

AUDIT COMMITTEE:

22 JUNE 2015

DRAFT STATEMENT OF ACCOUNTS 2014/15

REPORT OF THE CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 5.2

PORTFOLIO: CORPORATE AFFAIRS

Reason for this Report

1. To provide Audit Committee Members with an opportunity to review and provide comments on the draft 2014/15 Statement of Accounts prior to them being signed by the Responsible Finance Officer and subsequently submitted for external audit and public inspection.

Background

2. The Statement of Accounts in Appendix 1 presents the draft accounts for Cardiff Council for the financial year 2014/15. 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. The next steps are to present the Accounts to Wales Audit Office (WAO) ahead of the statutory deadline of the 30 June 2015, when the accounts will be put on display to the public for inspection.
3. The Local Government (Wales) Measure 2011 identifies the review of the Council's Statement of Accounts as a specific function of the Audit Committee.
4. The Statement of Accounts includes a foreword 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. It should be noted that improvements have been made to the layout and format of the Statement of Accounts for 2014/15 to improve the reader's understanding and navigation of key sections of the accounts.
5. 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 effect 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.
6. The Audit Committee's role is to review the Statement of Accounts. The remainder of this report provides a summary of the main points evident in the Draft 2014/15 Statement of Accounts:

General and Useable Reserves

7. The Council Fund balance has increased by £1.741 million from £11.413 million to £13.154 million as at 31 March 2015. Within this increase an amount of £595,000 was anticipated in February as being available to support the 2015/16 Budget. This sum was identified as a result of improvements to processes in council tax collection which generated a reduction in the amounts set aside within the council tax bad debt provision. The additional increase to the Council Fund balance of £1.146 million was over and above the balanced position that was projected at Month 9 and is in part due to the additional financial controls that were put in place during the financial year to mitigate against directorate overspends. The detailed position in relation to this Outturn Report will be presented to the July Cabinet meeting.
8. The Council Fund balance of £13.154 million is 2.3% of the net expenditure budget of the Council. After using £595,000 to support the budget for 2015/16 this amount reduces to 2.2% and compares to 1.92% in 2013/14. The Budget Strategy Report for 2016/17 and the Medium Term will consider the level of Council Fund balance against the financial challenge ahead to set a balanced budget whilst retaining financial resilience.
9. Taking into account the £314,000 surplus for the Housing Revenue Account (HRA) the HRA reserve balance increased to £8.438 million as at 31 March 2015. This total sum is available for spending on HRA matters only.
10. Council Fund Earmarked Reserves have increased by £2.758 million from £30.559 million as at 31 March 2014 to £33.317 million as at 31 March 2015. Earmarked reserves are amounts set aside to provide financing for future expenditure plans. Within this increase there was a net reduction of £1.182 million in respect of schools balances with an overall net deficit of £472,000 as at 31 March 2015. This includes an amount in respect of severance and exit costs of £1.9 million paid out in 2014/15 to be repaid back by schools over the next 5 years.
11. Within Council Fund Earmarked Reserves there was a net increase in respect of Other Earmarked Reserves of £4.323 million. Within this increase the material

increases are a £1.404 million increase in the Central Enterprise Zone earmarked reserve, £1.034 million in relation to the Insurance reserve and £2.020 million in relation to Waste Management/Prosiect Gwyrdd. In respect of the Waste Management Prosiect Gwyrdd earmarked reserve this figure is £808,000 higher than initially envisaged following the late notification by Welsh Government on the 2 June 2015 that no further financial action would be taken in respect of the 2013/14 missed targets on recycling and landfill allowances. Further detail in respect of reserves is included in Appendix 2.

12. HRA earmarked reserves have decreased by £446,000 to £238,000 as at 31 March 2015.
13. As with the Council Fund balance the level of earmarked reserves will be considered as part of the Budget Strategy Report 2016/17 and the Medium Term which is due to go to both Cabinet and Council in July.

Comprehensive Income & Expenditure Account

14. There is a significant increase in the Net Cost of Services between 2014/15 (£572 million) and 2013/14 (£737 million). This is largely due to the £134 million revaluation downwards for other land & buildings and surplus assets mainly affecting schools in the 2013/14 accounts. Note that these are in most cases accounting entries that have no impact on the council tax and rent payable.
15. In 2013/14 exceptional items included the impairment of the Glamorgan Cricket Club loan. The loan has subsequently been the subject of a Cabinet discussion in March 2015 which agreed, subject to a number of outstanding matters being resolved, to write down the debt outstanding by circa 70%. A delegation to the Corporate Director Resources to take forward the Council's engagement in respect of this proposal is in place. The loan will remain fully impaired given the outstanding risks as set out in the Cabinet Report and the Council continues to adopt a prudent approach in relation to outstanding amounts due in respect of principal and interest.

Balance Sheet

16. The net assets shown on the balance sheet have not changed significantly between 2014/15 (£881 million) and 2013/14 (£878 million), however within these figures are some significant movements which are highlighted in further detail below.
17. Property, Plant and Equipment - In respect of fixed assets of the Council, and as a result of a number of inconsistencies of approach between councils, CIPFA has recently clarified its approach in respect of voluntary aided and foundation schools. The approach being that legal ownership is likely to be the key factor determining balance sheet recognition. A review of the legal titles in respect of the 30 relevant schools has identified a mixed picture which resulted in schools building values of £47.2 million being recognised under the Modern Equivalent Asset approach, £17.8 million of schools land value being recognised including existing schools land assets being merged into new asset records and £14,000 of land derecognised. The Welsh Audit Office have been advised of this approach and their consideration of it will form part of their audit. In addition investment properties were revalued during 2014/15 as part of the Council's rolling programme of revaluations.

18. Net Pensions Liability – there has been a increase in the net pensions liability of £66.759 million. This followed a significant decrease in the reported pensions liability of £234 million in the previous year. This increase is due to change in the actuarial gains based on assumptions made by the Council's Actuary including financial, demographic and changes in experience assumptions.
19. Provisions – the level of provisions has decreased by £2.061 million of which £1.095 million is as a result of a utilisation in respect of the landfill sites provision. In 2013/14 the Council established a landfill site provision to address the restoration and after care in accordance with obligations made to Natural Resources Wales as part of initial permits. Such financial obligations can stretch for over 60 years with potentially significant but uncertain capital and revenue expenditure obligations. This provision is then reduced by the in year costs of meeting the Council's obligations identified in the Aftercare Management Plan for each landfill site. The calculation of the provision includes a number of significant assumptions and the approach adopted impacts on other areas of the statement of accounts such as the Calculation of the Capital Financing Requirement.
20. Other provisions include £495,614 in respect of the early termination fee for the automated public conveniences contract, also included is a provision of £430,234 for the Council's Carbon Reduction Commitment.
21. The accounts (Note 21) reflect a £1 million three year loan provided to Cardiff Bus and repayable in June 2016 as well as reflecting a net decrease in overall Council external borrowing of £2.771 million. The Available for Sale Financial Instruments Reserve contains the gains/losses made by the Council in respect of its investments. During 2014/15 there was a downward revaluation of £2.211 million to £13.563 million in respect of the Council's shareholding in Cardiff Bus. This value is determined by applying a multiplier to the Company's Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA).
22. Capital receipts - Income meeting the definition of Capital receipts during the year totalled £6.064 million, which included sale of land identified in Note 29. This included the £1.7 million in respect of the Right to Buy Scheme and £2.4 million in respect of the various freeholds and retained equities. These amounts are classed as Public Housing capital receipts and are therefore not available for use within the General Fund. As stated in the Council's Budget Report in order to minimise capital financing costs action is required to accelerate the Council's asset base.
23. During the year capital receipts were generated from the sale of industrial units at Oxford Street, land at Oxford Street and Caxton Place. In addition further land appropriations took place in respect of sites to be considered for inclusion in the Housing Partnering scheme being developed to increase the level of affordable housing in the city. The total value of the appropriation from the General Fund to the Housing Revenue Account during 2014/15 was £1.1 million.
24. The Statement of Accounts also includes a note in respect of contingent assets and liabilities. There is little change to the inclusion compared to 2013/14, however the contingent liabilities in respect of missing the 2013/14 recycling target has been removed.
25. In respect of Financial Instruments details of both borrowing and investments are included in the Statement of Accounts at Note 21. This information will be familiar to

Audit Committee given their role in scrutinising the Council's Treasury Management Strategy and Practices.

26. 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, and calculation of provisions and impairment of financial instruments.

Pension Fund

27. The Cardiff & Vale of Glamorgan Pension fund grew by 12.5% during 2014/15 from £1.49 billion to £1.68 billion as at 31 March 2015. The continuing low interest rates remain a concern while Pension Fund liabilities are also estimated to have increased since the 2013 valuation. The next triennial actuarial valuation of the Fund is due to take place in 2016 and the assumptions adopted within it will affect future year's Pension Fund accounts.
28. The Statement of Accounts includes the Annual Governance Statement for the year 2014/15. 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 unprecedented financial challenges that the Council is facing and notes the impact of reducing staff on the capacity of the organisation and the 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

29. No direct legal implications arise from this report.

Financial Implications

- 30 This report provides Audit Committee Members with a summary of the details included within the 2014/15 Statement of Accounts and provides an opportunity for review and comment prior to the external audit of the Accounts.

RECOMMENDATIONS

That Audit Committee:

- I. Subject to any comments in respect of the 2014/15 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 2014/15 will, prior to being presented to Council, be reviewed by this Committee in September.

CHRISTINE SALTER

Corporate Director Resources
11 June 2015

The following appendix is attached:

Appendix 1 – Unaudited Statement of Accounts 2014/15

Appendix 2 – Summary of Useable Reserves