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Report of the Director of Finance to the meeting of Governance and Audit Committee to be held on 29 September 2016.

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Subject:

STATEMENT OF ACCOUNTS 2015-16

Summary statement:

The 2015-16 Statement of Accounts (SOA) have been externally audited and are now presented to Governance and Audit Committee for approval. The External Auditor (Mazars) has reported their findings in two separate Audit Completion Reports, one for the Council and another for the West Yorkshire Pension Fund. Members are asked to consider these before approving the SOA.

This report provides an overview of the 2015-16 Statement of Accounts and includes a response to the Council's Audit Completion Report.
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Corporate

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1. BACKGROUND

1.1 The Director of Finance approved and issued the unaudited 2015-16 Statement of Accounts (SOA) by 30 June 2016 in accordance with the Accounts and Audit Regulations 2011. In accordance with these Regulations, Members are also asked to approve the audited SOA on or before 30 September 2016.

1.2 The Council has issued Mazars (the External Auditor) with a written representation about the Council's financial statements and governance arrangements. Mazars have included this representation letter in the Audit Completion Report. Members are required to consider the Representation Letter before the auditor issues the opinion.

1.3.1 This report shows the position of the external audit as at Thursday 15 September. Following the completion of the external audit, an update will be provided as appropriate.

2. KEY MESSAGES

a) Significant items included in the SOA

- At 31 March 2016 the Council's net worth, the total value of its financial assets less the value of its outstanding liabilities, decreased by £25.6m. This decrease was mainly due to net reductions in the valuations of land and buildings.
- Overall at 31 March 2016, the Council also has a small negative net worth of £42.2m, compared to a negative net worth of £16.5m at 31 March 2015.
- The Council has a negative net worth mainly due to net pension liabilities of £700m and net liabilities of £134.5m for schools built under the Private Finance Initiative (PFI) that have converted to academies. The last tri-annual valuation of the Pension Fund has put in place a plan to recover the pension deficit over the next 20 years. The net PFI liabilities are funded each year with a government grant.
- A factor that has impacted significantly in past years on the Council's net worth has been the conversion of schools to academies. This is treated in the SOA as a disposal of assets for nil payment, which reduces the financial assets shown on the balance sheet. Only two schools converted to Academies in 2015-16. However, only one of these schools, with a net value of £7.1m, was included on the Council's opening Balance Sheet and treated as a disposal for nil value (Paragraph 4.1.b). The other school was a Voluntary Aided School and therefore not included on the Council's opening 2015-16 balance sheet.
- At 31 March 2016 the Council had £19.9m of unallocated reserves available to support budget decisions. However, £6.1m of this has already been used to fund the 2016-17 budget. After retaining £10.8m as a General Fund balance and ring fencing £33.8m of school balances, this leaves £103m of earmarked reserves to deliver ongoing Council priorities and fund anticipated liabilities. To support the capital programme, there are also reserves of £34.5m made up of capital grants and receipts from asset sales (Para 4.1h).
- The SOA also shows the Council had £22.7m (£21m at 31 March 2015) set aside in provisions to meet obligations arising from past events. Mainly these obligations are: termination costs due to planned staffing reductions; refunds of Business Rates

due to appeals, and insurance excesses on claims against the Council (Paragraph 4.1g). At 31 March 2016, there was a £1.7m increase in provisions compared to 31 March 2015. This was due to an increase of £3.7m in the amounts set aside for termination costs, a £1.5m reduction in Bradford's share of the Business Rate provision and a £0.5m reduction mainly on the insurance provision.

- The Collection Fund Statement shows Council Tax and Business Rate income collected by the Council and its redistribution to itself and other organisations. The redistribution in 2015-16 was set before the start of the financial year and cannot be changed. However, Bradford's actual share of the Council Tax collected was £2.6m higher than budgeted, mainly due to property growth and a lower cost of Council Tax reduction. Bradford's share of Business Rates collected was £11.7m lower than budgeted, because of refunds arising from appeals. These variations between the total of the redistributions paid out in 2015-16 and the amount of Council Tax and Business Rates collected in the year were factored into the 2016-17 budget.
- The Comprehensive Income and Expenditure (CI&E) Statement (page 20 SOA) shows a deficit on the provision of services of £85.3m in 2015-16. However, this deficit includes accounting adjustments, such as valuation changes on land and buildings. After removing accounting adjustments which are not chargeable against Council Tax, services spent £0.8m less than the approved 2015-16 net budget of £400.8m.
- £70.4m was invested in capital projects across the district. 26% of this capital investment was funded by internal borrowing, with the remainder funded from grants, revenue contributions and capital receipts (page 15 SOA).

b) Summary of the External Auditor's findings in respect of the SOA and agreed amendments

- There are no matters to bring to Members' attention in connection with the significant risks and key judgements set out in the 2015-16 Audit Strategy Memorandum.
- There was no material misstatement in the draft 2015-16 SOA and no misstatements on the main statements.
- There were a small number of adjustments to the disclosure notes.
- None of the misstatements impact on the General Fund balance or usable reserves as at 31 March 2016.

3. CHANGES IN ACCOUNTING POLICIES IN 2015-16 AND PRIOR YEAR ADJUSTMENTS

3.1 There were no changes to accounting policies in 2015-16 and no prior year adjustments, apart from minor adjustments on disclosure notes.

4 SIGNIFCANT ITEMS INCLUDED IN 2015-16 SOA

The Council's full set of accounts runs to 137 pages and its content is prescribed by statutory accounting standards. Listed below therefore are the significant matters Members may wish to take into account when assessing the Council's financial resilience to deal with continuing real term reductions in funding and to take into consideration before approving the 2015-16 SOA.

4.1 Balance Sheet (page 21)

a) Net worth (total reserves)

The Council's net worth, the total value of its financial assets less the value of its outstanding liabilities, is shown on the Balance Sheet. At 31 March 2016 the Council's net worth decreased by £25.6m from £16.5m to a negative net worth of £42.2m.

Included in the £25.6m reduction in the net worth of the authority was a reduction of £59m in the values of the land and buildings shown on the Balance Sheet. This is because in a five year cycle, a separate valuation is produced for one-fifth of the Council's material land and buildings, except those held for investment purposes which are valued each year.

The reduction caused by the valuation of land and buildings was partially compensated by a reduction in the Pension Fund deficit by £33.5m. Overall though, the Council's Pension Fund deficit of £700m at 31 March 2016 is still by far the largest cause of the Council's negative net worth.

However, the actuarial estimate of the Council's Pension deficit for the purposes of the SOA (the IAS 19 valuation), which follows required accounting practice, uses a set of assumptions regarded within the pension industry as cautious. In interpreting the IAS 19 deficit it is also important to be aware that it is very sensitive to any changes to the underlying assumptions. For example, each 0.1% increase in one of the underlying assumptions, such as the discount rate, reduces the actuary's estimate of the liability by £42m. An alternative actuarial estimate, the tri-annual valuation, using different assumptions, estimated the deficit at £63m as at 31 March 2013. This tri-annual valuation, in contrast to the IAS 19 valuation, uses less cautious assumptions about the growth of investments and treats the Pension Fund as a going concern. It also includes a plan to pay back the deficit, which is being followed by the Council.

Another significant element of the overall net worth is the PFI liability of £134.5m but as this will be funded from an annual government grant, there are no funding implications for the Council. (The balance sheet does not show the future receipt of this Government grant as an asset.)

Future accounting changes, which will be reflected in the 2016-17 SOA also mean that the Highways Network Asset, rather than being valued at historical cost, will be shown at depreciated replacement cost. This will massively increase the Council's net worth, far in excess of the current £42.2m negative net worth.

b) Long term assets - Property, Plant and Equipment - Note 9 Page 44

Long terms assets mostly comprising Property, Plant and Equipment has decreased by £53m from £1,202m at 31 March 2015 to £1,149m at 31 March 2016.

This decrease is made up of the £59m net reductions in the valuations of land and buildings, as noted above. Further, a decrease was caused by a £43m depreciation charge, as well as a £13m loss on disposal. All these decreases were partially compensated by an additional £62m of expenditure, per the capital programme, on the Council's land and buildings.

The £13m loss on disposal is made of £7.1m disposal caused by a school converting to an academy, £5.7m on other land and buildings and £0.2m on vehicles, plant and equipment.

In 2015-16, two of the Council's schools converted academies. Only one of these, Belle Vue Boys' school, was a Community School previously shown on the balance sheet and so disposed of for nil value. It is this school which caused the £7.1m loss on disposal.

The other school that converted to an academy, Immanuel College, was a voluntary aided school. As such it was already excluded from the opening Council's Balance Sheet. The Council is unable to exercise sufficient day to day control over voluntary aided schools to meet the accounting definition for inclusion on its Balance Sheet.

The table below categorises all Bradford schools and sets out the accounting treatment.

Type of school	2014-15	2015-16	Accounting Treatment
Community	92	91	On Balance Sheet
Special Schools	6	6	On Balance Sheet
Foundation	13	13	2 Church of England Off Balance Sheet, 11 owned by Governing Bodies On Balance Sheet
Voluntary Aided	30	29	Off Balance sheet
Voluntary Controlled	12	12	Off Balance sheet (with the exception of 5 VC schools the Council still holds the legal title)
Academies	32	35	Off Balance sheet
Trust	5	5	Off Balance sheet
TOTAL SCHOOLS	**190**	**191***	
Nurseries	7	7	On Balance Sheet

* The total number of schools has increased due to the opening of Bradford Forster Academy in September 2015.

c) Heritage Assets (Note 12, Page 47)

The £36.3m valuation at 31 March 2016 for Heritage assets showed a small increase of £0.5m above the valuation of £35.8m at 31 March 2015. The £0.5m increase mainly relates to a donation of portraits, statues and furniture during the year.

d) Investment Properties (Note 13, Page 48)

The value of investment properties at 31 March 2016 was £45.7m, showing a reduction of £2.2m. This reduction was mainly due to downward revaluations of the properties.

e) Long term borrowing (Note 47c, Page 91)

When the Council's long term assets of £1.149bn at 31 March 2016 are compared to the Council's long term borrowing of £306m and long term gross PFI liability of

£194m, this gives a ratio of long term borrowing to fixed assets of 0.44 (0.44 in 2014-15) .

The Council's latest Medium Term Financial Plan sets out a strategy to reduce the overall Capital Financing Requirement (CFR) and thereby pay lower capital financing charges in future years. In 2015-16 as capital funding set aside in the financial year was over and above the amount which was spent on the capital programme, the Council's CFR reduced by £13.6m.

The Medium Term Financial Plan also aims to lower the reliance on external borrowing. In accordance with this strategy, £53.6m was paid back in 2015-16 and £25.9m of external borrowing is due to be paid back in 2016-17.

f) Current assets (Note 18, Page 50)

The Council's short term liquidity is good with a positive ratio of current assets of £161m (£242m in 2015) compared to current liabilities of £133m (£178m in 2015).

Also at £78m at 31 March 2016 (£149m at 31 March 2015), the Council's and schools' cash and short term investments balances remain strong. As a result, in 2015-16, the Council did not have to borrow any cash from external organisations to fund capital expenditure, but was able to use its own cash balances.

g) Provisions (Note 20, Page 53).

At 31 March 2016 the Council held £22.7m compared to £21m as at 31 March 2015. The Business Rate provision decreased from £7.5m is 2014-15 to £5.9m in 2015-16. This was because the provision was used to fund successful appeals against the rateable values of GP surgeries.

Other notable movements in provision balances in year were as follows:

- £8.4m was set aside at 31 March 2016 to fund future redundancy payments for voluntary redundancies agreed as part of the 2016-17 saving proposals. This compares with £4.6m set aside at 31 March 2015.
- Provisions set aside for insurance claims reduced slightly from £8.3m at 31 March 2015 to £7.8m at 31 March 2016. This reduction was not caused by a reduction in claims, but reflected current trends showing slightly less needed to be set aside against the claims to pay the insurance excess.

h) Reserves (Note 5, Page 41)

At 31 March 2016 the Council had £19.9m of unallocated reserves available to support future budget decisions, £6.1m (44%) of which has already been used to support 2016-17 budget decisions. This leaves just £13.8m of unallocated reserves.

After retaining £10.8m as a General Fund balance and ring fencing £33.8m of school balances, this leaves the Council with £103m of resources to meet the cost of future commitments, political priorities and specific financial risks. There is also £34.5m of capital receipts and grants to fund the capital programme.

Reserves	31 March 2015 £m	31 March 2016 £m
Total	218.0	202.2
Comprising;-		
Corporate earmarked reserves to cover specific financial risks or initiatives	47.7	38.9
Reserves to support the capital investment plan	13.9	13.1
Service earmarked reserves supported by spending plans	30.6	42.8
Grants received but not yet used for their specified purposes	9.1	8.4
General Fund balance	10.8	10.8
School balances	38.4	33.8
Capital grants and receipts	33.8	34.5
Unallocated corporate reserves	33.7	19.9
Unallocated reserves used immediately to support following year's budget	-14.8	-6.1
Remaining unallocated corporate reserves	**18.9**	**13.8**

Further information on the Council's Reserves can be found in Note 5, Page 41.

i. Pension Liability (Note 31, Page 66)

There was a £33.5m reduction in the Council's Pension Fund deficit, leaving a shortfall of £700m as at 31 March 2016.

The overall reduction in the deficit comprises a gross £46m reduction in the estimated cost of future promises to pay pensions, netted off by a £13m decrease in the value of assets held to fund them.

The small changes in the value of pension promises and assets detailed above are caused by the impact of inflation rates, gilt markets and asset values as at 31 March 2016 on the model used by the actuary to calculate the IAS 19 pension valuation.

4.2 Comprehensive Income and Expenditure Statement (CIES) – Page 20

a) Financial Outturn and Deficit on the Provision of Services

In the Narrative Report (page 11) the Director of Finance reports that in 2015-16 net revenue spending was £400m, which was £0.8m lower than budgeted.

In contrast, the CIES shows a £85.3m deficit on the provision of services. However, many of the transactions that make up this adjustment are technical accounting adjustments which by statute cannot be charged against Council Tax. Examples of these technical accounting adjustments are depreciation, losses on the disposal of assets and revaluation losses.

Because these adjustments cannot be charged against Council Tax, they are reversed out in the Movement in Reserves Statement (MIR). Within the MIR, the £0.8m underspend forms part of the net £11.8m transfer out of earmarked reserves (line O, MIR, page 19) and line B Note 5, page 41.

4.3 Collection Fund Statement – Page 94

The Collection Fund Statement shows the in-year collection of Council Tax and Business Rates, less the amounts to be redistributed.

The amounts to be redistributed were set prior to the 2015-16 financial year, firstly based on estimates of the amount of Council Tax and Business Rates that would be collected. However, for Business Rates, the estimate also included a statutory deficit of £2.7m, in order to spread the cost of backdated appeals.

At 31 March 2016, the Collection Fund Statement shows an overall cumulative deficit of £20.8m at the end of 2015-16. The deficit comprises a £3.1m Council Tax surplus less a £23.9m Business Rates deficit. The Council's respective share of these amounts are a £2.6m Council Tax surplus and a £11.7m deficit on Business Rates.

However, the surplus on Council Tax and the deficit on Business Rates were anticipated when the redistributions were set for the 2016-17 financial year (see 'Calculation of Bradford's Council Tax Base and Business Rates Base for 2016-17' Executive Tuesday 12 January 2016). Therefore Bradford's share of Council Tax and Business Rates included in the 2016-17 budget already takes account of the cumulative deficit on the Collection Fund in the 2015-16 SOA.

The Council Tax surplus was caused by property growth and a lower cost for the Council Tax reduction scheme. Bradford's £11.7m deficit on Business Rates was mainly caused by the cost of backdated refunds on appeals, especially appeals against the rateable values of GP surgeries.

5.0 RESPONSE TO THE AUDIT COMPLETION REPORT

The External Auditor's Audit Completion Report (ACR) which summarises findings from the 2015-16 Audit is subject to a separate report to this Committee. Members are asked to consider this report before approving the 2015-16 SOA.

The purpose of ACR is to highlight areas of risk and weakness, not those areas of the accounts which are being undertaken correctly. Any misstatements with a value over £0.486m (the External Auditor's triviality threshold) have been reported separately. Misstatements are classified as material if they exceed £19.425m.

A distinction has been made between those misstatements that affect the main statements of the accounts and those that affect the disclosure notes.

As discussed, in 2015-16 the draft SOA contained no misstatements that affected the main statements and four misstatements that affected the disclosure notes.

5.1 Misstatements identified as part of the Audit which the Council has amended

5.1.1 Main Financial Statement Changes (Balance Sheet, CIES, Movement in Reserves Cash Flow, and Collection Fund) changes

a) There are no changes to the main statements

5.2.2 Disclosure Notes

a) Within the service analysis in the resource allocation, Revenues and Benefits has been shown as a separate segment.

b) There were a small number of changes to ensure consistency between different notes in the accounts, improve presentation and in once instance, update a previous year's figure. The most significant of these related to the note on assumptions about major sources of estimation uncertainty and the Narrative Report.

c) The Better Care Fund arrangement has been added to the Pooled Budget note.

d) There were two adjustment to the disclosure note for employee remuneration, in accordance with the detailed requirements of the accounting regulations.

6.0 Events after the Balance Sheet Date

Post balance sheet events only require adjustments to the SOA if they impact on assets and liabilities at 31 March 2016. There are no adjusting post balance sheet events.

Since 1 April, thirteen schools have agreed to transfer to Academy status. Of these two were already excluded from the balance sheet due to being Voluntary Aided and Trust schools. The other eleven schools, with an estimated value of £50.5m at 31 March 2016, will be removed from the 2016-17 Balance Sheet when a 125 year peppercorn lease is completed. Also a 125 year lease has been completed for University Academy Keighley representing a disposal for nil consideration of assets with an estimated value of £14.4m at 31 March 2016.

There are likely to be additional academy conversions in 2016-17.

The economic and market impact of the EU referendum result remain unclear and continue to be monitored.

7.0 ANNUAL GOVERNANCE STATEMENT

The Annual Governance Statement was considered by this Committee in June and is now published alongside the SOA (Appendix A).

8.0 WEST YORKSHIRE PENSION FUND

The Auditor's Annual Completion Report on the West Yorkshire Pension Fund in the statements reports no matters of concern regarding the quality of the accounting practices, policies, estimates and disclosures.

9.0 RECOMMENDATIONS

The 2015-16 Statement of Accounts be approved and signed by the Chair of Governance and Audit Committee.

10.0 APPENDICES

Appendix A: The latest Statement of Accounts 2015-16 as at 15 September. A revised statement of accounts will be provided at the meeting if appropriate.