

COUNCIL: 29 SEPTEMBER 2016

**STATEMENT OF ACCOUNTS 2015/16 AND ANNUAL TREASURY
MANAGEMENT REPORT 2015/16**

REPORT OF THE CORPORATE DIRECTOR RESOURCES

AGENDA ITEM:

Appendix 7, Annexes B & C are not for publication as they contain exempt information of the description in paragraph 14 and 21 of schedule 12A of the Local Government Act 1972.

Reason for this Report

1. The Statement of Accounts for 2015/16 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 2016.
3. In accordance with the Council's Treasury Management Policy Statement, the Annual Treasury Management Report for 2015/16 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 City of Cardiff Council for the financial year 2015/16. 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 on 15 June and the external audit undertaken over a three month period. 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 19 September 2016 where the "Audit of Financial Statements Report" for both the main financial statements and the Cardiff and Vale

Pension Fund were presented by Wales Audit Office. No significant issues were raised by Audit Committee with any suggested clarifications included in the Accounts. The Chair of Audit Committee congratulated all those involved in the production of the Financial Statements and commented positively on the brevity of the ISA260.

City of Cardiff Council Accounts

6. Some of the main points evident in the 2015/16 Statement of Accounts are:
 - 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 Fund balance is 2.68% of the net expenditure budget of the Council for 2015/16. The detailed position in relation to the Outturn Report for the Council was presented to the June 2016 Cabinet meeting.
 - Council Fund Earmarked Reserves including any share of joint committee reserves increased by £18.493 million to £51.637 million as at 31 March 2016. Earmarked reserves are amounts set aside to provide financing for future expenditure plans. Page 44 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 2016. This is available for spending on HRA matters only.
 - There has been an increase in the net pension's liability of £6 million to £553 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 next actuarial valuations of the Pension Fund is to take place in 2016/17, which will update assumptions and set in place a revised long term strategy to manage the deficit.
 - Council dwellings and operational assets excluding schools were revalued during the year. Such movements are accounting adjustments which are reversed elsewhere in the accounts and do not have an impact on the Council tax or rent.
 - 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 during the year.
 - Income meeting the definition of usable capital receipts during the year totalled £11.4 million, which included sale of land identified in Note 30 as page 92 of the Statement of Accounts. 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.
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 significant concerns about the qualitative aspects of your accounting practices and financial reporting but you need to clear old creditors balances from the ledger.** Overall we found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear. However, our testing did identify a number of prior years’ creditors balances which hadn’t been cleared when payments or adjustments had been made. Extended testing provided assurance that these balances were matched by debit entries to other codes and therefore the creditors balance in the accounts was materially correct. But, by not matching creditors and clearing, you increase the complexity of the year end reconciliation process and the testing required to verify figures in the accounts. You also increase the risk that transactions may be included which are not true creditors.
 - **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work.
 - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
 - **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
 - **We did not identify any material weaknesses in your internal controls**
 - **There are no ‘other matters’ specifically required by auditing standards to be communicated to those charged with governance.**

Cardiff and Vale of Glamorgan Pension Fund Accounts

12. The accounts for the Cardiff and Vale of Glamorgan Pension Fund are included in the Statement of Accounts in Appendix 1 (pages 104 to 126) and have been audited by the Wales Audit Office. The auditor’s draft “Audit of Financial Statements Report” for the Pension Fund is attached as Appendix 3.
13. 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.

14. 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.
15. 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.
16. WAO Audit of Financial Statements Report also highlights a number qualitative findings, as follows:
 - **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
 - **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work.
 - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
 - **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
 - **We did not identify any material weaknesses in your internal controls**
 - **There are no 'other' matters specifically required by auditing standards to be communicated to those charged with governance.**

Cardiff Port Health Authority and Cardiff Harbour Authority Accounts

17. 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.
18. 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.
19. No significant uncorrected misstatements were raised during the audit.

Overview of Audit Opinion

20. 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.

21. 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 any recommendations arising.
22. Future years changes in the Statement of Accounts will include:-
 - Implementation of new accounting requirements such as transport infrastructure assets and associated judgements required to be made
 - The need to continue to simplify and de-clutter accounts, with aim of supporting the reader of the accounts
 - The need to minimise the period over which the accounts are prepared and also audited as a result of changes in legislation.
23. The above items will need to be considered with auditors during 2016/17.

Treasury Management Annual Report 2015/16

24. 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 as at 31 March 2016, it indicates compliance with indicators set in the budget report for the year and sets out key issues that are being monitored closely in 2016/17 that could impact on treasury activities.
25. 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.
26. The overall position on investments and external borrowing are:
 - At the 31 March 2016, investments stood at £58 million and were deemed to be fully recoverable. The overall level of interest receivable from treasury investments totalled £0.5 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 Strategies for 2015/16 and 2016/17, with diversification sought where possible. An update on the 2016/17 Mid Year Treasury Management position will be provided to Council in a further report.
 - At the 31 March 2016, the Council had £666.1 million of external borrowing in order to pay for historical capital expenditure, with a further £43 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 4.84% at the 31 March 2016 and total interest paid on the external debt, which includes the Housing Revenue Account, was £32.2 million.

Legal Implications

27. The Report is reported to Council to meet statutory, regulatory and codified requirements to do so.
28. All local authority accounts are required to be made up to 31 March. The accounts must be prepared in accordance with any regulations relating to the keeping of accounts pursuant to the Audit Commission Act 1998, section 27(1) as well as all other applicable statutory provisions. The regulations currently in force are the Accounts and Audit (Wales) Regulations 2005 (as amended) ("the Regulations"). The 2005 Regulations confer specific duties upon 'the responsible financial officer', defined in regulation 2(2) of the 2005 Regulations as the person who, by virtue of the Local Government Act 1972, section 151, is responsible for the administration of the financial affairs of the Council, or if no person is so responsible, the person who is responsible for keeping the accounts of the Council.
29. Regulation 7 of the 2005 Regulations imposes a duty to prepare a statement of accounts and stipulates the form which such a statement shall take and its content. By regulation 9 of the 2005 Regulations, the statement of accounts must be approved by the relevant committee or by the Council meeting as a corporate body as soon as reasonably practicable, and in any event before the 30 September immediately following the end of the financial year. Regulation 9 of the 2005 Regulations also makes provision in respect of the signing and approval of the various forms of accounts required to be prepared under the 2005 Regulations.
30. As soon as reasonably possible after conclusion of an audit, and in any event before 30 September immediately following the end of the financial year, the Council must publish by means other than by reference in documents of meetings, committees or sub-committees, the statement of accounts together with any certificate, opinion or report issued, given or made by the auditor under sections 23(2) and 33 of the Public Audit (Wales) Act 2004 before the date of publication, or, if publication takes place prior to the conclusion of the audit and no such opinion has been given, together with a declaration and explanation of the fact that at the date of publication the auditor has given no opinion, and keep copies available for purchase by any person on payment of such sum as the Council may reasonably require (regulation 10 of the 2005 Regulations).
31. The 2005 Regulations also make provision in respect of arrangements to be made for the public inspection of the accounts (regulation 13). Failure to comply with the requirements laid down by, inter alia, regulations 7 and 10 of the 2005 Regulations constitutes an offence (regulation 21).
32. The approval of the Authority's Statement of Accounts is not a matter for the Cabinet. The Council has not delegated its powers to approve the Statement of Accounts and thus the matter needs to be considered by the Council.

Financial Implications

33. 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 2015/16 in accordance with Council Treasury Management Policy.

34. 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 2017/18 and will inform the medium term financial plans.

RECOMMENDATIONS

Council is requested to:

1. Approve the audited Statement of Accounts for the ended 31 March 2016 (Appendix 1).
2. Note the Audit reports of the Wales Audit Office on the Statement of Accounts of City of Cardiff Council, Cardiff and Vale of Glamorgan Pension Fund, Cardiff Port Health Authority and Cardiff Harbour Authority for the year ending 31 March 2016 (Appendices 2, 3, 4 and 5).
3. Note the final Letters of Representation for City of Cardiff Council, Cardiff and the Vale Pension Fund and Cardiff Port Health Authority.
4. Note that the following documents will be formally signed at the conclusion of the meeting:
 - Statement of Accounts for City of Cardiff Council 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 – Lord Mayor and Corporate Director Resources
 - Annual Governance Statement (within the accounts) – Leader of the Council and Chief Executive
 - Audit Certificate for City of Cardiff Council and Cardiff and the Vale of Glamorgan Pension Fund – Appointed Auditor, Wales Audit Office. To be signed at a later date.
 - Letter of Representation for Cardiff and Vale of Glamorgan Pension Fund – Leader of the Council and Corporate Director Resources
 - Letters of Representation for City of Cardiff Council – Leader of the Council and Corporate Director Resources
 - Letters of Representation for Cardiff Port Health Authority – Leader of the Council and Corporate Director Resources.
5. Note the Treasury Management Annual Report for 2015/16 (Appendix 7).

CHRISTINE SALTER
Corporate Director Resources

The following appendices are attached:

Appendix 1 – Statement of Accounts 2015/16

Appendix 2 – Audit of Financial Statements Report for City of Cardiff Council 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 2015/16

Appendix 7 – Treasury Management Annual Report 2015/16