Report of the Strategic Director – Corporate Services to the meeting of Governance and Audit Committee to be held on 28 September 2017.

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Subject:

STATEMENT OF ACCOUNTS 2016-17

Summary statement:

The 2016-17 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 2016-17 Statement of Accounts and includes a response to the Council's Audit Completion Report.

Stuart McKinnon Evans
Strategic Director - Corporate Services

Report Contact: James Hopwood
Phone: (01274) 432882
E-mail: James.Hopwood@Bradford.gov.uk

Portfolio:

Corporate

Improvement Area:

Corporate

Parveen Akhtar: City Solicitor

1. BACKGROUND

1.1 The Strategic Director, Corporate Services approved and issued the unaudited 2016-17 Statement of Accounts (SOA) by 30 June 2017 in accordance with the Accounts and Audit Regulations 2015. In accordance with these Regulations, Members are also asked to approve the audited SOA on or before 30 September 2017.

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 Tuesday 19 September. Following the completion of the external audit, an update will be provided as appropriate.

2. KEY MESSAGES

a) Significant items in the SOA

- The total value of the Council's financial assets was less than its outstanding liabilities, as measured by accounting rules. The Council had a negative net worth of £292m at 31 March 2017.
- The overriding reason for the negative net worth is that the valuation of the pension fund shows a deficit of £829.9m. This deficit represents a future shortfall between long-term pension benefits promised to employees and the investments set aside to fund them. The comparison between pension benefits and investments looks into the future, so is sensitive to the assumptions used to do this.
- The pension fund deficit shown in the SOA is based on a projection of the future using assumptions prescribed to a large extent by accounting rules. However, different assumptions are used in the triennial valuation of the pension fund, commissioned by the West Yorkshire Pension Fund to determine Bradford's actual pension contributions. Using these different assumptions suggests that the costs of pension benefits versus investments are more in balance. Also, as the triennial valuation determines pension contributions and these are fully allowed for in the Medium Term Financial Plan, the deficit shown in the SOA has no cash flow impact.
- Contributing to the negative net worth are net liabilities of £143m for schools built under the Private Finance Initiative (PFI). There is a net liability because while the Council is still paying for the building costs, accounting rules mean that the schools cannot be shown on the balance sheet. The schools converted to academies and accounting rules determine that the Council exercises insufficient control over academies to include them on its balance sheet. It should be noted though, that the Council receives a Government grant each year to pay off the building cost for the schools, so the net liability has no cash flow impact or implication for the Medium Term Financial Plan.
- Other schools, in addition to those funded by PFI, converted to academies in 2016-17 contributing to the Council's negative net worth. The conversion of schools to

academies was the main cause of the £125.9m reduction in the value of long term assets shown on the Council's balance sheet.

- Other significant items in the SOA are the £20.4m (£22.7m at 31 March 2016) set aside in provisions. These provisions are for past commitments up to 31 March 2017 which have a financial cost and require payment at a future date. The provision includes amounts set aside for expected redundancy costs, due to past budget decisions to reduce staffing. A provision has been set aside to pay for successful appeals against Business Rates. There is a provision to contribute to insurance pay-outs on submitted claims against the Council up the 31 March 2017.
- The long term borrowing shown on the Council's balance sheet increased by £16m to £322m in 2016-17. This was due to £26m of new borrowing in 2016-17 less £10m of previous borrowing due to be repaid in 2017-18, shown as a short term creditor on the balance sheet.
- Total expenditure on the capital programme in 2016-17 was £61.5m including £6.2m on affordable housing, £5.4m on expanding primary school provision and £3.7m on disabled adaptations in residents' homes. 20% of this capital programme was funded by internal borrowing, with the remainder funded from grants, revenue contributions and capital receipts (page 15 SOA).
- The Comprehensive Income and Expenditure (CI&E) Statement (page 22 SOA) shows a deficit on the provision of services of £150.5m in 2016-17. However, this deficit includes accounting adjustments, such as valuation changes on land and buildings, which have no cash flow impact. After removing these, which are also not chargeable against Council Tax, services spent £0.3m less than the approved 2016-17 revenue budget of £378m.
- Overall, the Council held £191.3m of useable reserves at 31 March 2017. £38.3m of this is available to fund the capital programme in future years, with the remainder to fund anticipated liabilities, direct to Council priorities and support budgets.
- The Collection Fund Statement shows Council Tax and Business Rates collected by the Council and how this income is distributed between the Council and other parts of the public sector. Overall, the results for 2016-17 show just a small £0.2m pressure for the Medium Term Financial Plan.

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

- There was no material misstatement in the draft 2016-17 SOA and no misstatements on the main statements.
- There are no matters to bring to Members' attention in connection with the significant risks and key judgements set out in the 2016-17 Audit Strategy Memorandum.
- There were a very small number of changes on the disclosure notes. None impacted on the General Fund balance or usable reserves as at 31 March 2017.

3. CHANGES IN ACCOUNTING POLICIES IN 2016-17 AND PRIOR YEAR ADJUSTMENTS

3.2 A new accounting policy introduced in 2016-17 requires income and expenditure to be categorised according to the Council's structure – e.g Department of Place. Previously income and expenditure was categorised using nationwide standard classifications, rather than the Council's structure. The main impact of this change is on the Comprehensive Income and Expenditure Account. However, there are also some minor changes to disclosure notes and a requirement for additional disclosures.

3.2 In line with accounting rules on changes in accounting policy, there was also a requirement to restate the 2015-16 Comprehensive Income and Expenditure Account.

4 SIGNIFCANT ITEMS INCLUDED IN 2016-17 SOA

The Council's full set of accounts runs to 139 pages and its content is prescribed by statutory accounting standards. Listed below therefore are the significant matters Members may wish to consider when assessing the Council's financial position before approving the 2016-17 SOA.

4.1 Balance Sheet (page 23)

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 2017 the Council's net worth decreased by £249.8m from a negative net worth of £42.2m to a negative net worth of £292m.

The most significant contribution to the decrease in net worth was an adverse valuation of the pension fund, increasing the deficit by £129.7m to £829.9m. This valuation was based on accounting rules and is known as the International Accounting Standards (IAS) 19 valuation.

As discussed, there is another pension fund valuation, called the triennial valuation, which presents a much more positive picture. Adjusting for elements of the pension fund deficit that are excluded from the triennial valuation, this suggests a deficit of around £130m.

The overriding factor causing the difference between the triennial and IAS19 valuation are the long term assumptions about the rate of decline in the value of money, or broadly speaking, the inflation rate. This is because the future pension promises to employees are expressed in monetary amounts, so when the value of money declines, the real cost of paying pensions is reduced. A key point, therefore, about the pension deficit shown in the SOA is that the true position is contingent on the future value of money. The deficit position presented in the SOA changes substantially with very small changes to this assumption. So a 0.1% decline in the assumed value of money reduces the IAS19 pension deficit by £48m.

There are other differences in assumptions between the triennial and IAS19 valuation, such as in life spans and the growth in investments set aside to pay pensions. However, these differences are of less overriding significance than the assumed future value of money.

As noted previously, the net pension deficit is showing the position over the very long term. There are also no liquidity implications because Bradford's employer pension contributions are based on the triennial valuation.

Another significant element of the overall net worth is the PFI liability of £143.009m 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.)

Last year it was also reported to the Governance and Audit committee that the Council's net worth was expected to increase because future changes to accounting rules would increase the values placed on some of the Council's long term assets. However, these changes to accounting changes were never made because of practical difficulties relating to the implementation.

b) Long term assets - Property, Plant and Equipment - Note 9 Page 46

Long term assets mostly comprise Property, Plant and Equipment. They declined by £126m from £1,149m at 31 March 2016 to £1,023m at 31 March 2017.

This main reason for this decline was £132m of disposals relating to property, plant and equipment. However, most of these related to the conversion of schools to academies. At the point of conversion, accounting rules require the schools to be removed from the Council's Balance sheet for nil consideration. This is because the Council exercises insufficient control over academies, to meet accounting tests to include them on the balance sheet.

Overall 29 of the Council's maintained schools converted to academies during 2016-17, in effect treated as disposals for nil value in the SOA. A further 8 schools converted to academies but were already excluded from the balance sheet because, for instance, they were voluntary aided schools over which the Council also exercises insufficient control. The table below summarises all Bradford schools and sets out the accounting treatment.

Type of school	2015-16	2016-17	Accounting Treatment
Community	91	68	On Balance Sheet
Special Schools	6	6	On Balance Sheet
Foundation	13	9	2 Church of England Off Balance Sheet, 7 owned by Governing Bodies On Balance Sheet
Voluntary Aided	29	24	Off Balance sheet
Voluntary Controlled	12	10	Off Balance sheet (with the exception of 3 VC schools the Council still holds the legal title)
Academies	35	72	Off Balance sheet
Trust	5	2	Off Balance sheet
TOTAL SCHOOLS	**191**	**191**	
Nurseries	7	7	On Balance Sheet

Other changes on property, plant and equipment include £50.5m of capital expenditure, £36.8m of depreciation and £8m of net revaluation reductions.

The £50.5m of capital expenditure directly added to the value of long term assets is less than the £61.5m total of the capital programme. The remaining £11m of expenditure in the capital programme was on assets that the Council does not own, such as disabled adaptations in resident's homes. As a result, it does not increase the value of the Council's assets.

The £36.8m depreciation charge in 2016-17 represents a cost of using up one year of the finite lives of the property, plant and equipment held by the Council.

The £8m of revaluation reductions is mainly from the 5 year revaluation programme of the Council's assets. The revaluation assesses usage value for the Council of the assets over their life. Of the £8m net reduction, all the largest reductions relate to school buildings and land.

c) Heritage Assets (Note 12, Page 49)

The £36.9m valuation at 31 March 2017 for Heritage assets showed a small increase of £0.6m above the valuation of £36.3m at 31 March 2016. The £0.6m increase mainly related to a donated Heritage asset in 2016-17.

d) Investment Properties (Note 13, Page 50)

The value of investment properties at 31 March 2017 was £48.6m, showing an increase of £2.2m. This increase was mostly due to the revaluations of the properties.

e) Provisions (Note 20, Page 54).

At 31 March 2017 the Council's provisions of reduced slightly to £20.4m compared to £22.7m as at 31 March 2016.

Notable movements in provision balances in year were as follows:

- £5.9m was set aside at 31 March 2017 to fund future redundancy payments for voluntary redundancies agreed as part of the 2017-18 saving proposals. This compares with £8.4m set aside at 31 March 2016.
- Provisions set aside for insurance claims reduced slightly from £7.8m at 31 March 2016 to £7.4m at 31 March 2017.
- The Business Rate provision decreased from £5.9m in 2015-16 to £5.8m in 2015-16.

f) Long term borrowing (Note 47c, Page 94)

When the Council's long term assets of £1.023bn at 31 March 2017 are compared to the Council's long term borrowing of £322m and long term gross PFI liability of £185.902m, this gives a ratio of long term borrowing to fixed assets of 0.50 (0.44 in 2015-16).

The higher ratio in 2016-17 is driven by the reduction in long term assets, which in turn, as noted above, is caused mainly by the conversion of schools to academy status.

g) Current assets (Note 18, Page 52)

The Council's short term liquidity is good with a positive ratio of current assets of £154m (£161m in 2016) compared to current liabilities of £116m (£133m in 2016).

Also at £70m on 31 March 2017 (£78m at 31 March 2016), the Council's and schools' cash and short term investments balances remain strong. This includes the £26m of new borrowing from the Public Works Loan Board in 2016-17.

h) Reserves (Note 5, Page 43)

At 31 March 2017 the Council had £153m of earmarked revenue reserves. £16.8m of reserves were used straight away to support the 2017-18 budget. After further retaining £10.8m as a minimum General Fund balance and ringfencing £25.2m of reserves owned by schools, the Council has £100.2m. These are required to meet the cost of future commitments, political priorities and specific financial risks. There are also £38.3m of grants and receipts to fund the capital programme.

Reserves	31 March 2016 £m	31 March 2017 £m
Corporate earmarked reserves to cover specific financial risks or initiatives	39.9	38.0
Reserves to support the capital investment plan	13.1	14.4
Service earmarked reserves supported by spending plans	41.8	41.7
Grants received but not yet used for their specified purposes	8.4	8.4
General Fund balance	10.8	10.8
School balances	33.8	25.2
Unallocated corporate reserves	19.9	14.5
Sub-total revenue reserves	**167.7**	**153.0**
Capital grants and receipts	34.5	38.3
Total	**202.2**	**191.3**
Unallocated reserves used immediately to support following year's budget	-6.1	-16.8
Remaining reserves	**196.1**	**174.5**

Further information on the Council's Reserves can be found in Note 5, Page 43.

4.2 Comprehensive Income and Expenditure Statement (CIES) – Page 22

a) Financial Outturn and Deficit on the Provision of Services

The Comprehensive Income and Expenditure statement (page 22), reports that the 2016-17 deficit on the Comprehensive Income and Expenditure Account is £249.9m, compared to £25.6m in 2015-16.

However, many of the transactions that make up this deficit are technical accounting adjustments which by statute cannot be charged against Council Tax. For example, accounting rules require adjustments for revaluation losses when a valuer determines a change in a buildings value. These revaluation losses are nominal only as they have no impact on cash flow – they have not been realised, for instance, through the sale of the property.

As these adjustments cannot be charged against Council Tax, they are reversed out in the Movement in Reserves Statement (MIR). Once this reversal is taken into account, there was an £0.3m underspend compared to the budget, as shown in the 2016-17 Annual Financial and Performance Report (Executive 11 July 2017). Within the MIR, the £0.3m underspend forms part of the net £6.2m transfer out of earmarked reserves (line O, MIR, page 21).

4.3 Collection Fund Statement – Page 97

The Collection Fund Statement shows the in-year actual collection of Council Tax and Business Rates, less amounts to be distributed. Distributions for Council Tax are to the Council, Police, Fire and Parishes. Distributions for Business Rates are to the Council, Government and Fire.

The 2016-17 distributions are legally fixed amounts. They were based on budgeted income for Council Tax and Business Rates, set prior to the start of 2016-17 but before the end of the 2015-16 financial year. Specifically 2016-2017 budgeted income is 2016-17 expected total tax collection adjusted for an anticipated surplus or deficit brought forward from the previous financial year.

For 2016-17, Bradford's actual share of the Council Tax collected was £1.8m higher than budgeted income, mainly due to lower uncollected debt. This £1.8m surplus was overestimated by £0.2m when setting the 2017-18 budget. The final result, therefore, is a £0.2m pressure on the Medium Term Financial Plan.

Bradford's 2016-17 actual share of Business Rates collected was £5.8m lower than originally budgeted, mainly due to more successful appeals against rateable values. However, this variation was fully anticipated when the 2017-18 budget was set so there is no impact on the Medium Term Financial Plan.

5.0 RESPONSE TO THE AUDIT COMPLETION REPORT

The External Auditor's Audit Completion Report (ACR) summarises findings from the 2016-17 audit of the draft SOA.

The ACR identified no significant risks to the production of the SOA, no material errors and no misstatements whatsoever on the main statements.

The ACR identifies a very small number of trivial errors from the extensive sampling exercise undertaken by external auditors, typically relating to estimated debtors or creditors. The ACR extrapolates these errors against all transactions in the SOA to show a potential impact of around £1m. This is less than 0.1% of the gross expenditure shown in the Comprehensive Income and Expenditure account: £1,194m.

The ACR identifies five amendments on the disclosure notes. These are listed below:

a) The narrative disclosure for the Private Finance Initiative (Note 36) for the closing value of assets held under the scheme was amended by £0.6m to £26.639m to correct a typing error.

b) There were some minor changes to the Exit Package disclosure note. Total costs were reduced by £0.081m compared to £3.5m total costs shown in the draft SOA.

c) The format of the Expenditure Funding Analysis disclosure note was amended to increase clarity for readers (this was a new disclosure note required in 2016-17).

d) The narrative for prior period adjustments was amended to clarify that the basis for the re-statement of the Comprehensive income and expenditure presentation was due to changes in the CIPFA Code of Practice on Local Government Accounting 2016/17.

e) There were minor presentational changes to some other disclosure notes to improve clarity.

6.0 Events after the Balance Sheet Date

There are two types of post balance sheet event. Adjusting events require restatement of the SOA where they change the value of assets and liabilities as at 31 March 2017. The Council has no adjusting events.

There are also non adjusting post balance sheet events, where there is an impact on assets and liabilities after 31 March 2017. These are disclosed in the SOA and are listed below:

- Since 1 April, three Community schools have transferred to academy status. These are High Park Special School; Priestthorpe Primary School and Pheonix Special School. These Schools, which had an estimated value of £14m at 31 March 2017, will be removed from the 2017-18 Balance Sheet when a 125 year peppercorn lease is completed. Further a long term lease on Appleton Academy, which previously transferred to Academy Status, completed in August so a further £20.1m will be removed from the 2017-18 Balance Sheet in 2017-18.

- In addition, there was a fire on 14th June at Wyke Manor Sports Hall. Its value on the Council's balance sheet at 31 March 2017 was £0.563m. The cost to the Council is the excess on the insurance policy which amounts to £0.120m.

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 West Yorkshire Pension Fund accounts are included in the SOA.

9.0 RECOMMENDATIONS

The 2016-17 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 2016-17 as at Tuesday 19 September. A revised statement of accounts will be provided at the meeting if appropriate.