

AUDIT COMMITTEE:

27 JUNE 2016

DRAFT STATEMENT OF ACCOUNTS 2015/16

REPORT OF THE CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 6.2

PORTFOLIO: CORPORATE AFFAIRS

Reason for this Report

1. The Audit Committee Terms of Reference sets out their responsibility for Governance, Risk & Control and also Financial Reporting. This report allows the Committee to be updated with reference to the above.
2. This report has been prepared to provide Audit Committee Members with an opportunity to review and provide comments on the draft 2015/16 Statement of Accounts prior to them being signed by the Responsible Finance Officer and formally submitted for external audit and public inspection.

Background

3. The Statement of Accounts in Appendix 1 presents the draft accounts for Cardiff Council for the financial year 2015/16. Regulations require that the Responsible Finance Officer sign the accounts by 30 June 2016. A draft of these accounts was provided to Audit Wales on 14 June, ahead of the statutory deadline of the 30 June 2016. The next steps are:
 - To advertise the opportunity for Public inspection for a period of four weeks
 - To complete Whole of Government Accounts returns based on the draft accounts, in July 2016.
 - For all material amendments and adjustments to be agreed by Wales Audit Office and Council by end of August 2016.
 - For Audit committee consideration of the final accounts and audit report at its September meeting.
 - To propose that Full Council approve and sign the audited accounts at its meeting in September.
 - To publish the approved accounts by 30 September 2016 on Council website.
4. The Local Government (Wales) Measure 2011 identifies the review of the Council's Statement of Accounts as a specific function of the Audit Committee.

5. The Statement of Accounts are prepared in accordance with a Code of Practice on Local Authority accounting developed by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Accounts aim to give electors, those subject to levied taxes and charges, those charged with governance, members of the authority, employees and other interested parties, information about the authority's finances.
6. The accounts are important to ensure accountability of public funds, to allow comparison across organisations and to meet legislative requirements. However they are complex documents given the requirements to be met.
7. The Statement of Accounts includes a Narrative Report which provides a general explanation of the Council's overall financial position together with a guide to the financial statements included with the accounts. These financial statements are accompanied by notes which provide further detail on the accounts. The Group Accounts for the Council are also presented which consolidates the position to include the financial position of Cardiff Bus. The Accounts include an Annual Governance Statement which details the Council's governance arrangements. Lastly the accounts also include statements in respect of the Housing Revenue Account (HRA), Pension Funds, Trust Funds and Cardiff Port Health Authority.
8. The Council's core financial statements and their purpose are as follows:
 - The Movement in Reserves Statement which shows the movements in the year on different reserves. Usable reserves are those that can be used to fund expenditure or reduce local taxation for example general and earmarked reserves. Unusable reserves are those used for accounting entries, so cannot be used to fund expenditure or affect taxation levels.
 - The Comprehensive Income and Expenditure Account which accounts for the cost in the year of providing services in accordance with accounting practices.
 - The Council's Balance Sheet which provides a value at the balance sheet date of the assets and liabilities of the Council.
 - A Cash Flow Statement which identifies the movement in cash during the year classified into categories.
9. Whilst the accounts are complex documents, progress has been made in removing unnecessary and immaterial information and towards making them simpler where possible. However this is an ongoing process which will be continued in conjunction with Wales Audit Office who have a reviewing role.
10. The remainder of this report provides a summary of the main points evident in the Draft 2015/16 Statement of Accounts:

General and Useable Reserves

11. The Council Fund balance has increased by £2.101 million to £15.255 million as at 31 March 2016, part of which was planned to be used towards meeting the budget for 2016/17. The detailed position in relation to the Outturn Report for the Council was presented to the June 2016 Cabinet meeting.

12. The Budget Strategy Report for 2017/18 and the Medium Term Financial Plan will consider the level of the Council Fund balance against the financial challenge ahead in setting a balanced budget whilst retaining financial resilience.
13. The Housing Revenue Account (HRA) reserve balance remained at £8.438 million as at 31 March 2016. This total sum is available for spending on HRA matters only.
14. Council Fund Earmarked Reserves have increased from £33.824 million to £51.637 million as at 31 March 2016. Earmarked reserves are amounts set aside to provide financing for future expenditure plans. Note 2 of the statement of accounts highlights the reserves held and movements to and from them in the year. Reserves continue to be reviewed in accordance with accounting practice and in order to improve financial resilience where possible.

Comprehensive Income & Expenditure Account

15. There is a significant increase in the Net Cost of Services between 2014/15 (£573 million) and 2015/16 (£835 million). This is largely due to the £187 million settlement payment to WG in order to exit the Housing Subsidy system in April 2015 (shown as an exceptional item) and also the impact of revaluations of Council Dwellings and non schools operational assets during the year. Note that the latter are accounting adjustments that have no impact on the council tax and rent payable in the year.

Balance Sheet

16. The net assets (Assets less Liabilities) shown on the balance sheet have reduced from £883 million (2014/15) to £649 million (2015/16). Some of the movements are highlighted in further detail below.
17. Property, Plant and Equipment – Whilst revaluations of assets should be undertaken at least every 5 years, the Council aims to do so every three years to ensure valuations are updated regularly. The accounting requirements are onerous and complex, particularly given the scale and volume of assets utilised by the Council in delivering services. Valuations also involve a significant number of assumptions, which are highlighted as critical judgements in preparing the accounts. Operational assets excluding schools as well as Council dwellings were revalued during the year. However as mentioned above, any such movements are accounting adjustments which are reversed elsewhere in the accounts and do not have an impact on the Council tax or rent.
18. Net Pensions Liability – there has been an increase in the net pensions liability of £6 million. Whilst this is based on assumptions made by the Council's Actuary including financial, demographic and changes in experience assumptions, the next actuarial valuation of the pension fund is to take place in 2016/17, which will update assumptions and set in place a long term strategy to manage any deficit.
19. Long term liabilities have increased, primarily as a result of the £187.3 million of borrowing that was required to be undertaken in order to make the Housing Subsidy exit settlement payment. This is the main cause of the reduction in net assets during the year.
20. Capital receipts - Income meeting the definition of usable capital receipts during the year totalled £11.4 million, which included sale of land identified in Note 20. This

included £1.7 million in respect of the Right to Buy Scheme for Dwellings and £2.4 million in respect of sale of land adjacent to County Hall, the first £2 million tranche from the disposal of the central bus station site and £1.3 million received from the disposal of the Council's Joint venture in the Medicentre. Where receipts are carried forward in the Usable Capital Receipts reserve, they are earmarked for future capital schemes.

Other accompanying notes to the accounts

21. Other accompanying notes included in the statements either as a result of legislative or accounting requirements are:-
 - Disclosures on financial instruments (Financial Assets and Financial Liabilities)
 - Capital Expenditure and financing
 - Officer remuneration and exit packages and
 - Civil Parking Enforcement funds

22. The Statement of Accounts includes critical judgements that have been used in applying accounting policies. This includes judgements that the Council has made in respect of complex transactions or those involving uncertainty about future events. Examples include judgements on the prudent level of reserves, materiality, valuation of assets and calculation of provisions.

Pension Fund

23. The Cardiff & Vale of Glamorgan Pension fund assets fell by 1.6% during 2015/16 from £1.68 billion to £1.65 billion as at 31 March 2016. This was mainly as a result of volatility in global equity markets. Whilst the assets on average have grown over the past three years, the continuing low interest rates and expectations of lower investment returns in the future are likely to result in increased liabilities at this year's triennial valuation.

Annual Governance Statement

24. The Statement of Accounts includes the Annual Governance Statement for the year 2015/16. Audit Committee's review should seek to satisfy itself that the Annual Governance Statement reflects the body's governance arrangements and the risk environment. This Statement acknowledges the financial challenges that the Council is facing and notes the impact of reductions in staff on the capacity of the organisation and the consequential increased pressure on staff. Audit Committee has previously considered the draft Annual Governance Statement and that comments made at that meeting have been incorporated into the attached final document.

Legal Implications

25. No direct legal implications arise from this report.

Financial Implications

26. This report provides Audit Committee Members with a summary of the details included within the 2015/16 Statement of Accounts and provides an opportunity for review and comment prior to the external audit of the Accounts. Attached as

Appendix 2 is a document prepared by Grant Thornton which aims to assist members of Audit Committees to understand and challenge the accounts, supporting notes and other statements. This paper was used in the Committee's training session in 2015 and is attached again for information.

RECOMMENDATIONS

That Audit Committee:

- I. Subject to any comments in respect of the 2015/16 draft Statement of Accounts, note that these Accounts are to be signed by the Corporate Director Resources and submitted for external audit and public inspection.
- II. Note that the audited Statement of Accounts for 2015/16 will, prior to being presented to Council, be reviewed by this Committee in September.

CHRISTINE SALTER

Corporate Director Resources
13 June 2016

The following appendix is attached:

Appendix 1 – Unaudited Statement of Accounts 2015/16

Appendix 2 – A guide to local authority accounts (Grant Thornton – March 2014)