addressed should be publicised to re-enforce a robust message from the top that fraud will not be tolerated.



Capacity and expertise



04

Why is it important?

- 4.1 It is important that public bodies each designate a counter-fraud champion who understands fraud and leads the organisation's approach and response. Public bodies need access to sufficient appropriately skilled counter-fraud specialists to prevent, detect and investigate suspected fraud and protect their assets. As fraud risks change, public bodies should have resources available to provide a response that is appropriate to the threat.
- 4.2 Skilled and experienced staff will also help to ensure investigations are undertaken properly with evidence being obtained and handled lawfully in order to secure successful sanctions and the recovery of losses.
- 4.3 Investigations, whilst crucial, can be time consuming and costly and the low numbers of successful prosecutions mean that public bodies cannot rely on investigations alone to combat fraud. Public bodies need to have the capacity to undertake both proactive counter-fraud work and reactive investigation work. Proactive work includes fraud awareness campaigns, training, designing policies and strategies and strengthening controls to prevent attacks.

What did we find?

- 4.4 Insufficient capacity arose frequently as a key challenge faced by public bodies in their efforts to combat fraud. On the ground, capacity and skills in counter-fraud vary widely across and within public sector bodies in Wales. Most of the capacity is allocated to responsive work and investigations with any spare capacity being used in preventative counter-fraud work.
- 4.5 In local government, some officers are sceptical about the levels of fraud within their organisations and question the need for additional resources. However, these same local authorities allocate little resource to counter-fraud arrangements, do not have robust fraud risk assessments and the following up of matches from the National Fraud Initiative is assigned a low priority. Their assumptions about low levels of fraud run contrary to all the research being done by recognised leaders in the field such as CIPFA and the National Crime Agency.

- 4.6 Local authorities suffered a significant loss in counter-fraud capacity when the independent Single Fraud Investigation Service (SFIS) was created in 2014. SFIS is a partnership between the Department for Work and Pensions, HMRC and local authorities and which covers welfare benefit fraud. Most of the counter-fraud specialists left the sector to work for this new organisation. A small number of authorities have retained experienced and skilled counter-fraud staff, but the workload has mostly fallen on Internal Audit teams.
- 4.7 Our work found that the counter-fraud arrangements were generally more advanced in the local authorities that retained a dedicated and specialist counter-fraud resource. Where Internal Audit teams carry out the counter-fraud work we found a trade-off between counter-fraud work and the general programme of assurance work due to limited resources and competing priorities.
- 4.8 We also found that, within some local authorities, several teams play a role in counter-fraud work; for example, Internal Audit, Council Tax, and Human Resources teams all contribute. Whilst helpful in terms of adding capacity, we found that this can result in a lack of coordination and integration between these teams and a lack of clarity in the overall picture of counter-fraud activity.
- 4.9 Counter-fraud is generally better resourced in the NHS than other public sector bodies and there has been an increase in LCFS resource over recent years. There is a central team within the NHS Counter Fraud Service Wales which investigates complex, large scale frauds and provides a financial investigation resource. The team also provides guidance, intelligence and investigative support to the network of finance directors and LCFS at health bodies in Wales. In addition, Welsh Government Directions require that each health body should appoint at least one LCFS who is an accredited counter-fraud professional. These LCFS are the primary points of contact for counter-fraud work at their respective health bodies and have a key role in fraud prevention and detection. Increasing staffing levels above the minimum number is a matter of local discretion.
- 4.10 The mixture of LCFS and support and guidance from the NHS Counter Fraud Service and the Counter Fraud Steering Group has resulted in improved counter-fraud arrangements within the NHS sector in comparison to the other sectors. However, whilst LCFS staff are often shared between individual health boards, they are not pooled across the entire sector. As a result, the relatively low counter-fraud staff numbers in some health boards can cause issues if staff members are absent from work. Even within the NHS Wales, there is a general recognition that more proactive work should be undertaken.

- 4.11 The Counter Fraud Team at the Welsh Government is skilled and experienced and has secured a number of high-profile prosecutions over recent years. However, a recent Government Internal Audit Agency review of the Welsh Government in 2017 concluded that the counter-fraud function could achieve more with increased resources. The Counter Fraud Team is able to draw on resources from within the Welsh Government to assist with investigations where appropriate and there are plans to increase the resource in the team in the near future.
- 4.12 Our audit also found that public bodies in Wales are generally following traditional counter-fraud approaches with a focus on detection and investigation rather than prevention. Most public bodies recognise that more proactive and preventative work should be done, but they acknowledge that the lack of time, resources and expertise are barriers to making this shift of focus.
- 4.13 We did not find many examples of public bodies in Wales outside the NHS pooling resources to help reduce duplication of effort and improve the efficiency and effectiveness of counter-fraud arrangements across sectors. Pooled resources could also help to improve continuity and add flexibility to adapt to changing needs going forward.
- 4.14 In 2018 the UK government launched the Counter-Fraud Profession to enhance overall counter-fraud capability across government. The profession develops the skills of specialist staff and moves beyond the traditional focus of investigations, placing greater emphasis on fraud prevention and the use of data analytics. Membership across UK Government Departments has been steadily increasing, and the Welsh Government is engaged with this initiative. Organisations joining the profession are required to have learning environments that support their staff to develop and maintain professional standards.

What can the Welsh public sector do to improve?

Recommendations

- R8** All public bodies need to build sufficient capacity to ensure that counter-fraud work is resourced effectively, so that investigations are undertaken professionally and in a manner that results in successful sanctions against the perpetrators and the recovery of losses.
- R9** All public bodies should have access to trained counter-fraud staff that meet recognised professional standards.
- R10** All public bodies should consider models adopted elsewhere in the UK relating to the pooling and/or sharing of resources in order to maximise the availability of appropriately skilled staff.



Tools and data



05

Tudalen 272

Why is it important?

- 5.1 An effective counter-fraud function will ensure that those responsible for it are equipped with up-to-date methodologies and the right tools for the job. Counter-fraud staff must make best use of data and intelligence in order to:
 - a prevent fraud by 'fraud-proofing' systems and processes; and
 - b mounting an effective response to suspicions of fraud.
- 5.2 New fraud threats are continually emerging, both globally and nationally. It is important that public bodies have flexible, cutting-edge counter-fraud approaches that are fit for a digital age and agile enough to keep up with, or better still, ahead of the fraudsters.
- 5.3 Cyber-attacks are an alternative means of committing traditional frauds such as the theft of assets, cash or intellectual property. PricewaterhouseCoopers' most recent global economic crime survey found that cyber crime is now the most common fraud facing UK businesses, overtaking asset misappropriation for the first time since the survey began. We can see this in the explosion in number of cyber scams linked to the COVID-19 pandemic.
- 5.4 Preventing fraud is always preferable to responding to an instance. Many organisations are now looking to 'fraud-proof' systems at the point of entry using the latest developments in data analytics. For example:
 - a the Cabinet Office has developed on-line tools that can look at 10,000 records in seven seconds to provide due diligence checks on grant applications; and
 - b the Department of Work and Pensions have been trialling an Artificial Intelligence system that detects fraudulent claims by searching for certain behaviour patterns, such as benefit applications that use the same phone number or are written in a similar style. Any suspicious activity is then passed on to specialist investigators.
- 5.5 Data analytics provide an increasingly important tool in preventing fraud as well as in its detection. We look at how public bodies can share data to help find fraud in the next section of this report.
- 5.6 Sophisticated technology and data analytics are of little use if they are not used effectively and this requires adequately trained resource to understand it. Therefore, it is important that public bodies have access to staff adept in data analytics in order to achieve better counter-fraud results.

- 5.7 Knowing what to do in the event of a suspected fraud improves the chances of a successful enforcement action. It also re-enforces the tone from the top that the organisation does not tolerate fraud. Fraud response plans need to provide a clear direction to relevant parties so that bodies are able to respond to allegations quickly and appropriately. A response plan should be reviewed regularly to ensure that responses to fraud keep abreast with changing times and emerging risks. They should outline:
- a the fraud investigation process from receipt of allegation to outcome report;
 - b roles and procedures for securing evidence and undertaking interviews;
 - c details of how and when to contact the police;
 - d a commitment to pursuing a range of sanctions;
 - e reporting arrangements; and
 - f how lessons learned will be used to strengthen system and process controls.

What did we find?

- 5.8 Generally speaking, we found that more work is needed to bring counter-fraud tools and methodologies up to date to reflect the new world of cyber attacks and digitally-facilitated crimes. Many local authorities and central government bodies we looked at as part of our fieldwork did not have information security policies that reflected the risks associated with cyber crime. The situation was more positive in NHS Wales bodies.
- 5.9 Our review identified only a few examples of data analytics being used as a means of preventing fraud. Data analytics are used more widely to detect fraud, in following up on NFI data matches, for example, but our previous audit work⁴ has shown that the level of engagement with the NFI varies considerably across Welsh public bodies.
- 5.10 We found that some local authorities and central government bodies did not have a fraud response plan that was communicated to all staff and which made it clear that all allegations of fraud would be investigated. The Welsh Government had a fraud response plan, but this was in draft form at the time of our audit work and was not, therefore, available to staff. Again, the position was much more positive in NHS Wales.

4 Our October 2018 NFI report stated that 'most Welsh public sector bodies participating in the NFI were proactive in reviewing the data matches, but a small number of participants did not review the matches in a timely or effective manner'

- 5.11 NHS bodies all use the same case management system to record and monitor the progress of potential fraud cases. In other sectors, few bodies have a case management system although some do have a spreadsheet log that records information. The variation in the information collected makes it very difficult to report an all-Wales position on the level of fraud taking place. The reasons that many local authorities and central government bodies do not have a case management system or detailed records was the very low numbers of fraud cases that were being identified and handled.
- 5.12 Most of the public bodies we looked at consider the full range of possible sanctions (disciplinary, regulatory, civil and criminal) against fraudsters and will seek redress including the recovery of assets and money where possible. However, many bodies report such low levels of fraud that it is impossible to substantiate their claims. For any internal frauds identified, most bodies tend to deal with the perpetrators through internal disciplinary procedures.
- 5.13 Most of the public bodies we looked at reflected on the weaknesses revealed by instances of proven fraud and corruption and fed back to departments and teams so that they might fraud-proof their systems. The arrangements at local NHS bodies were particularly robust because fraud cases in their case management system cannot be closed down without providing assurance that any system weaknesses have been considered and remedied if necessary.

What can the Welsh public sector do to improve?

Recommendations

- R11** All public bodies need to develop and maintain dynamic and agile counter-fraud responses which maximise the likelihood of a successful enforcement action and re-enforce the tone from the top that the organisation does not tolerate fraud.
- R12** All public bodies should explore and embrace opportunities to innovate with data analytics in order to strengthen both the prevention and detection of fraud.



Collaboration



06

Tudalen 276

Why is it important?

- 6.1 Fraudsters do not respect geographical or other boundaries. This means that individual public sector bodies cannot establish effective counter-fraud arrangements by themselves. They must work collaboratively to maximise the effectiveness of their response to fraud.
- 6.2 Collaboration is an increasingly important aspect of public service, particularly in the context of reduced funding and the need to do more with less. Collaboration is also one of the 'five ways of working' as defined in the Welsh Government's 'Well-being of Future Generations (Wales) Act 2015: the essentials'⁵ document. It is therefore essential that collaboration and the sharing of intelligence and good practice take place between public, private and third-sector bodies across the UK and internationally.
- 6.3 Collaboration can mean sharing people or pooling resources and, more commonly these days, in the sharing of information. This information can be shared between departments, between bodies, across different elements of the public sector and with other key stakeholders such as law enforcement authorities and the private sector. The information shared can be about the nature of a fraud or information about the identities of the perpetrators.
- 6.4 The sharing of data to help find fraud is a rapidly evolving area and is being facilitated by changes in the law. In 2017, the Digital Economy Act became law, enabling public authorities to share personal data to prevent, detect, investigate and prosecute public sector fraud. The Act recognises that the wider use of data-sharing could improve the prevention, detection and investigation of fraud in a number of ways, including:
 - a improved targeting and risk-profiling of potentially fraudulent individuals;
 - b streamlining processes, enabling the government to act more quickly; and
 - c simplifying the legislative landscape.

5 Well-being of Future Generations (Wales) Act 2015: the essentials', Welsh Government (2015)

What did we find?

- 6.5 Our field work across forty public sector bodies in Wales found that collaboration was insufficiently developed, reinforcing the findings of our 2019 review.
- 6.6 Within local authorities and central government bodies there are some good examples of bodies working jointly and some regional networks, but these tend to be informal arrangements and there is no consistency in approach. Formalising arrangements can help improve accountability and governance and can influence commitment and results.
- 6.7 The picture is generally more positive across local NHS bodies and the Welsh Government than in local authorities and central government bodies. However, there is scope for all public bodies to work more closely with each other and with other stakeholders to tackle fraud.
- 6.8 Because of the tiered approach to counter-fraud within NHS Wales and established formal partnerships with the NHS Counter Fraud Authority, there is good access to specialist fraud investigation teams such as surveillance, computer forensics, asset recovery and financial investigations. The NHS Counter Fraud Service Wales provide the surveillance, asset recovery and financial investigations services to NHS Wales, while the NHS Counter Fraud Authority provides forensic computing services and other specialist support services to NHS Wales under the terms of their annual agreement with Welsh Government.
- 6.9 The existence of these formal access arrangements is less well established within other sectors, but most organisations told us that they could access specialist services if required. The low level of fraud being identified was one of the reasons given for the absence of formal partnerships between public sector bodies.
- 6.10 We also found wide variations in the amounts of data that are shared. In most bodies, the sharing of data was typically limited to the National Fraud Initiative (NFI), although not all central government bodies currently take part in NFI. We found that some local authorities do not invest much resource into following up NFI matches and these are often the same authorities in which counter-fraud arrangements were limited.
- 6.11 There were very few examples of organisations working frequently across internal and external boundaries and sharing information. Common reasons for this lack of collaboration was lack of time and resources, and concerns about the sharing of data.

What can the Welsh public sector do to improve?

Recommendations

R13 Public bodies should work together, under the Digital Economy Act and using developments in data analytics, to share data and information to help find and fight fraud.



Reporting and scrutiny

07

Why is it important?

- 7.1 Arriving at a reliable estimate for the cost of fraud is a difficult task. This is particularly so for the Welsh public sector as our 2019 report highlighted. Whilst the UK Government produces annual estimates, there is no breakdown of this estimate to each of the devolved administrations in the UK. CIPFA's most recent analysis estimates that fraud costs the UK public sector £40.3 billion annually. The Cabinet Office⁶ estimates losses due to fraud and error at between 0.5% and 5% of budget. Applying this range to annual public expenditure in Wales of around £20 billion gives a possible estimated value of losses to fraud and error between £100 million and £1 billion per annum. The losses are therefore significant and take valuable funding away from our public services.
- 7.2 Fraud is often under-reported as some suspicious activity identified through NFI matches, for example, is not classified as fraudulent and therefore not reported. Also, some public bodies fail to report fraud as it can attract unwanted publicity and perceived reputational damage. This situation leads to an incomplete national intelligence picture.
- 7.3 The International Public Sector Fraud Forum⁷ has recognised that 'finding fraud is a good thing' and this is one of their 'Key Fraud and Corruption Principles'. The Forum noted that, if bodies do not find fraud, then they are unable to fight it, and that a change of perspective is needed so that the identification of fraud is seen as a positive and proactive achievement.
- 7.4 Reporting fraud to those charged with the governance of public sector organisations is important as it provides managers and audit committees, for example, with the information and intelligence they need to challenge and scrutinise. To facilitate accountability, public bodies should provide copies of counter-fraud reports detailing numbers of cases and outcomes to audit committees so that they are fully informed of any issues of concern and can hold management and counter-fraud teams to account. Audit committees can also promote the message that fraud will not be tolerated, supporting the efforts of counter-fraud teams.

6 Cabinet Office Cross Government Fraud Landscape Report 2018

7 International Public Sector Fraud Forum A Guide to Managing Fraud for Public Bodies in Feb 2019

What did we find?

- 7.5 The arrangements in NHS Wales to record, collate and share information about fraud losses and recoveries are well established. The NHS Counter Fraud Service collates information on the number of fraud cases and recoveries from each health body as a matter of course. There are quarterly and annual Operational Performance Reports which summarise information about resources, referrals and the work of the Counter-Fraud Service and LCFS based at each health body. These reports are reviewed by the Counter Fraud Steering Group and shared with Directors of Finance and the audit committees of each health body, helping to facilitate meaningful comparisons within the sector. The NHS Counter Fraud Authority also reports to the Welsh Government on a quarterly basis.
- 7.6 In other sectors, audit committees are not generally provided with as much information:
- a in the Welsh Government, the Audit and Risk Assurance Committee is not provided with, nor does it request, detailed information about fraud cases, although information about major cases and anti-fraud activity is included in the regular report from the Head of Internal Audit;
 - b in the local government sector, fewer than half the authorities report information about fraud cases, losses and recoveries to their audit committees on a regular basis; and
 - c even fewer central government bodies report on cases of fraud, reflecting a very low incidence of fraud being identified and managed.
- 7.7 The absence of both the reporting of information and arrangements to collate and share this information across the Welsh public sector is troubling for a number of reasons. It does little to help re-enforce a zero-tolerance message from the top of an organisation to both staff and external stakeholders. It may also send the wrong message to fraudsters that Wales does not see fraud as a priority and makes it difficult to assess the level of risk and how best to respond to it by senior public sector officials and politicians.
- 7.8 When frauds are identified, Internal Audit (or, where they exist, counter-fraud specialists) provide audit committees with reports and updates. On balance, however, audit committees outside of the NHS Wales have not been sufficiently proactive in recognising the increasing risk of fraud and in asking the searching questions necessary about the matching of resources to risk or about the lack of information being supplied about fraud risk.

What can the Welsh public sector do to improve?

Recommendations

- R14** Public bodies need to collate information about losses and recoveries and share fraud intelligence with each other to establish a more accurate national picture, strengthen controls, and enhance monitoring and support targeted action.
- R15** Audit committees must become fully engaged with counter-fraud, providing demonstrable support and direction, monitoring and holding officials to account if insufficient information is being provided about counter-fraud activity.



Appendices

- 1 Audit methods
- 2 The Welsh Government's response to the July 2019 recommendations of the Public Accounts Committee

1 Audit methods

Our audit was structured around seven key lines of enquiry to help us answer the overall question: 'Are the arrangements for preventing and detecting fraud in the Welsh public sector effective?':

- Does the top tier demonstrate a commitment to counter-fraud and provide the necessary leadership to fight fraud?
- Does the organisation have a suitable structure and sufficient skilled resources to prevent and detect fraud?
- Does the organisation have a sound policy framework to support effective counter-fraud arrangements?
- Does the organisation have an effective fraud risk assessment together with appropriate responses to emerging issues?
- Does the organisation's internal control environment support effective arrangements for preventing and detecting fraud?
- Does the organisation have an appropriate response to fraud?
- Does the organisation have proper reporting and scrutiny in place to ensure its counter-fraud culture and framework is operating effectively?

The audit fieldwork was carried out by our local audit teams between November 2019 and February 2020. Their fieldwork included:

- structured interviews – interviews with key individuals in order to understand the counter-fraud arrangements in place at each audited body; and
- document reviews – where these existed, they typically included the counter-fraud strategy, risk assessment, work plans, corporate risk register, fraud response plan, Codes of Conduct, whistleblowing policy, guidelines and procedures for local fraud investigators and counter-fraud reports/updates provided to Audit Committee.

Teams also issued a core information request in order to gather some information directly from audited bodies.

The project team collated and reviewed the local findings to distil the key messages for inclusion in this report. Our audit teams have been providing tailored feedback on their local findings to relevant staff at each audited body.

The audited bodies included in this study are:

Local Government bodies:

- Blaenau Gwent County Borough Council
- Bridgend County Borough Council
- Caerphilly County Borough Council
- Cardiff Council
- Carmarthenshire County Council
- Ceredigion County Council
- Conwy County Borough Council
- Denbighshire County Council
- Flintshire County Council
- Gwynedd Council
- Isle of Anglesey County Council
- Merthyr Tydfil County Borough Council
- Monmouthshire County Council
- Neath Port Talbot County Borough Council
- Newport City Council
- Pembrokeshire County Council
- Powys County Council
- Rhondda Cynon Taf County Borough Council
- City and County of Swansea
- The Vale of Glamorgan Council
- Torfaen County Borough Council
- Wrexham County Borough Council

NHS Wales bodies:

- Aneurin Bevan University Health Board
- Betsi Cadwaladr University Health Board
- Cardiff and Vale University Health Board
- Cwm Taf Morgannwg University Health Board
- Hywel Dda University Health Board
- Powys Teaching Health Board
- Swansea Bay University Health Board
- Health Education and Improvement Wales
- Velindre NHS Trust
- Public Health Wales Trust
- Welsh Ambulance Service NHS Trust

Central Government bodies:

- Welsh Government
- Welsh Revenue Authority
- Arts Council for Wales
- Higher Education Funding Council for Wales
- National Museums and Galleries Wales
- Natural Resources Wales
- National Library of Wales
- Sport Wales
- Senedd Commission

2 The Welsh Government's response to the July 2019 recommendations of the Public Accounts Committee

PAC Recommendation

We ask that the Welsh Government consider whether there is scope and potential to support a national counter fraud team to work across Wales to ensure that at least a basic level of counter fraud work is undertaken in each local authority area by suitably trained staff.

We ask that the Welsh Government consider whether there is scope and potential to support a national counter fraud team to work across Wales to ensure that at least a basic level of counter fraud work is undertaken in each local authority area by suitably trained staff.

Response from the Welsh Government's Permanent Secretary

The Welsh Government recognises and fully supports local authorities addressing fraud within the £8 billion of their general revenue expenditure.

As independent democratically led organisations, the prime responsibility for the detection and prevention of fraud is for each of the 22 councils themselves. As such, we would expect all to be fully engaged in this work and for local politicians to understand and provide leadership.

To make sure that the recommendation is understood and given priority, officials will raise the matter with Ministers to secure an item on the Partnership Council agenda as well as its Finance Sub Committee. Subject to Ministers' agreement, we will agenda an item for the next possible meeting.

I am supportive of any move to increase the understanding of fraud and the consistent application of best practice techniques across the Welsh Public Sector and there exists already a vehicle to bring together counter-fraud practitioners and other interested parties and drive forward a common understanding of this important area.

The Welsh Government's Head of Counter-Fraud is Deputy Chair of the Wales Fraud Forum (WFF), which is a not-for-profit company run by a strategic board of volunteers. Its aims are to help prevent fraud in Wales by raising awareness in the public and private sectors and amongst individuals. In particular, its stated objectives include to:

- bring the public and private sectors together to fight fraud and financial crime and to protect the economy of Wales;

PAC Recommendation **Response from the Welsh Government's Permanent Secretary**

- promote fraud awareness amongst its membership, organisations and individuals throughout the region;
- create good practice cultures by encouraging and developing anti-fraud strategies for its membership to utilise;
- establish a best practice between its members for fraud prevention, investigation and detection; and
- promote an open and co-operative environment between the membership in both the public and private sectors.

The Forum is held in high regard; in 2017 the current First Minister gave the keynote address at its annual conference and outlined his support for effective counter-fraud arrangements across Wales. Forum membership includes the Audit Wales as well as a number of public and private sector organisations.

Therefore, I believe the Welsh Government can achieve the outcome desired by identifying strategies to support the work of the Forum, raising its profile within the Welsh Public Sector and seek a high level of commitment to support it. I will ask Officials to engage with the Forum to discuss strategies for strengthening its effectiveness by the end of the calendar year.

We agree there is potential in the use of data sharing between Welsh public bodies to improve the impact of counter-fraud activities. The introduction of the Digital Economy Act gives the Welsh Government and certain scheduled Welsh public bodies useful new powers to share data with each other compliantly to identify potential fraud. Officials are working on setting up the appropriate governance for taking forward the use of these new powers in Wales, and are aiming for a panel to be in place by the end of the financial year to consider potential uses of the powers.



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**AUDIT COMMITTEE: 8 September 2020**

COUNTER-FRAUD ANNUAL REPORT 2019/20**REPORT OF THE CORPORATE DIRECTOR RESOURCES****AGENDA ITEM: 6.1**

Reason for this Report

1. The Audit Committee's Terms of Reference requires that Members:
 - monitor the Counter-fraud strategy, actions and resources;
 - review the assessment of fraud risks and potential harm to the Council from fraud and corruption.
2. This report has been prepared to provide Audit Committee Members with an overview of the counter-fraud activities and outcomes over the past twelve months.

Background

3. The Council has a responsibility to protect the public purse through proper administration and control of the public funds and assets to which it has been entrusted. This report has evolved from previous annual reports, which have focused on the work of the corporate Investigation Team, to providing a Council-wide appraisal of the Counter-Fraud issues, developments and outcomes in accordance with the Council's Counter Fraud and Corruption Strategy, which was approved by Cabinet on July 2019.
4. In preparing this report following the financial year-end, it is recognised that there is an increased risk of fraud, as criminals seek to take advantage of the opportunities presented by the COVID-19 crisis. Directorates have been provided with information and guidance to remain vigilant from internal audit and counter-fraud colleagues to uphold an effective control environment, particularly where services have been adapted or redesigned.
5. The Annual Report is written, at a time when Audit Wales was concluding its latest national study of counter-fraud arrangements in place within Local Authorities, NHS bodies and certain central government bodies. The Audit Committee will consider an overview of the report, from Audit Wales in September 2020, and the Council's management response as part of agenda item 5.2.
6. The Audit Manager prepares investigation team / counter-fraud progress reports for the Audit Committee on a regular basis. Counter-fraud activities, initiatives risks and issues are discussed with the Corporate Director Resources (Section 151 Officer) and the portfolio Cabinet Member, Councillor Chris Weaver.

ssues

7. The Annual Report (Appendix A) sets out the counter-fraud development, campaigns, resources, work and collaboration over the financial year 2019/20. Following the launch of the Council's Counter-Fraud and Corruption Strategy in July 2019, a Council-wide training, awareness and engagement campaign commenced in order to embed key messages. Details of this work are provided within Section 2 of the report.
8. There has been an investment in the counter-fraud resource during 2019/20, with the appointment of an investigator post within the Investigation Team at the end of quarter two, aligned to delivering the Counter-Fraud and Corruption Strategy. Section 3 of the report provides details of the resources available for counter-fraud purposes, which includes having capacity to investigate cases of employee misconduct through the provision of a pool of Investigating Officers who are provided with professional internal training and support.
9. The counter-fraud work and collaboration activities during the year are documented within section 4 of the report. National Fraud Initiative (NFI) data matching analytics have continued to be utilised during the year, and the team have benefited from use of professional networks for shared intelligence and insight.
10. Within section 5 of the report, the impact of the counter-fraud work is outlined, and a comparison of activity and outcomes against prior years is provided for Audit Committee information.
11. The approach to fraud measurement and assurance is outlined within Section 6 of the report, built upon assessments against best practice government models, participation in CIPFA fraud and corruption tracking exercises, and corporate arrangements for assurance statements and risk assessments. The report contains a number of appended assessments, a review of the position against the action plan set in the previous annual report, and a counter-fraud action plan for 2020/21.

Legal Implications

12. There are no legal implications arising from this report.

Financial Implications

13. The report sets out the counter-fraud activities and performance for 2019/20 and the ambitions for 2020/21. These outcomes can be contained within the overall budget allocation for Internal Audit.

RECOMMENDATIONS

14. That the Committee notes and considers the content of the report.

Christopher Lee
Corporate Director Resources

The following is attached:

Appendix A: Counter-Fraud Annual Report 2019/20



Counter-Fraud Annual Report 2019/20

Cardiff Council



Gweithio dros Gaerdydd, gweithio gyda'n gilydd
Working for Cardiff, working together

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FOR FURTHER INFORMATION, PLEASE CONTACT:

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1. Introduction

- 1.1. The Council has a responsibility to protect the public purse through proper administration and control of the public funds and assets to which it has been entrusted. This report has evolved from previous annual reports, which have focused on the work of the corporate Investigation Team, to providing a Council-wide appraisal of the Counter-Fraud issues, developments and outcomes in accordance with the Council's Counter Fraud and Corruption Strategy.
- 1.2. In preparing this report at the financial year-end, it is recognised that there is an increased risk of fraud, as criminals seek to take advantage of the opportunities presented by the COVID-19 crisis. As the Council has responded to the crisis, through providing and administering a combination of necessary financial, economic and social support, it is recognised that systems and schemes will be targeted and subject to a level of abuse by fraudsters. Directorates have been provided with information and guidance to remain vigilant. The Audit Manager, internal audit and counter-fraud colleagues have also provided critical advice and guidance to support managers in upholding an effective control environment, particularly where services have needed to be adapted or redesigned. Focus has been given to maintaining a combination of effective preventative and detective controls, and participating in a breadth of counter-fraud networks, forums, initiatives and activities, in order to continue to effectively tackle fraud.
- 1.3. The Annual Report is written, following an Audit Wales report issued to the Public Accounts Committee in respect of Counter-Fraud Arrangements in the Welsh Public Sector, and at a time when Audit Wales was concluding a further national study of arrangements in place within Local Authorities, NHS bodies and certain central government bodies. The Audit Manager has received verbal feedback in respect of Cardiff Council, through which Audit Wales has advised, that from its high-level consideration of local arrangements, it is satisfied with the arrangements in Cardiff Council, albeit the national study includes areas for development that are applicable for all local government bodies in Wales. The Audit Committee will consider an overview of the report from Audit Wales in September 2020, and the Council's management response.
- 1.4. The Head of Internal Audit has led the development and communication of the Council's Counter-Fraud and Corruption Strategy, which was approved by Cabinet in July 2019. The Strategy provides a strong corporate commitment to retain and enhance resilience in fraud risk management. This year the Strategy was supplemented by a combination organisational-wide awareness and training, to engage the whole workforce to reaffirm the responsibility of all of us to prevent, detect and report potential fraud.
- 1.5. The portfolio Cabinet Member Cllr Chris Weaver, is actively engaged in the development of counter-fraud policies and strategy, and is provided with the outcomes of exercises to examine and manage risk, including the assessments of counter-fraud, as appended to this report. The Council's Senior Management Team (SMT) have also supported a strong counter-fraud culture, with many providing personal video messages which were communicated as part of the Councils' International Fraud Awareness Week campaign in November 2019. All Directorates also participated in a fraud and corruption tracker exercise during the year, based on a model designed by the Chartered Institute of Public Finance and Accountancy (CIPFA). This enabled a focussed verification and discussion on the volumes and values of fraud across the Council, and the pertinent areas of risk. The volumes and values of fraud are constrained within this report.
- 1.6. The Corporate Investigation Team offers support, advice and assistance on all matters of fraud risks including prevention, detection, money laundering, other criminal activity, deterrent

measures, and policies and procedures. A cohesive approach is taken to reflect best practice, support corporate priorities and the Council in its statutory obligation under section 151 of the Local Government Act 1972. This is to ensure protection of public funds and to have an effective system of prevention and detection of fraud and corruption. Furthermore, it supports the Council's commitment to a zero tolerance approach to fraud, corruption, bribery and other irregularity, such as money laundering activity.

- 1.7. This year, key officers have continued to support a Police investigation into alleged fraud within the Council. A reasonable number of investigations have been completed this year, for which details are provided in the sections on our work and impact. An additional Investigator was appointed at the end of September 2019 to provide further resilience to the Council's specialised central team.

2. Developments and Campaigns

- 2.1. There have been a number of developments and campaigns this year, designed to develop and maintain a strong counter-fraud culture across the organisation. These activities have centered on the publication and promotion of the Counter-Fraud and Corruption Strategy, which was approved by Cabinet in July 2019.
- 2.2. To embed key messages from the Counter-Fraud and Corruption Strategy, fraud awareness training has been received by over three thousand people (officers, headteachers and school governors). The training was delivered through a combination of eLearning for PC users, face-to-face training sessions for front-line staff, and targeted school briefings.
- 2.3. The Investigation Team has also worked with the Internal Audit Team, to develop control risk self-assessment (CRSA) audit methodology, which Cardiff Schools participated in during the autumn term 2019, and was followed up with targeted audit testing.
- 2.4. Between the 17-23 November 2019, the Council participated in International Fraud Awareness week. The internal campaign was supported by video messages, articles and guidance for all staff from the Head of Finance on Mandate fraud, the Head of Procurement on Procurement Fraud, and the Chief Digital Officer on Cyber Crime.
- 2.5. Towards the end of the financial year, the Head of Audit produced and circulated management information on fraud risks and mitigations at the outset of the COVID-19 pandemic. The Investigation and Audit Teams are on hand to provide active support and guidance for managers as they respond to meet the unprecedented economic and social demands of the pandemic, recognising the need to put in place a combination of reasonable preventative and detective fraud risk controls, at a time when the threat of opportunist fraud is increased.
- 2.6. Looking further into 2020/21, the Investigation Team will commence consultation and review of a draft Anti-Money Laundering Policy, which has been prepared to replace the existing policy and provide a further strengthening of governance in this area. It is proposed that the Policy will be supplemented by a package of training and support for identified staff.
- 2.7. Building on the success of the approach initiated this year, an awareness campaign will be launched to raise awareness of fraud risks, during the International Fraud Awareness week (15 - 21 November 2020).

3. Resources

- 3.1. To support the Counter-Fraud and Corruption Strategy, this year there has been an investment in the Investigation Team, with the appointment of an Investigator who commenced at the end of September 2019. The team now comprises 2.5 Fte, dedicated to the prevention, detection and investigation of suspected fraud or financial impropriety. Two members of the team are professionally qualified counter fraud officer's, accredited with Portsmouth University, with the third team member being a former police officer with many years of professional expertise.
- 3.2. The training and development of all staff has been an important element of counter-fraud work this year as referred to in the following section on 'developments and campaigns'. The intention has been to maintain and improve a counter-fraud culture across the organisation, through supporting fraud risk awareness to prevent and detect cases of fraud, bribery and corruption.
- 3.3. The Head of Internal Audit supports Senior Officers in the investigation of allegations of fraud and financial impropriety either directly, or through the assignment of a member of the Investigation Team. The Investigation Team provides the capacity to conduct criminal and civil investigations, and supports a process to achieve consistent sanctions and recovery. Wider capacity to investigate cases of employee misconduct is maintained through a pool of Investigating Officers who are provided with professional internal training and support.
- 3.4. The planned and actual number of days applied by the corporate Investigation Team in 2019/20 are shown in the table below. The planned activity is used for indicative purposes only, as the majority of the teams' work continues to be responsive to risk, and the investigation of cases of potential fraud and impropriety identified through data matching exercises and referrals received. The reasons for notable variances from planned time were as follows:
- More time was applied than planned on fraud awareness, in addition to wider policy development, through engagement with senior management in a fraud and corruption tracker exercise, and fraud awareness week preparations for all staff.
 - The majority of planned training was delivered, although some fraud awareness training events scheduled for March 2020 needed to be cancelled due to the COVID-19 pandemic;
 - The administration of NFI data was completed as planned, but in less time than allotted;
 - The capacity to identify and progress council tax liability and tenancy fraud cases, and to support employee investigation cases increased following the appointment of an Investigator at the end of September 2020;
 - The council tax reduction, tenancy fraud and ad hoc unplanned investigation variances represent the difference between the judgement of potential cases at the beginning of the year, and the actual cases received / identified.

	Planned Days	Actual Days
Strategic	80	63
Awareness, Planning, Policies & Procedures	22	30
Training Development	20	8
Training Delivery	17	11
NFI Administration	15	10
Police Liaison / Intelligence	3	3
Working groups	3	1

	Planned Days	Actual Days
Operational	296	358
Council Tax liability	135	170
Employee Investigations	67	119
Council Tax Reduction	30	38
Tenancy Fraud	35	19
Ad hoc unplanned investigations	15	10
Internal - Advice and Guidance	12	1
Other	2	1
Total	376	421

3.5. A Blue Badge pilot exercise was also established this year with the Planning Transport and Environment directorate and a third party provider, through which investigators were engaged from May 2019 to work for two days a week to identify, investigate and progress sanctions for abuse of the scheme.

4. Work and Collaboration

4.1. The Council has participated in a combination of National Fraud Initiative (NFI) data matching exercises and reactive investigation work to identify and review potential frauds and irregularities. Professional networks are in place to work with other local authorities to share intelligence and best practice externally, and the corporate Investigation Team has provided specialist internal guidance, training and support.

4.2. This year, specialist internal advice has continued to be sought, and has been provided on twenty-two occasions, compared to thirty in 2018/19. Requests originated from a number of different teams, covering topics such as data matching, preliminary investigations, gathering evidence, conducting investigations, and prosecutions. Through corporate exercises, such as the fraud and corruption tracker, the reasons for reduced levels of advice sought will be explored, which may represent improved awareness and maturity for self-management, a change to the level of fraud activities, or other factors to be considered.

4.3. On behalf of the Council's Academy, the Investigation Team has continued to develop and deliver the mandatory Disciplinary Investigating Officer training for which performance is recorded in the following table.

Investigating Officer training	2017/18	2018/19	2019/20
Number of attendees	78	75	53
Number of sessions	11	9	5
% satisfied	100%	100%	100%

4.4. Disciplinary investigation note taker training has also continued to be delivered by the Investigation Team through 2019, for which performance is recorded in the following table.

Note Taker training	2017/18	2018/19	2019/20
Number of attendees	31	24	9
Number of sessions	4	3	1
% satisfied	100%	100%	100%

4.5. The aim of the training summarised above is to ensure a Disciplinary Policy Investigations are conducted to a consistently high standard. The feedback from attendees continues to provide confidence that officers feel well trained to deliver their roles, and the reducing numbers of those attending training reflects the existing provision of an established pool of trained officers. During Disciplinary Policy investigations where there is an allegation of financial impropriety or fraud, a member of the Investigation Team is allocated to each case with a view to support consistency and quality, through providing advice, guidance and support.

4.6. Responsive work takes up the majority of the time of the Investigation Team and relates to referrals from various sources, including, members of the public, Council employees as well as anonymous referrals.

4.7. The work of the Investigation Team comprises the following primary elements:

Corporate Investigations	Dealing with internal matters relating to staff (fraud, bribery, corruption, financial impropriety), misuse of council services/ assets. Part of the work of the team is to assist in improving systems and controls compromised by abuse and to assist the audit function, in the identification of areas of identified risk. There is also a commitment to develop training and awareness within the Council.
National Fraud Initiative (NFI)	In addition to investigating referred cases, the team also undertakes various proactive exercises including, a biannual proactive data matching exercise run by the Cabinet Office / Audit Wales, in which each local authority participates. These exercises generate a substantial volume of ongoing work in respect of Council Tax, with Council Tax Liability cases representing the highest volume of work, and with increasing Council Tax Reduction cases.
Intelligence	Reviewing and risk assessing allegations of impropriety, utilising access to Council systems and outside data sources, including credit reference agencies.
Social Housing Investigations	Dealing with allegations of tenancy fraud, including subletting / abandonment and Right to Buy applications.
Blue Badge Investigations	Dealing with allegations of fraudulent misuse of the scheme, within Cardiff. This year the Planning Transport and Environment directorate have established an initiative with a third party to deliver targeted work in this area. Details of the initiative and its results are contained within this report.

4.8. Three hundred and eighty one cases were identified in 2019/20, compared to two hundred and twenty six the previous year. Two hundred and thirty eight investigations were concluded during the year, compared to one hundred and ninety seven last year. The pertinent reasons of the differences in activity were as follows:

- The number of cases identified for investigation represents as a positive outcome from the extensive Council-wide fraud training and awareness campaign this year;
- A proactive Blue Badge pilot exercise was also established this year with the Planning Transport and Environment directorate and a third party provider, increasing activity;
- In the final months of 2019/20 an auditor was assigned to complete some focussed NFI work, which generated a number of Council Tax Liability cases for which investigation commenced at the year end and will conclude in 2020/21;
- Whilst the appointment of an Investigator at the end of September 2020 enabled the progression of a number of council tax liability and tenancy fraud cases, the investigator had a high active case load of investigations which will conclude in 2020/21;
- With the new investigative resource from the mid-year, Council Tax Reduction referrals steadily increased, a number of referrals were also generated by the team as a result of National Fraud Initiative (NFI) matches, in respect of Council tax liability queries;
- NFI work also generated fifty-seven cases of the cases categorised as “other”, these related to Pensions and Personal Budgets.

4.9. The majority of investigation cases continue to be generated in respect of Council Tax Liability issues through reviewing NFI matches. Council Tax fraud could be when a person claims to live in a single adult household when more than one adult lives there, or they might claim to be a student when they are not. Referrals may be received from the Council Tax Team, members of the public or via data matching.

Cases	2017/18		2018/19		2019/20	
	Identified	Concluded	Identified	Concluded	Identified	Concluded
Council Tax Liability	85	94	122	117	145	73
Insurance	40	22	36	36	26	47
Employee Misconduct	16	18	47	24	18	32
Council Tax Reduction	9	9	9	8	36	31
Blue Badge	2	2	2	3	71	28
Tenancy	11	16	7	7	19	15
Other Cases	5	12	3	2	66	12
Number of Cases	168	173	226	197	381	238

4.10. Seventy-three Council Tax Liability investigations were completed, compared to one hundred and seventeen last year. A number of active cases are ongoing at the year-end, which were identified through reviewing the annual NFI Council Tax to Electoral Register data matches, which are released each December. These matches identify Council Tax accounts (single adult households) receiving a single person discount where the Electoral Register identifies that there is more than one adult at the property. Between December 2018 and March 2020, seven hundred and ninety seven matches were reviewed for it to be determined if a formal investigation is necessary or if the discount was received in error.

- 4.11. Forty-seven cases have been concluded in respect of insurance claims. In these cases, insurance payments were made at a reduced rate where elements of claims were not supported, and in other cases insurance claims were withdrawn.
- 4.12. Thirty-two investigations have concluded relating to employee misconduct. The allegations included: abuse of position, failure to manage staff, failure to safeguard the Council, overtime – inflated claims, corruption, theft, working whilst sick.
- 4.13. Thirty-one Council Tax Reduction investigations were concluded, compared to eight last year. Council Tax Reduction is classed as a local benefit; however, recipients may also be in receipt of a national benefit, for example, Universal Credit, Housing Benefit, Pension / Tax Credits. In these cases, fraud referrals are sent to the DWP to investigate.
- 4.14. As referred to above, a Blue Badge pilot exercise has been established this year with the Planning Transport and Environment directorate and a third party provider, whereby external investigators work two days a week. Between May 2019 and the end of March 2020 as a result of the exercise seventy-one were seized. The majority of badge seizures were as a result of a vehicle being parked, whilst the Blue Badge holder was not present.
- 4.15. Fifteen tenancy investigations were completed, compared to seven last year.
- 4.16. Officers actively collaborate in available groups and forums in order to continue to understand fraud risks, trends and best practice approaches to prevent and detect fraud.

Groups & forums attended (2019/20)	Wales Fraud Officers Group - the Group Auditor (Investigations) engages in quarterly meetings, for networking and sharing best practice and proactive initiatives.
	Welsh Chief Auditor's Group - The Audit Manager attends these meetings, where strategic and operational fraud matters are discussed.
	National Anti-Fraud Network (NAFN) - Cardiff Council is a member of the NAFN, which acts as a hub for the collection, collation and circulation of intelligence alerts. NAFN is recognised as an expert provider of data services by the Interception of Communications Commissioner's Office, the Home Office, the DWP and the DVLA amongst others.
	Wales Fraud Forum & Audit Wales Good Practice Exchange – Lead counter-fraud officers attend these events for best practice advice and insight.

5. Impact

Council Tax Liability

- 5.1. Council Tax Liability investigations concluded during the year identified £42,038 of under charged liability, due to be recovered.

Council Tax Liability	2017/18	2018/19	2019/20
Investigations concluded	94	117	73
Overpayment Identified	£58,000	£63,500	£42,038

- 5.2. The National Fraud Initiative, data match investigations concluded resulted in thirty-seven Council Tax liabilities being amended and the Council Tax department issuing revised bills, increasing liabilities by £15,939.

Insurance

- 5.3. The Insurance Team has worked with their claims handler to quantify the value of prevented insurance claims due to fraud or error.

Insurance	2017/18	2018/19	2019/20
Investigations concluded	22	36	47
Prevented payments	£222,008	£473,678	£531,898

- 5.4. In the majority of cases, the prevented payments are represented by claims, which were either withdrawn by claimants, or were considered as exaggerated claims which were subsequently paid at a reduced rate.

Employee Investigations

- 5.5. Thirty-two employee investigations were concluded; this resulted in 1 verbal warning, 1 written warning, 2 final written warnings and 6 dismissals. Additional, corrective action, and a number of management recommendations were made, in order to improve systems and controls.

Council Tax Reduction

- 5.6. Council Tax Reduction investigations resulted in overpayments of £25,911, to be recovered.

Council Tax Reduction	2017/18	2018/19	2019/20
Investigations concluded	9	8	31
Overpayment Identified	£16,000	£11,909	£25,911

Blue Badges

- 5.7. Twenty five Blue Badge cases have progressed through the courts, two received a simple caution and twenty three were fined:

	Fine	Costs	Surcharge	Total
Total:	£3,682	£6,200	£718	£10,600

Tenancy

- 5.8. In addition, fifteen tenancy investigations were completed, compared to seven last year. As a result, one individual was removed from the waiting list.

Other

- 5.9. Of the twelve 'other' cases concluded, 1 related to a deceased pensioner, for which £8,540 was identified for recovery, and 2 cases represented the conclusion of historic insurance claims with the Council's previous claims handler.

6. Fraud Measurement and Assurance

- 6.1. The Counter-Fraud and Corruption Strategy sets out the approach taken to measure the fraud risk with Cardiff Council, which is built upon national trends and intelligence and Council specific intelligence, which includes management and internal audit assurance, data matching and analysis through participation in the National Fraud Initiative Cabinet Office exercises, and disclosures in the public interest through the Council's whistleblowing scheme.

- 6.2. The Council has made a proper assessment of its fraud and corruptions risks, with the overarching position represented on, and managed through the corporate risk register. The corporate risk of 'fraud, bribery and corruption' is subject to ongoing monitoring and management. The risk has been updated on at least a quarterly basis for SMT consideration and Audit Committee review, with the position considered by Cabinet twice a year.

- 6.3. A number of methods are used to identify and respond to the risk of fraud and corruption:
- **Annual assessment against the ‘Fighting Fraud and Corruption Locally Strategy 2020’, and the Governments’ twelve ‘Functional Standards’.** Further information on these is provided in the following paragraphs;
 - **Participation in the CIPFA fraud and corruption tracker.** This year, the tracker was responded to by each directorate management team, with the overall position considered and agreed in SMT. The process enabled a coordinated assessment and validation of fraud and corruption risks and data, and provided an opportunity for directorates to consider the position in respect of their directorate risk assessment, and make appropriate updates;
 - **Senior Management Assurance Statements on fraud, bribery and corruption risk management on a twice-yearly basis.** Prior to each director submitting a senior management assurance statement of their maturity in this area, they are required to review the position with their respective management teams. The responses this year have been subject to a level of verification by the corporate Investigation team, to inform directorate feedback.

Fighting Fraud and Corruption Locally Strategy 2020

- 6.4. As referred to above, the Investigation Team has reviewed the Council’s position in respect of counter-fraud through the use of two public sector checklists. Firstly, an assessment has been made against the ‘Fighting Fraud and Corruption Locally 2020 Strategy’. The strategy has been for English Local Authorities supported by CIFAS and CIPFA, to provide *“a blueprint for a coordinated response to fraud and corruption perpetrated against local authorities with the support of those at the top.”*
- 6.5. A high-level assessment against the senior stakeholder checklist is included in **Annex 1**, followed by the detailed checklist of thirty-seven points for which the Council’s self-assessment results are included in **Annex 2**. The self-assessments have provided general comfort in the strength of the counter-fraud approach in the Council and has reinforced the ongoing approach to Council-wide training and awareness as important cornerstones of the corporate counter-fraud response. It has reaffirmed the importance of the approach ongoing to coordinate fraud and corruption risk assessments, to communicate effectively on risk identification and awareness, and to review cases of proven fraud for lessons learned purposes. These areas are carried forward onto the ongoing Counter-Fraud Action Plan.

Functional Standards

- 6.6. In 2017, the Government launched a set of twelve “functional standards” for counter fraud, detailing the main components government organisations should have in place to deal with fraud effectively. The functional standards for counter fraud were developed by a senior group of fraud experts in government. They were approved by the finance leaders group and were launched by the minister for the constitution in 2017. The standards apply to all government departments and their arms-length bodies.
- 6.7. The Council’s position has been reviewed against the twelve Functional Standards. The self-assessment results are included in **Annex 3**. The self-assessment provided general assurance that the Council has strong foundations in place to deal with fraud effectively.

Counter-Fraud and Corruption Tracker

- 6.8. In May 2019, CIPFA conducted its latest annual Counter-Fraud and Corruption Tracker survey, the aim being to create a national picture of the amount, and types of fraud carried out against local authorities. In the results subsequently published it has recommended that:
- Public sector organisations must remain vigilant and determined in identifying and preventing fraud throughout their procurement processes;
 - Effective practices for detecting and preventing fraud should be shared and adopted across the sector. Fraud prevention should be embedded in 'business as usual' across an entire organisation to improve the effectiveness of preventative measures;
 - All staff, across all public sector work functions, should receive fraud awareness training in order to better identify fraud risks, fraud attempts and implement effective controls;
 - All organisations should ensure that they have strong counter fraud leadership at the heart of senior decision-making teams. Fraud teams and practitioners should be supported in presenting business cases to resource their work effectively;
 - Public sector organisations should continue to maximise opportunities to share data and to explore innovative use of data, including sharing with law enforcement bodies and third party experts;
 - Where counter fraud functions are decentralised within an authority, counter fraud leads should ensure effective inter-departmental collaboration (i.e. between housing, IT (cyber security), revenues, etc.). For some authorities, necessary collaboration could be achieved through the formation of a counter-fraud working group;
 - The importance of the fraud team's work should be built into both internal and external communication plans. Publicly highlighting a zero tolerance approach can work to improve the reputation and budget position of authorities.
- 6.9. The CIPFA fraud tracker 2019 was reviewed by SMT on 14 January 2020 together with their individual responses on a directorate basis against an internal fraud tracker for the 2019/20 mid-year position. SMT recognised many of the trends in cases of fraud reported nationally in local authorities, and reinforced the importance of the ongoing commitment to the prevention and detection of fraud, built on the ongoing strategic approach underway for Council-wide training and awareness. The national data on fraud trends, volumes and values has informed ongoing risk assessments within directorates, and the programming of internal audit work.

Action Plans

- 6.10. The Investigation Team Annual Report 2018/19 contained an action plan arising from the strategic intentions in respect of counter-fraud activity, informed by the year-end assessment against the functional standards and the review of the Fighting Fraud and Corruption Strategy in place at the time. Progress against the action plan was monitored throughout the year, and an interim update was provided to the Audit Committee in its meeting on 21 January 2020. The year-end position is included within **Annex 4**, in which two actions are reported as completed and six, which were of an ongoing nature, are reported as in place and to continue.
- 6.11. The ongoing Counter-Fraud Action Plan is included within **Annex 5**, which follows the review of the previous action plan progress and the self-assessments of fraud and corruption through the aforementioned checklists and exercises. The action plan contain seven actions overall, six actions of an ongoing nature from the previous year's action plan, and a further action to continue to complete the counter-fraud and corruption tracker annually via the senior management team.

7. Investigation Plan 2020/21

7.1. Looking forward to 2020/21, there are four hundred and ninety four chargeable days available in the plan based on the current resources available, these have been indicatively split between strategic (80 days) and operational activities (414 days) as summarised within the table below:

Strategic (Planned Days)	80
Policy and procedure review / planning	25
Fraud awareness	20
Training development / delivery	20
National Fraud Initiative	10
Police liaison / intelligence sharing / working groups	5

Operational (Planned Days)	414
Council tax liability	180
Employee misconduct (disciplinary investigations)	100
Business Grants	50
Council tax reduction	30
Other fraud (Ad hoc and contingency)	30
Tenancy fraud	20
Advice and guidance	4

NB – Audit Manager time is not included within the above apportionment.

7.2. The Planning, Transport and Environment Directorate is reviewing its officer resources in respect of Blue Badge Fraud, and looking to commission ongoing external support in 2020/21.

Fighting Fraud and Corruption Locally (FFCL) 2020

Senior stakeholders - Checklist

The Chief Executive

Expectations
Ensure that your authority is measuring itself against the checklist for FFCL
Is there a trained counter fraud resource in your organisation or do you have access to one?
Is the audit committee receiving regular reports on the work of those leading on fraud and is the external auditor aware of this?
<i>Commentary – The above mechanisms and arrangements are in place, as outlined in more detail within the following FFCL checklist</i>

The Section 151 Officer

Expectations
Is there a portfolio holder who has fraud within their remit?
Is the head of internal audit or counter fraud assessing resources and capability?
Do they have sufficient internal unfettered access?
Do they produce a report on activity, success and future plans and are they measured on this?
<i>Commentary – The above mechanisms and arrangements are in place, as outlined in more detail within the following FFCL checklist</i>

The Monitoring Officer

Expectations
Are members, audit committees and portfolio leads aware of counter fraud activity and is training available to them?
Is the fraud team independent of process and does it produce reports to relevant committees that are scrutinised by members?
<i>Commentary – Audit Committee induction training provided, further training / information to be delivered to Audit Committee Members based on the CIPFA knowledge and skills framework, within best practice guidance. All Elected Members can access the Fraud Awareness training module. The Investigation Team is independent, and produces progress reports for Audit Committee consideration at least quarterly.</i>

The Audit Committee

Expectations
Should receive a report at least once a year on the counter fraud activity which includes proactive and reactive work
Should receive a report from the fraud leads on how resource is being allocated, whether it covers all areas of fraud risk and where those fraud risks are measured
Should be aware that the relevant portfolio holder is up to date and understands the activity being undertaken to counter fraud
Should support proactive counter fraud activity
Should challenge activity, be aware of what counter fraud activity can comprise and link with the various national reviews of public audit and accountability.
Commentary – <i>The above mechanisms and arrangements are in place, as outlined in more detail within the following FFCL checklist. Additional information and details are included within the Annual Report to appropriately inform the Audit Committee.</i>

The Portfolio Lead

Expectations
<i>Receives a regular report that includes information, progress and barriers on:</i>
The assessment against the FFCL checklist
Fraud risk assessment and horizon scanning.
Commentary – <i>The Portfolio Cabinet Member (Councillor Weaver) receives corporate risk information, and has been provided with the completed FFCL checklist, the Functional Standards self-assessment from this report, and the results of the Fraud and Corruption Tracker exercise.</i>

Fighting Fraud & Corruption Locally 2020 Checklist

Self-Assessment

Checklist		Position	Action Required
1	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.	<p>In December 2019, all directorates contributed to a risk assessment of their respective fraud and corruption risks. Each directorate assessed their position against the CIPFA fraud and corruption tracker, and all results were considered in SMT on 14th January 2020.</p> <p>Directorates undertook to add relevant risks to their risk registers, as appropriate, and the Audit Manager reported the position to Audit Committee in the meeting of 21 January 2020.</p> <p>Any actions resulting from risk assessments as a corporate level of fraud and corruption are included within the corporate risk register, which is owned by the SMT, and is regularly reported to the Audit Committee and Cabinet.</p> <p>Directors respond to an assurance statement twice a year in respect of fraud, bribery and corruption as part of the Senior Management Assurance Statement (SMAS) process. The Investigation Team reviewed and provided commentary on the mid-year responses 2019/20 and will continue to provide periodic supporting reviews.</p>	Annex 4 – Action 1.
2	The local authority has undertaken a fraud risk assessment against the risks and has also undertaken horizon	Each directorate considered their fraud and corruption risks through participating in the CIPFA fraud and corruption tracker exercise in December	Annex 4 – Action 2.

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	scanning of future potential fraud and corruption risks. This assessment includes the understanding of the harm that fraud may do in the community.	<p>2019. This assessment included the consideration of the wider impact of fraud.</p> <p>December 2019 was the first time that each Directorate was asked to participate in the exercise collectively, through which Council and UK-wide local authority trends on the volumes and values of prevented and detected fraud were circulated. It is intended for this Council-wider review and information sharing to take place on an annual basis going forward for awareness, and SMT oversight of consistency in response.</p>	
3	There is an annual report to the audit committee, or equivalent detailed assessment, to compare against FFCL 2020 and this checklist.	The Investigation Team Annual Report includes the assessment against the FFCL checklist and in consideration of the wider strategy.	Annex 4 – Action 3.
Tuesday 309	The relevant portfolio holder has been briefed on the fraud risks and mitigation	<p>The portfolio Cabinet Member is named against the corporate risk of fraud bribery and corruption, and kept engaged on the current mitigation and planned further activities and response. The strategic response to the risk of fraud is co-ordinated through the Counter-Fraud and Corruption Strategy, which was approved by the Cabinet in July 2019.</p> <p>The Portfolio Cabinet Member (Councillor Weaver) receives corporate risk information, and has been provided with the completed FFCL checklist, the Functional Standards self-assessment from this report, and the results of the Fraud and Corruption Tracker exercise.</p>	

5	The audit committee supports counter fraud work and challenges the level of activity to ensure it is appropriate in terms of fraud risk and resources	The Audit Committee receives an annual plan of the proactive and reactive areas of work for the Investigation Team each year, and progress reports in each Committee meeting on the work and outcomes of counter-fraud work. The Audit Committee self-assessed their counter-fraud performance as effective in their self-assessment in January 2020.	
6	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 Counter-Fraud and Corruption Strategy included a requirement for all officers to undertake fraud awareness training for which progress is being monitored, and for the Council to participate an international fraud awareness week communication campaign, which took place in November 2019.	
8	The local authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	The key operational policies and arrangements, and the frequency of their review, are set out in the Counter-Fraud and Corruption Strategy.	
8	The risks of fraud and corruption are specifically considered in the local authority's overall risk management process.	The risk of fraud, bribery and corruption is included on the corporate risk register, with the assessment and actions formally reported on quarterly.	
9	Counter fraud staff are consulted to fraud-proof new policies, strategies and initiatives across departments and this is reported upon to committee.	Responses from directorates as part of the recent fraud and corruption tracker return considered that this was effectively in place.	

10	Successful cases of proven fraud/corruption are routinely publicised to raise awareness.	The Council has a 'publicity policy' for cases of proven fraud.	
11	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 Audit Committee receives a progress report in each Committee meeting, which provides details the proactive and reactive work, the number and nature of referrals, ongoing cases, closed cases, and the outcomes.	
12	<p>The local authority has put in place arrangements for monitoring compliance with standards of conduct across the local authority covering:</p> <ul style="list-style-type: none"> – codes of conduct including behaviour for counter fraud, anti-bribery and corruption – register of interests – register of gifts and hospitality. 	The Council has codes of conduct and registers of interest, gifts and hospitality. Each of these areas require monitoring by management, as well as review by the Standards and Ethics Committee and routine audit by the Internal Audit Service.	
13	The local authority undertakes recruitment vetting of staff prior to employment by risk assessing posts and undertaking the checks recommended in FFCL 2020 to prevent potentially	The Council requires that appropriate vetting is required by staff prior to employment, undertaken by management, with the support of HR People Services. The recruitment process is subject to Internal Audit for assurance on these controls.	

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	dishonest employees from being appointed.		
14	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.	The requirement for Members and Officers to make appropriate personal, business, gifts and hospitality disclosures are communicated and subject to Internal Audit.	
15	There is a programme of work to ensure a strong counter fraud culture across all departments and delivery agents led by counter fraud experts.	A number of communication campaigns have been introduced to provide a base level of understanding of fraud risks and the counter-fraud culture required across the organisation. This has been primarily delivered through the roll out of mandatory fraud awareness training and the focus in fraud awareness week on key areas of fraud (mandate fraud, procurement fraud and cyber crime). All corporate training has been designed and facilitated by the Council's counter-fraud experts.	Annex 4 – Actions 4 & 5
16	There is an independent and up-to-date whistleblowing policy which is monitored for take-up and can show that suspicions have been acted upon without internal pressure.	The Council's Monitoring Officer maintains the whistleblowing policy. The Standards and Ethics Committee is provided with information to enable them to monitor the number and nature of cases, their progress and outcomes.	
17	Contractors and third parties sign up to the whistleblowing policy and there is evidence of this. There should be no discrimination against whistleblowers.	Contractors are made aware of the Council's whistleblowing policy as part of standard contracts, through which they can make a disclosure in the public interest.	
18	Fraud resources are assessed proportionately to the risk the local	Fraud resources are monitored in respect of the risk of fraud. To support the resilience of the small corporate Investigation Team, a pool of Investigating Officers have been formally trained to conduct professional internal	

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	authority faces and are adequately resourced.	investigations in accordance with the Council's disciplinary, and fraud, bribery and corruption policies.	
19	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.	The annual fraud plan is considered by the Audit Committee each year, which reflects risks and covers all areas of Council business. The plan indicates the proportion of time expected to be used in respect of strategic and operational work, and any comments from Audit Committee are accounted for in the deployment of the team. The Investigation Team needs to be responsive to risk and referrals, through which the actual work completed and the outcomes are reported to the Audit Committee in each meeting.	
20	Statistics are kept and reported by the fraud team which cover all areas of activity and outcomes.	The investigation Team provides progress reports on the work and outcomes of the work led by the team. The outcomes of the small number of areas where work is led outside of the team, namely insurance investigations, and a pilot blue badge initiative with a third party, are periodically collated and reported to Audit Committee.	
21	Fraud officers have unfettered access to premises and documents for the purposes of counter fraud investigation.	Fraud officers have unfettered access to premises and documents for the purposes of counter fraud investigation.	
22	There is a programme to publicise fraud and corruption cases internally and externally which is positive and endorsed by the council's communications team.	There is a Publicity Policy in place to guide the approach to publicising fraud and corruption cases internally and externally, supported by the Council's Communications Team.	

23	All allegations of fraud and corruption are risk assessed.	All allegations of fraud and corruption are subject to a preliminary assessment, through which the allegations and associated risk are assessed.	
Tudalen 314	<p>The fraud and corruption response plan covers all areas of counter fraud work:</p> <ul style="list-style-type: none"> – prevention – detection – investigation – sanctions – redress. 	<p>The fraud and corruption response plan covers all areas of counter fraud work:</p> <ul style="list-style-type: none"> – prevention – detection – investigation – sanctions – redress. 	
	25	The fraud response plan is linked to the audit plan and is communicated to senior management and members.	The Audit Manager, prepares the Internal Audit Plan and the Fraud Plan. Both plans are co-ordinated to target and receive assurance on areas of risk. The Audit Plan is communicated with SMT, as are the priorities in respect of the Investigation Team’s proactive and reactive planned work.
26	Asset recovery and civil recovery are considered in all cases.	Asset recovery and civil recovery are considered in all cases.	
27	There is a zero tolerance approach to fraud and corruption that is defined and monitored and which is always reported to committee.	There is a zero tolerance approach to fraud and corruption that is defined in the Counter-Fraud and Corruption Strategy, and associated policies, which are monitored and considered by the Audit Committee. .	

Tudenden 315	28	There is a programme of proactive counter fraud work which covers risks identified in assessment.	The proactive work is informed by risk, and intelligence, whether it involves the focus / deployment of training and awareness campaigns, to targeted data matching exercises.	
	29	The counter fraud team works jointly with other enforcement agencies and encourages a corporate approach and co-location of enforcement activity.	The Investigation team works jointly with other enforcement agencies, including the Police, Cabinet Office, DWP, and a range of professional networks.	
	30	The local authority shares data across its own departments and between other enforcement agencies.	The local authority shares data across its own departments (such as procurement, legal, Council Tax, Finance (Inc. Audit and Investigation Teams), and between other wider agencies (including the DVLA, Cabinet Office / National Fraud Initiative, Home Office, Police, DWP).	
		Prevention measures and projects are undertaken using data analytics where possible.	The Investigation Team co-ordinates and actively participates in the National Fraud Initiative data matching exercises. The Investigation and Internal Audit Teams continue to advocate Directorate use of data analytics in the processing of applications across the Council.	Annex 4 – Action 6.
	32	The counter fraud team has registered with the Knowledge Hub so it has access to directories and other tools.	<i>n/a – English LA's only</i>	
	33	The counter fraud team has access to the FFCL regional network.	<i>n/a – English LA's only</i>	

34	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.	Counter-Fraud work is undertaken by the Investigation Team, who are professionally trained and suitably accredited.	
35	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 adequate knowledge in all areas of the local authority.	
36	<p>The counter fraud team has access (through partner-ship/ other local authorities/or funds to buy in) to specialist staff for:</p> <ul style="list-style-type: none"> – surveillance – computer forensics – asset recovery – financial investigations. 	<p>The counter fraud team has access (through partner-ship/ other local authorities/or funds to buy in) to specialist staff for:</p> <ul style="list-style-type: none"> – surveillance – computer forensics – asset recovery – Financial investigations. 	
37	Weaknesses revealed by instances of proven fraud and corruption are scrutinised carefully and fed back to departments to fraud-proof systems.	Weaknesses revealed by instances of proven fraud and corruption are scrutinised carefully and appropriate mechanisms are used to feedback improvements to fraud-proof systems to directorates, such as action plans resulting from investigations, or separate Internal Audit engagements and associated recommendations in the event of ongoing control gaps.	Annex 4 – Action 7.

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Functional Standards – Self-Assessment

The Functional Standard sets out the basics that public bodies should have in place to find and fight fraud. All public bodies should understand and seek to meet the standard.

Functional standards		Position	Action Required
1	Have an accountable individual at Board level who is responsible for counter fraud, bribery and corruption	The Section 151 Officer as a member of the Senior Management Team is responsible for the prudent management of the Council’s financial affairs and oversees the counter fraud, bribery and corruption response led by the Internal Audit Investigation Team and overseen by the Audit Manager.	
Tudalen 317	Have a counter fraud, bribery and corruption strategy that is submitted to the centre	The Counter Fraud and Corruption Strategy was approved by Cabinet in July 2019.	
	Have a fraud, bribery and corruption risk assessment that is submitted to the centre	A corporate risk on Fraud, Bribery and Corruption is reviewed by the Senior Management Team and Audit Committee quarterly and reported to Cabinet twice a year.	
4	Have a policy and response plan for dealing with potential instances of fraud, bribery and corruption	There is a robust counter-fraud policy framework in place, as summarised in the Counter-Fraud and Corruption Strategy.	
5	Have an annual action plan that summarises key actions to improve capability, activity and resilience in that year	Counter-Fraud Response Plan sets out the key actions and activities, and their frequency. The Corporate Risk register also includes the mitigations in place and planned to develop and maintain counter fraud resilience.	

6	Have outcome-based metrics summarising what outcomes they are seeking to achieve that year. For organisations with 'significant investment' in counter fraud or 'significant estimated' fraud loss, these will include metrics with a financial impact	The values of detected fraud and the nature of the fraud detected is included in the regular Investigation Team progress reports to Audit Committee. Progress is also visible against the targeted actions within the corporate risk register.	
7	Have well established and documented reporting routes for staff, contractors and members of the public to report suspicions of fraud, bribery and corruption and a mechanism for recording these referrals and allegations	Comprehensive reporting mechanisms are in place and well documented on the Council's website and within the Counter-Fraud and Corruption Strategy.	
Tudalen 318	Will report identified loss from fraud , bribery, corruption and error, and associated recoveries, to the centre in line with the agreed government definitions	Identified loss from fraud is recorded and reported to Audit Committee. Recovery rates are reported as performance information across the Council. Any significant fraud cases reported in detail to the Audit Committee and Senior Management, and a fraud tracker has been introduced for all Directors to provide a return at least annually to validate corporate information, and for co-ordinated SMT risk assessment and review.	
9	Have agreed access to trained investigators that meet the agreed public sector skill standard	The Investigation Team is small, but contains a well trained and experienced investigations manager (Group Auditor – Investigations), Investigator, and Investigations Assistant.	

10	Undertake activity to try and detect fraud in high risk areas where little or nothing is known of fraud, bribery and corruption levels, including loss measurement activity where suitable	<p>Management are responsible for reviewing fraud risks and maintaining appropriate controls. Internal audit staff, test controls focussing on high risk areas.</p> <p>The Investigation Team co-ordinate and lead participation in NFI data matching to detect potential fraud in many high-risk areas.</p>	
11	Ensure all staff have access to and undertake fraud awareness, bribery and corruption training as appropriate to their role	<p>Fraud awareness eLearning training is mandatory for all Council staff. Audit Committee Members are due to receive focussed counter-fraud training.</p>	
12	Have policies and registers for gifts and hospitality and conflicts of interest	In place.	

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Year-End Status - Action Plan 2019/20

Annex 4.

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	Action	Target	Position as at April 2020
1.	<p>Twice a year, the Investigation Team to review directorate:</p> <ul style="list-style-type: none"> • responses to their assurance statements on the prevention and detection of fraud • risks relating to fraud, bribery and corruption risks, to provide advice and guidance. 	Twice yearly	<p>In place and ongoing</p> <p>The Investigation Team participated in a review of the mid-year Senior Management Assurance Statements, and provided an independent consideration of the responses in respect of the prevention and detection of fraud, informed by the work and knowledge of the Team.</p> <p>In respect of risk reviews, the decision was made to engage all directorates in the fraud tracker exercise, in which directorates are required to identify their most significant risks of fraud, bribery and corruption. As an outcome of the exercise, many directorates have taken actions to update their risk registers in respect of the matters identified. The Investigation Team will consider the recording and management of these risks in 2020/21.</p> <p>The action will be adjusted to an annual frequency from 2020/21, recognising the work completed in 2019/20, and the work of internal audit in reviewing governance and risk management annually.</p>
2.	<p>A documented assessment against the Fighting Fraud and Corruption Locally checklist to completed annually, and included in the Investigation Team Annual Report.</p>	Following each financial year-end	<p>In place and ongoing</p> <p>Documented assessments were completed against the Fighting Fraud and Corruption Locally checklist and the Government’s twelve Functional Standards for counter-fraud following the 2019/20 financial year-end. These assessments will be completed again following each financial year-end, and are included in the respective Counter-Fraud Annual Reports.</p>

3.	Awareness campaign for the launch of the Counter Fraud and Corruption Strategy and roll out of mandatory eLearning.	July 2019	<p>In place and ongoing</p> <p>To embed key messages from the Counter-Fraud and Corruption Strategy, fraud awareness training has been received by over three thousand people (officers, headteachers and school governors). The training was delivered through a combination of eLearning for PC users, face-to-face training sessions for front-line staff, and targeted school briefings.</p>
4.	Participate in International Fraud Awareness Week in November each year, working with the Council's Communications Team.	November 2019	<p>In place and ongoing</p> <p>Cardiff Council participated in International Fraud Awareness Week (17-23 November 2019), supported by messages and guidance for all staff from the Head of Finance on Mandate fraud, the Head of Procurement on Procurement Fraud, and the Chief Digital Officer on Cyber Crime.</p> <p>There is a commitment to participate in the International Fraud Awareness Week in 2020.</p>
5.	The use of data matching intelligence at the point of processing Council applications will be tested and advocated through the Internal Audit regime.	Ongoing	<p>In place and ongoing</p> <p>Internal Auditors were briefed in May 2019 on the expectation to consider the feasibility of services using data matching intelligence at the point of processing Council applications.</p>
6.	In instances of proven fraud and corruption, a post fraud review will be prepared once all associated civil and legal activities have concluded, for reporting to SMT and the Audit Committee, for lessons to be learned	Ongoing	<p>In place and ongoing</p> <p>In respect of cases of proven corporate fraud, post fraud reviews will take place as appropriate, from which the findings and relevant actions will be shared with SMT and Audit Committee as appropriate.</p>

			Internal Audit engagements will continue to be targeted in high-risk areas, mindful of any concerns or allegations raised in respect of the Council's control environment.
7.	The level of fraud information reported to SMT to expand.	From 2019	Q2 Completed The Fraud Tracker Exercise was undertaken in Q3 and results were reported to and considered by SMT on 14 January 2020. It is planned for this activity to take place each year, and for the audit manager to continue to provide updates to SMT on fraud information, as appropriate.
8.	The Investigation Team will await any Audit Wales recommendations from their ongoing reviews of Counter-Fraud, and respond accordingly.	July 2019	Completed No specific recommendations or improvement areas were received as a result of the work completed on phase one of the study. Audit Wales are completing the second part of their work, and any areas for improvement will be considered and appropriately responded to.

Counter-Fraud Action Plan for 2020/21

Annex 5.

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	Action	Target
1.	On an annual basis, the Investigation Team to review directorate: <ul style="list-style-type: none"> • responses to their assurance statements on the prevention and detection of fraud • risks relating to fraud, bribery and corruption risks, to provide advice and guidance. 	Annually
2.	The Audit Manager to co-ordinate participation in a corporate fraud tracker exercise with SMT on an annual basis.	Annually
3.	A documented assessment against the Fighting Fraud and Corruption Locally checklist to completed annually, and included in the Counter-Fraud Annual Report.	Following each financial year-end
4.	Audit Manager to support requests for counter-fraud training, and to monitor and report on the completion of the mandatory Fraud Awareness Training eLearning module.	Ongoing
5.	Participate in International Fraud Awareness Week in November each year, working with the Council’s Communications Team.	November 2020
6.	The use of data matching intelligence at the point of processing Council applications will be tested and advocated through the Internal Audit regime.	Ongoing
7.	In instances of proven fraud and corruption, post fraud reviews will take place as appropriate, from which the findings and relevant actions will be shared with SMT and Audit Committee as appropriate	Ongoing

Mae'r dudalen hon yn wag yn fwriadol



CARDIFF COUNCIL CYNGOR CAERDYDD

AUDIT COMMITTEE:

8 SEPTEMBER 2020

TREASURY PERFORMANCE REPORT – POSITION AT 31 JULY 2020

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 7.1

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.

Reason for this Report

1. The Audit Committee Terms of Reference sets out their responsibility for seeking assurances that the Council has complied with the Treasury Management Strategy and Practices by demonstrating effective control of the associated risks and pursuing optimum performance consistent with those risks.
2. This report has been prepared to provide Audit Committee Members with performance information and a position statement on Treasury Management as at 31 July 2020 – Appendix 1
3. Audit committee received a Treasury Management benchmarking report collated by officers in November 2019 which can support members in understanding the Council's investments and borrowing position.

Performance

4. At 31 July 2020, investments total £185.4 million. The investments arise as a result of timing of cash flows for the Council, but also include funds held on behalf of others primarily the Capital Cardiff Region City Deal. The level of cash balances at the start of the year diminish as the year progresses, however average cash balances are higher than normal in this period for a number of reasons including those to mitigate against availability of funds at the start of the Covid 19 crisis. This includes:
 - External borrowing by the Council during the last quarter of the year.
 - Advance payment of payment by Welsh Government of Revenue Support Grant and distributable share of Non Domestic Rates. The payments receivable the latter part of the year will be lower than would otherwise be the case.
 - Cash balances held on behalf of Cardiff Capital Region City Deal.
 - Funds received from Welsh Government for Business Grant and rate relief prior to distribution.

5. The forecast level of interest receivable in 2020/21 from treasury investments as at Month 4 of the financial year is circa £380,000. This is based on current cash flow and interest rate assumptions and is lower than the initial estimate as a result of reduction in bank base rate since Covid 19 for new investments.
6. The level of borrowing is £828.2 million, with the average rate being 4.11%. The total interest forecast to be payable on borrowing at 31 July 2020 is £34.1 million and includes interest payable by the Housing Revenue Account.
7. The forecast level of internal borrowing at 31 March 2021 is £18 million, i.e. where temporary cash balances held by the Council are used to pay for capital expenditure. This is subject to the level of capital expenditure and funding of that expenditure at the end of the year as well as the quantum of external borrowing undertaken during the year.

Investments

8. Pages 2 and 3 of Appendix 1 considers 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.
9. 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 2020 by a colour coding which indicates the perceived strength of the organisation.
10. In order to support the treasury team to manage the level of funds and to mitigate against counterparty risk, the Council activated its use of the HM Treasury Debt Management Office account at the end of March 2020. Since this reporting period, opportunities are being considered to move away from retaining investment balances in the DMO and investing in deposits that result in a higher return, albeit at historically low levels.
11. 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.
12. 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.
 - **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 the UK Government.

Borrowing

13. No new loans have been undertaken during the year to date. Specific loans from Welsh Government and Salix for energy efficiency schemes may be received during the remainder of the year, however current assumptions are that the only loans that will be replaced are £20 million of short term maturing loans initially taken towards the initial acquisition of the Red Dragon Centre.

Reason for Report

14. To provide Audit Committee Members with a performance position statement at 31 July 2020.

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 has no direct financial implications.

RECOMMENDATIONS

17. That the Treasury Performance Report for 31 July 2020 be noted.

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES
8 September 2020

The following appendices are attached
Appendix 1 – Cardiff Council Treasury Management Performance Report – 31 July 2020

Mae'r dudalen hon yn wag yn fwriadol

Yn rhinwedd paragraff (au) 14, 21 Rhan (nau) 4 a 5 o Atodlen 12A
o Ddeddf Llywodraeth Leol 1972.

Mynediad Cyfyngedig i'r Ddogfen

Mae'r dudalen hon yn wag yn fwriadol



CARDIFF COUNCIL CYNGOR CAERDYDD

AUDIT COMMITTEE: 8 SEPTEMBER 2020

TREASURY MANAGEMENT ANNUAL REPORT 2019/20

REPORT OF THE CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 7.2

Annexes B & C of 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

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 October 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 2019/20.

Issues

4. In accordance with regulatory requirements, reports were submitted to Council in February 2019 indicating the Treasury Management Strategy for 2019/20 and a mid year report in November 2019. The following paragraphs cover the main highlights of the annual report for 2019/20.
5. At 31 March 2020, investments stood at £127.6 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 2019/20. Interest receivable from treasury investments totalled £1 million during the year.
6. At 31 March 2020, the Council had £828.8 million of external borrowing, with £111 million of new borrowing and £4.2 million of scheduled repayments during 2019/20. Interest payable during the year from its revenue budget on this debt was £32.8 million of which £12.3 million was paid for by the Housing Revenue Account.

7. The level of internal borrowing is nil at 31 March 2020 (£45 million at 31 March 2019). 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 expenditure and its treasury management activities. During 2019/20, 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 backward looking summary of the Council's Treasury Management activities during 2019/20. 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 and highlights the level of investments, borrowing and revenue impact of treasury management decisions.

RECOMMENDATIONS

12. That the Treasury Management Annual Report for 2019/20 be noted, prior to its submission to full Council.

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES
8 September 2020

The following appendix is attached:
Appendix 1 – Cardiff Council Treasury Management Annual Report 2019/20

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.

Appendix 1

Draft Treasury Management Annual Report 2019/20

Cardiff Council



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Introduction

1. Treasury management activities are the management of the 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 and updated in 2017 by the Chartered Institute of Public Finance and Accountancy (CIPFA).
3. On 25th 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 2019 on the Council's Treasury Management Strategy for 2019/20 and a mid-year review in November 2019.
4. This report provides members with an annual report for the Council's Treasury Management activities for 2019/20. It covers:-
 - the economic background to treasury activities
 - treasury investment strategy and outturn for 2019/20
 - borrowing strategy and outturn for 2019/20
 - debt rescheduling
 - compliance with treasury limits and prudential indicators
 - treasury management issues for 2019/20
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. External member training was also undertaken to support the scrutiny role. A glossary of key treasury management terms is included at Annexe E.
6. In order to further support the work of the committee and also to provide assurance to the incoming S151 Officer in respect to this key function in respect of governance and compliance with CIPFA guidance, a number of review activities were undertaken during 2019/20 and reported to Audit Committee in November 2019. These were in the form of:
 - An evaluation undertaken by an external Treasury Management expert on governance and compliance with codes of practice. This was in the form of a Compliance, Evidence, Delivery and Review (CEDR) Report.
 - A periodic internal audit review of the Treasury function which primarily covered internal controls and
 - Treasury Management benchmarking information collated, albeit highlighting the risks of comparison.
7. Given the impact of Covid 19 late in 2019/20, the impact on treasury activities will be greater during 2020/21 and for future years Medium Term Financial Planning. However

in the last few weeks of March 2020 a number of actions were taken to ensure continuity and to ensure the authority was able to meet its payment obligations. These included:

- Implementation of the Treasury continuity plan to allow the function to be delivered remotely
- Additional borrowing and measures to support liquidity given significant volatility and concerns about liquidity in the financial markets at the time
- Activation of the HM Treasury Debt Management Office account in order to support the treasury team to manage the level of funds and to mitigate against counterparty risk.

Economic Background

8. Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused significant uncertainty during 2019/20. Economic growth during the year was volatile and inflation posed little concern being between 1.5% to 2.0%. Since the coronavirus outbreak however the closedown of whole sections of the economy is expected to result in a fall in GDP of at least 15% in quarter two, increases in unemployment, low inflation due to low wage growth and a significant reduction in the price of oil. UK interest rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets.
9. Bank rate remained stable at 0.75% for the majority of the year which allowed the Council a slight increase in return on investment balances. However following the COVID crises bank rate dropped to 0.25% on 11 March 2020 followed by an additional reduction to 0.10% on 19 March 2020. Further changes are not expected in the medium term. Borrowing rates continued their downward trend during the year.
10. PWLB rates are based on gilt (UK Government bonds) yields, however HM Treasury determining a specified margin to add to gilt yields. Yields were on a falling trend during 2019/20, however HM Treasury imposed two changes for PWLB rates during the year. The first in 1 October increasing the margins over gilts by 1% then partially reversing this on 11 March in respect of borrowing for the HRA. It also announced that there would be a consultation with local authorities on possibly further amending these margins.
11. The forecast is of little upward movement in PWLB rates over the next two years as it will take a prolonged period to recover momentum lost in the sharp recession resulting from the coronavirus shut down period. This is against a background of increasing national debt, which would normally result in increasing rates for borrowing.

Investments and Outturn

12. The Council's treasury investments include those arising from its own temporary cash balances as well as balances held from activities of Joint Committees such as the Cardiff Capital Region City Deal, for which it is the accountable body.
13. The management of the day-to-day cash requirements of the Council is undertaken in-house with credit advice from Link Asset Services, the Council's Treasury Management advisors. This may involve temporary borrowing pending receipt of income or the

temporary lending of surplus funds. Investment balances 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.

14. The Council invests with institutions approved by Council as part of its Treasury Management Strategy and in accordance with investment guidelines established by the Welsh Government. As part of the Markets and Financial Instruments Directive II, the Council elected for 'professional' status. The categories, names, periods and size limits on the Council's approved investment list can be extended, varied or restricted at any time by the Corporate Director Resources under delegated powers and monitored closely in conjunction with the Council's treasury advisors.
15. At 31 March 2020, investments stood at £127.6 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.
16. 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 2020 are as follows:-
 - Counterparty exposure against the maximum allowed directly with an organisation. This shows that at 31 March 2020 no exposure limits set were breached. This was also the case during the course of the year.
 - 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.
17. Using historic data adjusted for current financial market conditions, the probability of any default is low at circa 0.01% of the investments outstanding, i.e. £9,000.
18. All investments held at 31 March 2020 are deemed recoverable. Accordingly, no impairment losses are reflected in the Council's 2019/20 Statement of Accounts arising from the Council's treasury management activities.
19. The overall level of interest receivable from treasury investments totalled £1 million in 2019/20. The average returns achieved compared to industry benchmarks are shown in the table below.

	Return on Investment 2018/19		Return on Investment 2019/20	
	Benchmark 7day / 3month (%)	Achieved (%)	Benchmark 7day / 3month (%)	Achieved (%)
In-house	0.51/ 0.68	0.79	0.53/ 0.63	0.85

20. 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. The significant reduction in interest rates available for investments, had very little impact during 2019/20, but will be reflected in reduced income assumptions for 2020/21.

Borrowing and Outturn

21. Borrowing is undertaken to finance the Council's capital programme and manage any short term cash flow requirements. The main sources of borrowing are identified in the table below.
22. At 31 March 2020, the Council had £828.8 million of external borrowing. This was predominantly fixed interest rate borrowing payable on maturity.

31 March 2019			31 March 2020	
£m	Rate (%)		£m	Rate (%)
660.9		Public Works Loan Board	698.9	
51		Market (Lender Option Borrower Option)	51	
4.5		Welsh Government	16.1	
0		Local Authorities	58.3	
5.5		Other	4.5	
721.9	4.53	Total External Debt	828.8	4.11

23. Total interest payable on external debt during 2019/20 was £32.8 million of which £12.3 million was payable by the Housing Revenue Account (HRA). In total £39.0 million was set aside from General Fund and HRA revenue budgets in line with the Councils approved policy on prudent provision for debt repayment.
24. Extracts from the borrowing strategy approved by Council in February 2019 are shown below.

The Council's Borrowing Strategy for 2019/20 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*

- *ensuring borrowing plans are aligned to known capital expenditure spending plans and financial reserve levels and are also consistent with the prudent provision for the repayment of any capital expenditure paid for by borrowing*
- *achieving a balanced maturity profile*
- *having regard to the effects on current and future Council Tax and Rent Payers.*

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.

25. During 2019/20 borrowing of £111 million was undertaken and £4.2 million, primarily PWLB loans was repaid. The overall effect of these transactions during the year was to reduce the average rate on the Council's borrowing to 4.11% at 31 March 2020. New loans were undertaken as follows :
- Short term borrowing of £58.250 million to pay for expenditure on the acquisition of the Red Dragon Centre. Borrowing is generally not taken specifically for assets, but until a long term strategy is in place for this site, borrowing was undertaken to try and match known short term cash flows, where possible in this case over a one to three year period. Refinancing will need to be considered as certainty in respect of the site and linked arena proposals are developed
 - PWLB borrowing of £40 million was undertaken during the year, with the Majority at the end of March. This was to reduce the internal borrowing requirement by locking into reduced long term rates given current uncertainty in financial markets; to strengthen liquidity of the Council particularly around concerns in relation to the COVID 19 position and also to utilise the recent reduction in PWLB rates towards HRA capital expenditure.
 - A loan of £10 million received from Welsh Government for the proposed Housing SME fund of the Cardiff Capital Region City Deal. The Council in this case agreed to be the recipient of the repayable loan, subject to the development of final proposals for how the fund would operate and also the Council's liability would be mitigated. Subject to the outcome of this the Council retains the option to return this loan. A further £2.810 million of repayable Town Centre regeneration funding was also received in the year from Welsh Government.
26. As part of its loan portfolio, the Council has six 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.

27. 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.
28. None of the LOBO's had to be repaid during 2019/20. £24 million of the LOBO loans are subject to the lender having the right to change the rate of interest payable during the next financial year. The Council has the right to refuse the change, triggering early repayment and the need to re-finance. This is a manageable refinancing risk as LOBO's form a relatively low proportion of the Council's overall borrowing at 6.15%.

£m	Rate	Potential Repayment Date	Option Frequency	Full Term Maturity
6	4.28%	21/05/2020	6 months	21/11/2041
6	4.35%	21/05/2020	6 months	21/11/2041
6	4.06%	21/05/2020	6 months	23/05/2067
6	4.08%	01/09/2020	6 months	23/05/2067
22	3.81%	21/11/2020	5 years	23/11/2065
5	4.10%	16/01/2023	5 years	17/01/2078

29. In accordance with the strategy, the Council has been in a position of undertaking internal borrowing which is when it uses temporary cash balances it holds in the short term instead of undertaking external borrowing. The level of internal borrowing is nil as at 31 March 2020, and this is confirmed by a comparison of the Council's external level of debt and Capital Financing Requirement at 31 March 2020 as shown later in this report.

Debt Rescheduling

30. No debt rescheduling or early repayment of debt was undertaken during 2019/20. 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 2020, which are eligible for early repayment (£659 million), is £623 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 has been a significant thorn in the ability of local authorities to manage debt more effectively.
31. The Council has also offered the opportunity for early repayment of LOBO loans but any required premiums payable are unviable. Whilst the cost of premiums can be spread over future years, options for restructuring that have been considered previously, but 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.

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 is shown in the following paragraphs and compared to the original estimates contained in the 2019/20 Budget Report. Future year's figures are taken from the Budget Report for 2020/21 and will be updated in the Budget Report for 2021/22.

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 2019/20 and estimates of capital expenditure for the current and future years as set out in the Budget Report of February 2020 are as follows:-

Capital Expenditure								
	2019/20 Actual	2019/20 Original Estimate	2020/21 Estimate Month 4	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
	£m	£m	£m	£m	£m	£m	£m	£m
General Fund	123	99	102	137	196	169	59	27
Housing Revenue Account	42	47	53	57	88	87	56	62
Total	225	146	155	194	284	256	115	89

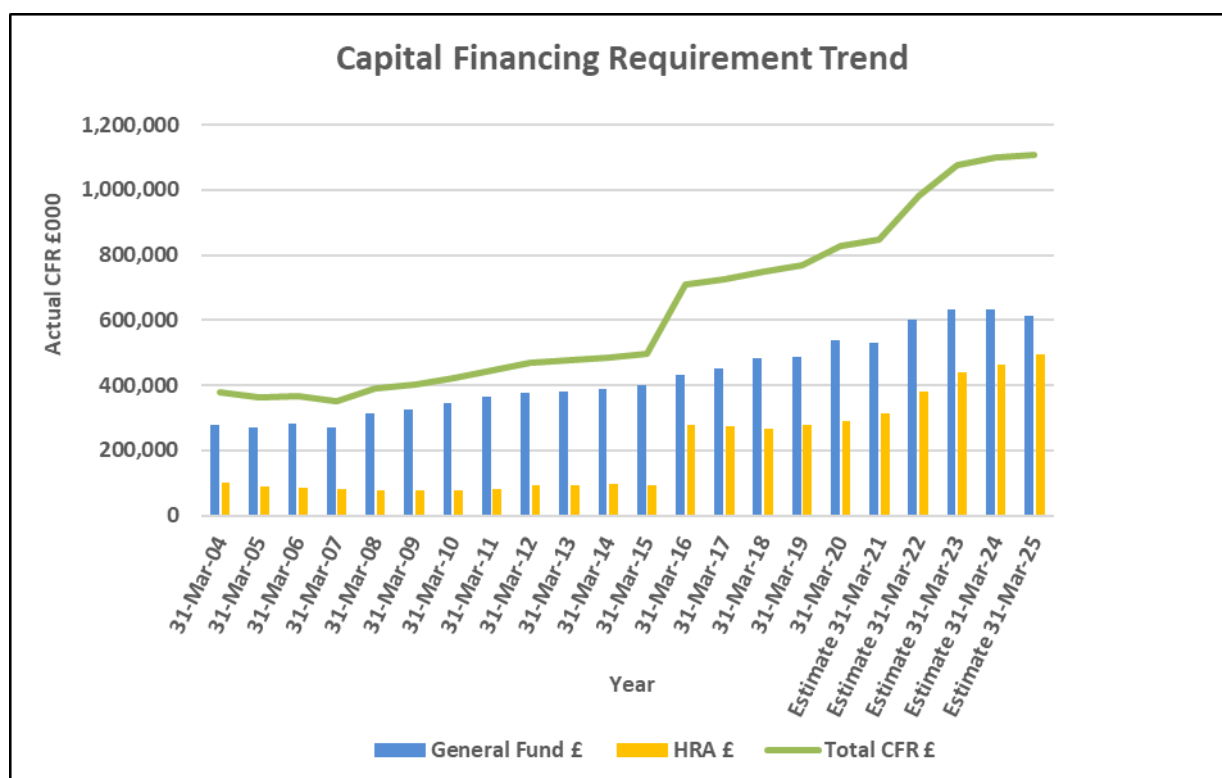
Capital Financing Requirement (CFR) – The Borrowing Requirement (Excluding Landfill Provision)

34. Where capital expenditure has been incurred without a resource to pay for it i.e. when proposed to be paid for by supported or unsupported borrowing, this will increase what is termed the Council's Capital Financing Requirement (CFR) which is the Council's underlying need to borrow. The Council is required to make a prudent provision for the repayment of historic capital expenditure from its revenue budget in line with its agreed policy. This reduces the CFR and the policy in respect to provision in relation to supported borrowing was changed in the 2020/21 budget and applied retrospectively to the 2019/20 financial year. Calculation of the CFR is summarised in the table below and results in the need to borrow money.

Movement	Opening Capital Financing Requirement (CFR)
+	Capital expenditure incurred in year
-	Grants, contributions, reserves and receipts used for capital expenditure
-	Prudent Minimum Revenue Provision and Voluntary Repayment
=	Closing Capital Financing Requirement (CFR)

35. The chart below shows the historic trend in the CFR including the Housing Revenue Account. The latter includes the £187 million payment made to HM Treasury to exit the

subsidy system in 2015/16. Future projections of the CFR are based on the timing of the Capital investment programme and resources deemed available to fund it.



36. The CFR as at 01 April 2019 was £788 million. The actual CFR as at 31 March 2020, estimates for current and future years (estimated in the February 2019 budget) are shown in the table below and exclude non cash backed provisions in relation to Landfill after care provision:-

Capital Financing Requirement (Excludes landfill provision)							
	2019/20	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual	Original	Estimate	Estimate	Estimate	Estimate	Estimate
	£m	Estimate	£m	£m	£m	£m	£m
		£m					
General Fund	539	492	532	601	634	634	615
Housing Revenue Account	290	309	314	381	441	464	493
Total CFR	829	801	846	982	1,075	1,098	1,108
External Debt	829						
Over / (Under) Borrowing	0						

37. The increase in the General Fund CFR for 2019/20 is as a result of the triggering of the affordability envelope set as part of the 2019/20 budget proposals in respect to the acquisition of the Red Dragon Centre site.

38. By comparing the CFR at 31 March 2020 (£829 million) and the level of external debt at the same point in time (£829 million), it can be seen that the Council is fully externally borrowed .i.e. it is not using internal cash balances to finance its capital expenditure as at 31 March 2020 (£45 million at 31 March 2019).

39. As set out in the February 2020 Budget Report, the CFR is forecast to increase over the next five years due to capital programme investment in existing assets, development of new affordable housing, and the 21st century schools programme. Forecasts will be updated in the 2021/22 Budget Report.

Actual External Debt

40. The Code requires the Council to indicate its actual external debt at 31 March 2020 for information purposes. This was £829 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 2019/20 the Council remained within the authorised limit of £990 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 £801 million to match the forecast for the CFR when setting the 2019/20 budget. The actual level of external debt equalled £829 million

Maturity Structure of Fixed Rate Borrowing

44. The maturity structure remains within the limits below approved as part of the 2019/20 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-19		Upper limit	31-Mar-20			
	Loans to Maturity			Loans to Maturity		Loans if LOBO's Paid Early	
	%	£m		%	£m	%	£m
Under 12 months	0.6	4.2	10	2.6	21.2	3.9	67.2
12 months and within 24 months	0.2	1.2	10	3.3	27.0	0.2	27.0
24 months and within 5 years	2.1	15.5	15	3.7	30.5	5.9	35.5
5 years and within 10 years	5.8	42	20	6.5	53.8	5.8	53.8
10 years and within 20 years	22.3	161	30	21.0	174.3	22.3	174.3
20 years and within 30 years	23.3	168	35	20.4	169.0	21.6	157.0
30 years and within 40 years	29.4	212.7	35	25.6	212.7	29.5	212.7
40 years and within 50 years	15.6	112.3	35	16.3	135.3	10.8	101.3
50 years and within 60 years	0.7	5	15	0.6	5.0	0	0

45. The maturity profile of the Council's borrowing as at 31 March 2020 is also shown in a chart in **Annexe D**. 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. Benchmarking undertaken has demonstrated that the Council's maturity profile is not inconsistent with other local authorities where information is available.

Ratio of financing costs to net revenue stream

46. This indicator identifies the trend in the cost of capital financing, showing the percentage of the Council's revenue budget that is committed for this purpose. Financing costs include:

- interest payable on borrowing and receivable on treasury investments
- penalties or any benefits receivable on early repayment of debt
- prudent revenue budget provision for repayment of capital expenditure paid for by borrowing and
- re-imburement of borrowing costs from directorates in respect of Invest to Save/Earn schemes.

47. For the General Fund, net revenue stream is the amount to be met from non-specific WG grants and Council Tax, whilst for the HRA it is the amount to be met from rent payers.

Ratio of financing costs to Net Revenue Stream							
	2019/20 Original Estimate %	2019/20 Actual %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %
General Fund – Net Capital Financing Budget	5.59	4.77	4.61	4.64	4.56	5.16	5.01
General Fund – Gross Capital Financing Budget	7.50	7.06	6.94	7.06	7.29	8.09	7.88
HRA	33.14	32.97	34.66	35.44	35.98	37.86	38.38

48. Although there may be short term implications, invest to save/earn schemes are intended to be net neutral on the capital financing budget. However there are risks that the level of income, savings or capital receipts anticipated from such schemes will be delayed or will not materialise. This would have a detrimental long term consequence on the Revenue budget and requires careful monitoring when considering future levels of additional borrowing.
49. Accordingly an additional local indicator is calculated for the general fund to support decision making and is shown in the table below for the period up to 2024/25. These indicators, which will be updated in the budget proposals report for 2021/22, show capital financing costs of the Council as a percentage of its controllable budget, excluding treasury investment income:

Capital Financing Costs as percentage of Controllable Budget									
	2011/12 Actual %	2019/20 Original Estimate %	2019/20 Actual %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %	Difference 11/12- 24/25 %
Net	13.47	13.75	11.87	11.21	11.35	11.21	12.88	12.49	(7.28)
Gross	15.17	18.38	17.27	16.02	16.41	17.05	19.35	18.82	24.06

50. An increasing percentage indicates that a greater proportion of the controllable budget 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. An increasing ratio limits the scope for additional borrowing in future years and reduces the Council's overall flexibility when making decisions on the allocation of its revenue resources. The percentages take into account the impact on the controllable base budget of the level of savings having to be found in 2020/21 and over the medium term.

Principal Invested for over 364 days

51. An upper limit for principal invested over 364 days was set at £90 million and this was not breached during the year, primarily due to the strategy adopted of minimising the period for which investments were made during 2019/20.

Treasury Management issues for 2020/21

52. Whilst this report is primarily backward looking, in relation to Treasury Activities for 2019/20, some key issues for 2020/21 are:
- The timing of external borrowing, the Council's longer term need to borrow and alternative sources for borrowing
 - The outcome of a HM Treasury review of PWLB lending policy and consultation aimed to address significant levels of borrowing undertaken by some authorities to see a financial gain
 - Maximising value from temporary cash balances whilst retaining liquidity to meet unforeseen risks in a low interest rate environment,
 - Understanding the impact of changes in accounting practice now proposed for 2021/22 in respect to leasing and impact on indicators
 - Financial market uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020, following the departure of the UK from the EU on 31 January 2020.
53. In accordance with the Council's Treasury Management Policy, Council will receive a further update on Treasury Management issues as part of the 2020/21 Mid-Year Treasury Management report in November 2020.

Christopher Lee

Corporate Director Resources
8 September 2020

The following Annexes are attached:-

Annexe A – Treasury Management Policy and Four Clauses of Treasury Management

Annexe B – Investments at 31 March 2020

Annexe C – Investment charts at 31 March 2020

Annexe D – Maturity analysis of debt as at 31 March 2020

Annexe E – Glossary of Treasury Management terms

Mae'r dudalen hon yn wag yn fwriadol

Annexe A – Treasury Management Policy and Four Clauses of Treasury Management adopted by Council 25/02/2010

Council's treasury management Policy / Activities

1. 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.
2. 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.
3. 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

4. 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
5. 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.
6. 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.
7. 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.

Mae'r dudalen hon yn wag yn fwriadol

Yn rhinwedd paragraff (au) 14, 21 Rhan (nau) 4 a 5 o Atodlen 12A
o Ddeddf Llywodraeth Leol 1972.

Mynediad Cyfyngedig i'r Ddogfen

Mae'r dudalen hon yn wag yn fwriadol

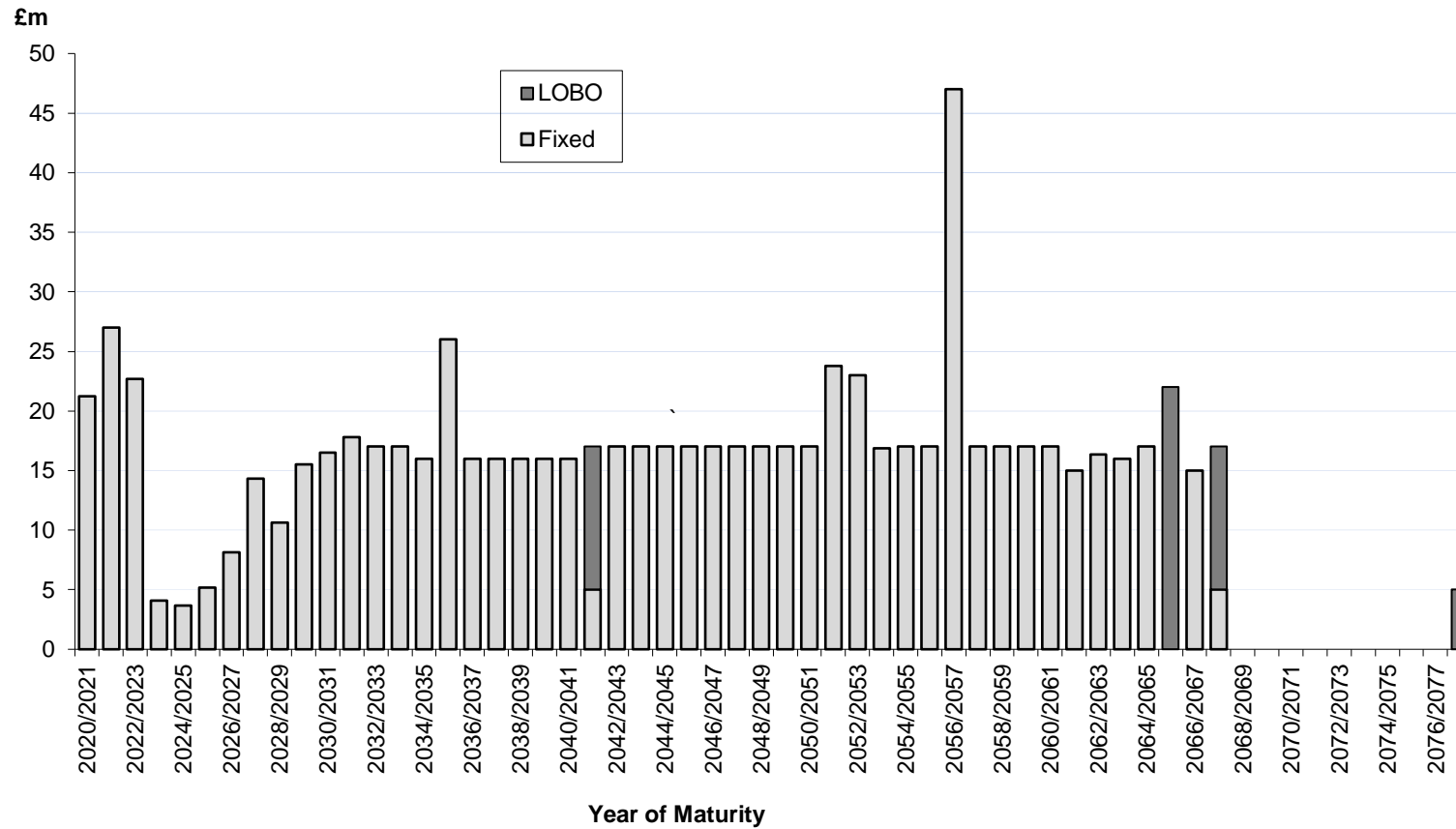
Yn rhinwedd paragraff (au) 14, 21 Rhan (nau) 4 a 5 o Atodlen 12A
o Ddeddf Llywodraeth Leol 1972.

Mynediad Cyfyngedig i'r Ddogfen

Mae'r dudalen hon yn wag yn fwriadol

Annexe D – Maturity Profile of Debt at 31 March 2020

Tudalen 353



Mae'r dudalen hon yn wag yn fwriadol

Annexe E – Glossary of Treasury Management Terms

Bank Rate

1. The rate of interest set by the Bank of England as a benchmark rate for British banks.

Bonds

2. A long-term debt security issued by a company, a financial institution, a local authority, national government or its affiliated agencies. It represents an undertaking to repay the holder the fixed amount of the principal on the maturity date plus a specified rate of interest payable either on a regular basis during the bond's life (coupon) or at maturity.

Borrowing

3. Loans taken out by the authority to pay for capital expenditure or for the prudent management of the Council's financial affairs, which are repayable with interest.

Capital Expenditure

4. 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.
5. The statutory definition of capital expenditure is given in the Local Government Act 2003, the Local Authorities (Capital Finance) Regulations 2003 and 2004 as amended. Statute relies on the accounting measurement of cost in International Accounting Standard (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 (CFR)

6. 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.

Capital Market

7. A market for securities (debt or equity), where companies and governments can raise long-term funds (periods greater than one year). The raising of short-term funds takes place on other markets (e.g. the money market).

Capital Programme

8. The Capital Programme sets out the Council's capital expenditure plans for the forthcoming financial year as well as for the medium term. It is approved annually at Council and identifies the estimated cost of those schemes, their projected phasing over financial years as well as the method of funding such expenditure.

Certificates of Deposits (CDs)

9. A certificate issued for deposits made at a deposit-taking institution (generally a bank). The bank agrees to pay a fixed interest rate for the specified period of time, and repays the principal at maturity. CDs can be purchased directly from the banking institution or through a securities broker. An active interbank secondary market exists to buy and sell CDs.

Chartered Institute of Public Finance & Accountancy (CIPFA)

10. CIPFA is the professional body for accountants in public finance. As a specialised public services body, it provides information, guidance, and determines accounting standards and reporting standards to be followed by Local Government.

Collective Investment Scheme Structures

11. Schemes whereby monies from a number of investors are pooled and invested as one portfolio in accordance with pre-determined objectives.

Corporate Bonds

12. Bonds that are issued by a company or other non-government issuers. They represent a form of corporate debt finance and are an alternative means of raising new capital other than equity finance or bank lending.

Counterparty

13. One of the parties involved in a financial transaction with whom the Council may place investments.

Counterparty / Credit Risk

14. Risk that a counterparty fails to meet its contractual obligations to the Council to repay sums invested.

Credit Criteria

15. 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 Default Swaps

16. A financial transaction which the buyer transfers the credit risk related to a debt security to the seller, who receives a series of fees for assuming this risk. The levels of fees reflect the perceived level of risk.

Credit Rating

17. A credit rating assesses the credit worthiness of an individual, corporation, or even a 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. Ratings usually consist of a long-term, short term, viability and support indicators. The Fitch credit rating of F1 used by the Council is designated as "Highest Credit Quality" and indicates the strongest capacity for timely payment of financial commitments.

Debt Management Account Deposit Facility (DMADF)

18. The Debt Management Office provides this service as part of its cash management operations and of a wider series of measures designed to improve local and central government's investment framework and cash management. The key objective of the DMADF is to provide users with a flexible and secure facility to supplement their existing range of investment options while saving interest costs for central government.

Debt Restructuring

19. Debt restructuring is a process that allows an organisation to reduce, renegotiate and undertake replacement debt.

Diversification of Investments

20. The process of creating a portfolio of different types of financial instruments with regard to type, price, risk issuer, location, maturity, etc. in order to reduce the overall risk of the portfolio as a whole.

Duration (Maturity)

21. The length of time between the issue of a security and the date on which it becomes payable.

External Borrowing

22. Money borrowed from outside of the Council.

Financial Instrument

23. Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Typical financial liabilities are borrowing and financial guarantees. Typical financial assets include bank deposits, amounts owed by customers, loans receivable and investments.

Fitch Credit Ratings

24. A commercial organisation providing an opinion on the relative ability of an entity to meet financial commitments, such as interest, preferred dividends, repayment of principal, insurance claims or counterparty obligations. The opinion is usually provided in the form of a credit rating.

Fixed Rate

25. An interest rate that does not change over the life of a loan or other form of credit.

Floating Rate Notes

26. A money market security paying a floating or variable interest rate, which may incorporate a minimum or floor.

Fraud / Error Risk

27. Risk of losses being incurred as a result of fraud, error or corruption in treasury management and failure to institute adequate systems, procedures and other arrangements to prevent irregularities.

Housing Revenue Account (HRA)

28. The HRA is an account of expenditure and income that every local authority housing department must keep in accordance with the Local Government & Housing Act 1989. The account is kept separate or ring fenced from other Council activities. Income is primarily generated by the rents and service charges paid by tenants, while expenditure is on the management and maintenance of the housing stock, and capital financing charges on the HRA's outstanding loan debt.

Interest Rate Risk

29. Risk that fluctuations in interest rates could impose extra costs against which the Council has failed to protect itself adequately.

Internal Borrowing

30. Money borrowed from within the Council, sourced from temporary internal cash balances.

Investments

31. 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.

Lender Option Borrower Option Loans (LOBOs)

32. 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.

Liquidity

33. The ability of the Council to meet its financial obligations as they fall due.

Market Loans

34. Borrowing that is sourced from the market i.e. organisations other than the Public Works Loan Board or a Public Body.

Medium Term Financial Plan

35. Plan outlining the financial strategies and actions that are envisaged by the Council in the medium term regarding the budget.

Markets in Financial Instruments Directive (MiFID)

36. EU legislation that regulates firms who provide financial instrument services. MiFID was applied in the UK from November 2007, but was revised with changes taking effect from 3 January 2018 (MiFID II).
37. The aim is to ensure financial institutions undertake more extensive checks on their client's suitability for investment products. Organisations undertaking investments will be either classified as 'retail' or 'professional'.
38. MiFID II requires all Local Authorities to be initially treated as "retail clients" unless they "opt up" to a "professional client". The assumption being that retail clients require a greater level of due diligence and support for investment decision making. Financial

institutions will owe a greater duty of care to retail clients, however, they will have no greater financial protection than professional clients.

Minimum Revenue Provision (MRP)

39. This is the amount which must be charged to the authority's revenue account each year and set aside as provision for repaying external loans and meeting other credit liabilities. The prudent amount is determined having regard to guidance issued by WG. This has the effect of reducing the Capital Financing Requirement (CFR).

Money Market

40. The market for short-term securities or investments, such as certificates of deposit, commercial paper or treasury bills, with maturities of up to one year.

Money Market Funds

41. An investment fund which pools the investments of numerous depositors, spreading those investments over a number of different financial instruments and counterparties. Funds with a Constant Net Asset Value (CNAV) are those where the sum invested is the same on maturity, Low Volatility Net Asset Value (LVNAV) are those where any sum invested is likely to be the same on maturity. Funds with a Variable Net Asset Value (VNAV) are those where the sum on maturity could be higher or lower due to movements in the value of the underlying investments.

Net Asset Value (NAV)

42. The market value of an investment fund's portfolio of securities as measured by the price at which an investor will sell a fund's shares or units.

Pooling

43. The process whereby investments or loans are held corporately rather than for specific projects or parts of the Council, with recharges to those areas for their share of the relevant income and expenditure using an agreed methodology, where such a recharge is required to be made.

Prudential Code for Capital Finance

44. 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.

Public Works Loans Board (PWLB)

45. The Public Works Loans 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.

Refinancing Risk

46. Risk that maturing borrowing or other financing of capital projects cannot be renewed on terms that reflect existing assumptions and that the Council will suffer extra costs as a result.

Regulatory Risk

47. Risk that actions by the Council or by any person outside of it are in breach of legal powers or regulatory requirements resulting in losses to the Council, or the imposition of extra costs.

Ring Fencing

48. The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.
49. Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

Security

50. Protecting investments from the risk of significant loss, either from a fall in value or from default of a counterparty.

Sovereign Credit Ratings

51. The credit rating of a country. It indicates the risk level of the investing environment of a country, taking into account political risk and other factors.

Sterling

52. The monetary unit of the United Kingdom (the British pound).

Term Deposits

53. 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

54. The management of the organisation’s borrowing, 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.

Treasury Bills

55. Debt securities issued by a government with a short-term maturity of up to 6 months.

UK Government Gilts

56. Fixed-interest debt securities issued or secured by the British Government. Gilts are always denominated in sterling though the Government occasionally also issues instruments in other currencies in the Eurobond market or elsewhere.

Variable Rate

57. An interest rate that changes in line with market rates.

Yield

58. The annual rate of return paid out on an investment, expressed as a percentage of the current market price of the relevant investment.

Mae'r dudalen hon yn wag yn fwriadol

Audit Committee Action Plan

(Updated following meeting held on 28 July 2020)

Minute No. /Agenda No.	Actions	Timeline	Action Owner
Finance (Budget)			
Governance & Risk Management			
21.01.20	Audit Committee to receive information on the process and timescale for developing any guidance in relation to the Local Government and Elections (Wales) Bill, if and when they emerge.		
21.01.20	The Head of Finance to provide an aggregated action plan of the future generation significant governance issue responses from directorates.		IA
28.07.20	A future risk management update, to provide more information on the operation of risk management practices in the current environment.		IA
Audit Wales (AW)			
28.07.20	Audit Wales to provide a breakdown of the budgeted staffing levels and costs, which make up their audit fee for the Committee meeting on 8 September 2020, and for this to be included in the Annual Audit Plan report going forward.	08.09.20	
Internal Audit			
25.06.19	Audit Manager to meet with Corporate Communications Officers, to consider opportunities to communicate the outcomes of Internal Audit, and its work more widely.	Ongoing Discussions ongoing	CP
28.07.20	The Audit Manager to check the core cities comparative 'chargeable' benchmarking value, and to correct in the event of a typo.	Completed 05.08.20	CP
Treasury Management			
25.06.19	The Operational Manager, Capital, Corporate & Treasury to: <ul style="list-style-type: none"> prepare a note for a future Audit Committee meeting on the nature of treasury management investments and risks, including the approach to ethical investments, and to; consider ways of providing wider information and context in relation to borrowing activities in future treasury performance management reports to the Audit Committee. <p style="text-align: center;">Tudalen 363</p>	Ongoing Point 1 Actioned via the TM Strategy for 2020/21, and in the Benchmarking report in November 2019. Point 2 Actioned and ongoing.	AH

Minute No. /Agenda No.	Actions	Timeline	Action Owner
Operational Items			
28.07.20	The recommendation raised in respect of coastal risk management to be closed; with no further follow up actions required at present.	Completed 28.07.20	
02.04.19	Once disciplinary procedures have concluded within the Waste Management Service, Audit Committee to be informed of the terms of reference and approach for delivering the associated Post Investigation Review.		
28.07.20	The report from the Director of PTE on the monitoring of particulate matter to be re-circulated, and Members to consider if any further information is required.	Completed 04.08.20	CP
28.07.20	Audit Committee to receive a confidential briefing in respect of 'fly tipping'.		CP
28.07.20	Audit Committee to engage with the Director of Education and Lifelong Learning as part of its work programme.		
Work Programme			
10.09.19	The Chair to consider the Audit Committee work programme with regards to receiving ongoing assurance in respect of Brexit.	Ongoing	IA
AW Tracker/Other Studies			
12.11.19	Audit Manager to request that, subject to report and meeting timings, management responses accompany the presentation of AW assessments in future Committee meetings.	Completed (Noted and ongoing)	CP
Outstanding Actions			
Scrutiny Letters			

Annwyl Gomisiynnydd,

We are writing to you in relation to the recent inspection of Cardiff Youth Offending Service, carried out by Her Majesty's Inspectorate of Probation (HMIP) in 2019 and reporting in July of this year.

You will be aware of the findings of that Inspection, which considered 12 aspects of the service and ranked every one of those 'Inadequate', the lowest possible performance rating.

Whilst the service and its management board have published a new improvement and performance strategy, we feel it important that we also understand how it was possible for such service failures to go unnoticed, seemingly left unaddressed by the Service and not raised with elected councillors.

In the July meeting of Cardiff Council, the Welsh Liberal Democrat Group called for an independent investigation to consider, in detail, the journey of the Service from its 2016 Inspection report to the inspection undertaken in 2019. The aim of such a process would be to ensure that proper checks and balances exist elsewhere in order to prevent harm and promote the wellbeing and rights of those children engaged with council services.

We understand, from comments made in the 2019 inspection report, that staff had been raising concerns for some time regarding capacity, performance, support, and vacancies in the service. This ultimately contributed to the poor inspection performance. This is particularly pertinent in light of those findings relating to the inability of the Service to ensure that the wellbeing needs of the children engaged in the service were met, and there was sufficient capacity and insight to ensure their safety, and to be able to plan positively for their futures.

We would be grateful for your insight and guidance with regards to how an independent panel could be convened to investigate this and whether your office could act as an 'anchor' organisation for such a process, as per the powers afforded to your office in the Children's Commissioner for Wales Act 2001. As a multi-agency process we feel it is essential that all partners take part in such a process to ensure that lessons are learnt for both the Youth Justice Service and other services which children and young people rely.

It is our view that an independent process should consider the:

- Response to the 2016 HMIP Inspection, the implementation of its findings, and ongoing review of performance against its findings leading to 2019;
- Points at which senior officers, across all partners, were aware of potential failings in the service and each partners' processes to respond and monitor progress;
- The suitability of, and partners' engagement with, the Strategic Management Panel and Management Board and improvement practices to ensure robust management.

GWEITHIO DROS GAERDYDD, GWEITHIO DROSOCH CHI

Mae'r Cyngor yn croesawu gohebiaeth yn Gymraeg, Saesneg neu'n ddwyieithog. Byddwn yn cyfathrebu â chi yn ôl eich dewis, dim ond i chi roi gwybod i ni pa un sydd well gennych. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

WORKING FOR CARDIFF, WORKING FOR YOU

The Council welcomes correspondence in Welsh, English or bilingually. We will ensure that we communicate with you in the language of your choice, as long as you let us know which you prefer. Corresponding in Welsh will not lead to delay.

- Approach to the engagement, involvement and oversight of Council scrutiny committees and Corporate Parenting Advisory Committees and the Police and Crime Commissioner;
- The response of all partners to reviews commissioned by Cardiff Council Children's Services by the Youth Justice Cymru Board and Silver Bullet.

A copy of this letter is also being sent to the Chair of the Audit Committee of Cardiff Council.

Yn gywir,

Cllr. Rhys Taylor
Leader, Welsh Liberal Democrat Group

Cllr. Adrian Robson
Leader, Welsh Conservative Group

Cllr. Keith Parry
Leader, Welsh National Party Group

Cllr. Fenella Bowden
Heath and Birchgrove Independents



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My Ref: AC.20.1

Date: 24th August 2020

Councillor Rhys Taylor, Leader, Welsh Liberal Democrat Group (Rhys.Taylor@cardiff.gov.uk)
Councillor Adrian Robson, Leader, Welsh Conservative Group (ARobson@cardiff.gov.uk)
Councillor Keith Parry, Leader, Welsh National Party Group (Keith.Parry@cardiff.gov.uk)
Councillor Fenella Bowden, Heath and Birchgrove Independents (FBowden@cardiff.gov.uk)

Dear Councillors

Re: Cardiff Youth Justice Service - Independent Inquiry

I acknowledge and thank you for your letter received on Friday 21 August 2020.

I am aware of the concerns raised in the inspection report, and the Audit Committee will be seeking assurance on the delivery of the necessary improvements during this municipal year.

The Audit Committee will consider your correspondence, and our work programme, in our next meeting on 8 September 2020.

Yours Sincerely

Hugh Thomas
Chairperson, Audit Committee
Cardiff Council

cc Chris Lee, Corporate Director Resources
Ian Allwood, Head of Finance
Chris Pyke, Audit Manager

ATEBWCH I / PLEASE REPLY TO: C/O Internal Audit, Audit Manager, Room 345, County Hall, Cardiff, CF10 4UW
Tel: (029) 2087 3455 email: cpyke@cardiff.gov.uk

GWEITHIO DROS GAERDYDD, GWEITHIO DROSOCH CHI
Mae'r Cynghor yn croesawu gohebiaeth yn Gymraeg, Saesneg neu'n ddwyieithog. Byddwn yn cyfathrebu â chi yn ôl eich dewis, dim ond i chi roi gwybod i ni pa un sydd well gennych. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

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Mae'r dudalen hon yn wag yn fwriadol

1. Current Draft Work Programme 2020/21:

Area	Tuesday 28.07.20 at 2pm (Remote Meeting)	Tuesday 08.09.20 at 2pm (Remote Meeting)	TBC - Tuesday 17.11.20 at 2pm (Remote Meeting)
Audit Wales		Draft Statement of Accounts 2019/20 for Cardiff Council including; Cardiff Harbour Authority and Trust Funds	Annual Improvement Report
		Draft Statement of Accounts 2019/20 for Cardiff & Vale of Glamorgan Pension Fund	
	AW Activity/Report Progress Update	AW Activity/Report Progress Update	AW Activity/Report Progress Update
		Counter-Fraud National Report: 'Raising Our Game - Tackling Fraud in Wales'	
Treasury Management		Performance Report	Performance Report
		Annual Report	Half Year Report
Finance	Financial Update including Resilience Issues	Financial Update including Resilience Issues	Financial Update including Resilience Issues
		Draft Statement of Accounts 2019/20	
Internal Audit	Audit and Investigation Team - Progress Update		Audit and Investigation Team - Progress Update
	Internal Audit Annual Report 2019/20	Counter-Fraud Annual Report 2019/20	
Governance and Risk Management	Audit Committee Annual Report 2019/20		
	Draft Annual Governance Statement 2019/20		
	Senior Management Assurance Statement Review 2019/20		
	Corporate Risk Management 2019/20 (Year-End)		Corporate Risk Management 2020/21 (Mid-Year)
Operational matters / Key risks			TBC - Director – Update on Internal Control Environment

The timetable of future meetings in the municipal year 2020/21 to be approved and confirmed following Council On 24 September 2020.

2. Matters to be included in future Audit Committee meetings for 2020/21:

Area	Item
Audit Wales	<ul style="list-style-type: none"> Activity / progress updates Annual Improvement Report - Cardiff Council Annual Audit Plan 2020/21 Cardiff and Vale Pension Fund Audit Plan 2020/21
Treasury Management	<ul style="list-style-type: none"> Treasury Management Performance Updates Treasury Management Annual Report 2019/20 Treasury Management Strategy and Practices 2020/21
Finance	<ul style="list-style-type: none"> Financial Updates (including resilience issues)
Internal Audit	<ul style="list-style-type: none"> Audit and Investigation Team - Progress Updates Draft Audit Charter and Audit Plan 2020/21
Governance and Risk Management	<ul style="list-style-type: none"> Corporate Risk Management updates Senior Management Assurance Statements and Annual Governance Statement Action Plan position (mid-year)

3. Matters to be addressed outside of formal Audit Committee meetings during 2020/21:

<p>Audit Committee Annual self-assessment workshop, Training and development sessions.</p> <p>General Correspondence, publications and reports for information purposes Time sensitive consultation.</p> <p>Director / Senior Officer Assurance Use of letters, correspondence, and video / telephone meetings as necessary.</p>

Mae'r dudalen hon yn wag yn fwiadol