

COUNCIL:

28 SEPTEMBER 2017

**STATEMENT OF ACCOUNTS 2016/17 AND ANNUAL TREASURY
MANAGEMENT REPORT 2016/17**

REPORT OF THE CORPORATE DIRECTOR RESOURCES

Appendix 7, Annexes B & C are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of schedule 12A of the Local Government Act 1972.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 Statement of Accounts for 2016/17 is presented in order to meet the requirement of the Accounts and Audit (Wales) Regulations 2005 (as amended). This provides that the Statement of Accounts be approved by a relevant committee or by the Council meeting as a corporate body, such approval to take place before the 30 September immediately following the end of the financial year.
2. The International Standard on Auditing (ISA) 260 requires the Appointed Auditor to report to those charged with governance, on the key matters arising from the audit examination of the Statement of Accounts for the year ending 31 March 2017.
3. In accordance with the Council's Treasury Management Policy Statement, the Annual Treasury Management Report for 2016/17 is presented based on the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice.

Background

4. The Statement of Accounts in Appendix 1 presents the accounts for The County Council of the City and County of Cardiff for the financial year 2016/17. Regulations require that the Responsible Finance Officer sign the accounts by 30 June, and that the audited accounts are approved by Council by 30 September. Following production of the accounts which were presented to the Audit Committee in June, the accounts were submitted to Wales Audit Office (WAO) on 15 June for external audit. In addition the accounts have been available for public inspection as required by sections 30 and 31 of the Public Audit (Wales) Act 2004 and Regulations 13,15 and 16, of the Accounts and Audit (Wales) Regulations, 2005 (as amended).
5. The Audit Committee met on the 18 September 2017 where the "Audit of Financial Statements Report" for both the main financial statements and the Cardiff and Vale

Pension Fund and Cardiff Harbour Authority were presented by Wales Audit Office. No issues were raised by Audit Committee.

The County Council of the City and County of Cardiff Accounts

6. Some of the main points evident in the 2016/17 Statement of Accounts are:

- The Council Fund Balance has reduced by £1.000 million to £14.255 million as at 31 March 2017, this was budgeted to be used to support the budget for 2016/17. The detailed position in relation to the Outturn Report for the Council was presented to the 6 July 2017 Cabinet meeting.
- Council Fund Earmarked Reserves including any share of joint committee reserves increased by £7.165 million to £59.391 million as at 31 March 2017. Earmarked reserves are amounts set aside to provide financing for future expenditure plans. Page 45 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.
- The Housing Revenue Account (HRA) balance remained at £8.438 million as at 31 March 2017. The HRA earmarked reserves increased by £3.132 million, this was in the main due to a new Housing Development and Acquisition earmarked reserve – further details can be found on page 50 of the Statement of Accounts. These are available for spending on HRA matters only.
- The Council's net pension's liability at 31 March 2017 is £586.723 million. This reflects the benefits earned by past and current employees and the resources the Council has set aside to meet them and is based on assumptions made by the Council's Actuary including financial, demographic and changes in experience assumptions. The actuarial valuation of the Pension Fund took place in 2016/17, and the figure in the Account includes updated assumptions. The Council has a 20 year recovery plan in place to manage the deficit.
- Investment properties, schools, assets classified as surplus and art and civic regalia were revalued during the year. Any such movements are accounting adjustments which are reversed elsewhere in the accounts and so do not have an impact on the council tax or rent.
- Long term liabilities have increased by £49.760 million, primarily due to an increase in long-term borrowing and the increase in the net pensions liabilities.
- Income meeting the definition of usable capital receipts during the year totalled £10.684 million. This included £2.991 million in respect of the Right to Buy Scheme for Dwellings, £1.6 million in respect of sale of land and former Council administrative offices at Bessemer Close, £893,000 related to the sale of a former youth hostel at Wedal Road and £800,000 in relation to the disposal of Suffolk House. Where receipts are carried forward in the Usable Capital Receipts reserve, they are earmarked for future capital schemes.

7. 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

8. Attached at Appendix 2 is the “Audit of Financial Statements Report”, which is presented to Council in order to fulfil the requirement of the International Standard on Auditing (ISA) 260 and in discharge of the External Auditor’s duty.
9. WAO intend to issue an unqualified audit report on the financial statements once they have been provided with a signed Final Letter of Representation which is included within the Audit of Financial Statements Report.
10. There are currently no misstatements identified in the financial statements, which remain uncorrected. Corrected misstatements are summarised in Appendix 3 to the Audit of Financial Statements Report (Appendix 2).
11. The WAO report also highlights a number qualitative findings, which they have stated as follows:
 - **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
 - **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work. We will continue to work with officers to make further improvements to the quality of working papers supporting the accounts and audit process, as well as the accounts closure timetable for 2017/18.
 - **There are two other matters discussed and corresponded upon with management which we need to report to you.** In 2015/16 officers accepted our recommendation to review the classification of Investment properties to ensure they fully meet the Code’s definitions. The first part of a comprehensive review was to revalue all investment properties and this has been completed in 2016/17. The second part to be carried out by officers in 2017/18 will be to consider each investment property against the Code’s definitions, and we will work closely with officers to inform this review. Officers have not made any changes to the classification of investment properties in the 2016/17 accounts. We also flagged to officers that improvements are needed in the description of assets and, in particular, infrastructure assets within the Council’s fixed assets registers. This will ensure that assets are more clearly identifiable, can be tracked year to year, and officers can confirm they are accounted for and depreciated correctly in line with the Council’s accounting policies.
 - **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
 - **We did not identify any material weaknesses in your internal controls that have not been reported to you already.**
 - **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**
12. The accounts were submitted to Wales Audit Office on the 15 June 2017 and an external audit undertaken over a three month period. In addition, the accounts were available for public inspection between the 26 June 2017 and 21 July 2017. In the last two weeks, Wales Audit Office have notified the Council of a query brought to their attention. Until this was investigated WAO were unable to formally complete the audit.

This has now been resolved and a certificate is attached as Appendix 8. This replaces pages 17 and 18 in Appendix 1 which were left intentionally blank, pending consideration of this issue by WAO.

Cardiff and Vale of Glamorgan Pension Fund Accounts

13. The accounts for the Cardiff and Vale of Glamorgan Pension Fund are included in the Statement of Accounts in Appendix 1 (pages 103 to 125) and have been audited by the Wales Audit Office. The auditor's draft "Audit of Financial Statements Report" for the Pension Fund is attached as Appendix 3.
14. The Cardiff & Vale of Glamorgan Pension fund assets rose by 21.1% during 2016/17 from £1.653 billion to £2.002 billion as at 31 March 2017. Over the longer term, returns on the fund's investments have averaged over 10% per annum.
15. WAO intend to issue an unqualified audit report on the financial statements once they have been provided with a signed Final Letter of Representation, which is included within the Audit of Financial Statements Report.
16. There are no uncorrected misstatements in the accounts of the Cardiff and Vale of Glamorgan Pension Fund. The amendments that have been made to the accounts are highlighted in Appendix 3 to the Audit of Financial Statements Report.
17. WAO Audit of Financial Statements Report also highlights a number qualitative findings, as follows:
 - **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** We found the information provided to be relevant, reliable, comparable, material and generally easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
 - **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work. We will continue to work with officers to make further improvements to the quality of working papers supporting the accounts and audit process, as well as the accounts closure timetable for 2017/18.
 - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
 - **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
 - **We did not identify any material weaknesses in your internal controls that have not been reported to you already.**
 - **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

Cardiff Port Health Authority and Cardiff Harbour Authority Accounts

18. The Council's external auditor is also required to audit the annual return of the Cardiff Port Health Authority (CPHA) and the audit opinion is attached at Appendix 4.

19. The Council's external auditor is also required to audit the annual accounts of the Cardiff Harbour Authority and the report 'Audit of the Financial Statements' in respect of the Cardiff Harbour Authority and Final Letter of Representation is attached at Appendix 5.
20. WAO intend to issue an unqualified audit report on the financial statements once they have been provided with a signed Final Letter of Representation, which is included within the Audit of Financial Statements Report.
21. There are no uncorrected misstatements in the accounts of the Cardiff Harbour Authority. The amendments that have been made to the accounts are highlighted in Appendix 3 to the Audit of Financial Statements Report.
22. WAO Audit of Financial Statements Report also highlights a number qualitative findings, as follows:
 - **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear
 - **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work. We will continue to work with officers to make further improvements to the quality of working papers supporting the accounts and audit process, as well as the accounts closure timetable for 2017/18.
 - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
 - **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
 - **We did not identify any material weaknesses in your internal controls that have not been reported to you already.**
 - **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

Overview of the External Auditor's Audit Opinion

23. Local authority financial statements are complex and can be difficult to understand: they must comply with CIPFA's Local Authority Code of Practice, which is based on International Financial Reporting Standards (IFRS), and also the requirements of accounting and financing regulations of central government. A summary Statement of Accounts note is included at Appendix 6, extracting the main statements.
24. Following the period of external audit it is pleasing to note that any recommended amendments and qualitative findings following a thorough audit are minimal for an authority the size and complexity of Cardiff. Officers of the Council have worked extremely closely with Wales Audit Office in support of their audit role and will take forward the recommendations from the Audit Report.

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

- Implementation of new accounting requirements such as IFRS 9 Classification of Financial Instruments which is due to be considered for the 2018/19 financial year.
- Review of investment property classification in 2017/18.
- The need to continue to simplify and de-clutter accounts, with the aim of supporting the reader of the accounts
- The need to minimise the period over which the accounts are prepared and also audited as a result of changes in legislation. This is to enable performance of the Council to be determined earlier and also ensure more effective use of resources that go into preparing these accounts.

26. The above items will need to be considered with Wales Audit Office during 2017/18 and beyond.

Treasury Management Annual Report 2016/17

27. The Treasury Management Annual Report is attached at Appendix 7. It sets out the economic background within which treasury activities were conducted, the position on investments and borrowing at 31 March 2017, it indicates compliance with indicators set in the budget report for the year and sets out key issues that are being monitored closely in 2017/18 that could impact on treasury activities.

28. The Annual report has been reviewed by Audit Committee in accordance with their terms of reference and they were content with the evidence provided in the report to support compliance with the Treasury Management Principles.

29. The overall position on investments and external borrowing are:

- At the 31 March 2017, investments stood at £68.6 million and were deemed to be fully recoverable. The overall level of interest receivable from treasury investments totalled £0.6 million.
- The organisations with whom the Council invest with continue to be monitored closely by the Council together with its Treasury Advisors. This is in accordance with the criteria set out in the Council's Investment Strategy for 2016/17, with diversification sought where possible. An update on the 2017/18 Mid Year Treasury Management position will be provided to Council in a further report.
- At the 31 March 2017, the Council had £674 million of external borrowing in order to pay for historical capital expenditure, with a further £50.0 million being internal borrowing. The former is predominantly made up of fixed interest rate borrowing from the Public Works Loan Board payable on maturity. The average rate on the Council's borrowing is 4.74% at the 31 March 2017 and total interest paid on the external debt, which includes the Housing Revenue Account, was £32.3 million.

Legal Implications

30. The Report is reported to Council to meet statutory, regulatory and codified requirements to do so. There are no direct legal implications arising.

Financial Implications

31. This report is presented to Council in discharge of its duty to approve the Council's audited accounts on or before 30 September of the year relating to the end of the accounting period and also to receive the annual Treasury Management Report for 2016/17 in accordance with Council Treasury Management Policy.
32. The Council's financial standing as set out in the Financial Statements, the Appendices and this report will be considered as part of the budget report for 2018/19.

RECOMMENDATIONS

Council is requested to:

1. Approve the audited Statement of Accounts for the ended 31 March 2017 (Appendix 1).
2. Note the Audit reports of the Wales Audit Office on the Statement of Accounts of County Council of the City and County of Cardiff, Cardiff and Vale of Glamorgan Pension Fund, Cardiff Port Health Authority and Cardiff Harbour Authority for the year ending 31 March 2017 (Appendices 2, 3, 4 and 5).
3. Note the final Letters of Representation for the County Council of the City and County of Cardiff, Cardiff and the Vale Pension Fund and Cardiff Harbour Authority.
4. Note that the following documents will be formally signed at the conclusion of the meeting:
 - Statement of Accounts for County Council of the City and County of Cardiff including the Cardiff and Vale of Glamorgan Pension Fund – Lord Mayor and Corporate Director Resources
 - Statement of Accounts for Cardiff Harbour Authority – Corporate Director Resources
 - Annual Return of Cardiff Port Health Authority – Corporate Director Resources and Lord Mayor
 - Annual Governance Statement (within the accounts) – Leader of the Council and Chief Executive
 - Audit Certificate for the County Council of the City and County of Cardiff, Cardiff and the Vale of Glamorgan Pension Fund and Cardiff Harbour Authority – Appointed Auditor, Wales Audit Office. To be signed at a later date.
 - Letters of Representation for the County Council of the City and County of Cardiff – Corporate Director Resources and Lord Mayor
 - Letter of Representation for Cardiff and Vale of Glamorgan Pension Fund – Corporate Director Resources and Lord Mayor
 - Letters of Representation for Cardiff Harbour Authority – Corporate Director Resources and Lord Mayor
5. Note the Treasury Management Annual Report for 2016/17 (Appendix 7).

CHRISTINE SALTER
Corporate Director Resources

The following appendices are attached:

Appendix 1 – Statement of Accounts 2016/17

Appendix 2 – Audit of Financial Statements Report for County Council of the City and Council of Cardiff including Final Letter of Representation

Appendix 3 – Audit of Financial Statements for Cardiff and Vale of Glamorgan Pension Fund including Final Letter of Representation

Appendix 4 - Cardiff Port Health Authority Annual Report audit opinion

Appendix 5 – Audit of Financial Statements for Cardiff Harbour Authority including the Final Letter of Representation

Appendix 6 – Summary Statement of Accounts 2016/17

Appendix 7 – Treasury Management Annual Report 2016/17

Appendix 8 – Audit Report