City of BRADFORD
METROPOLITAN DISTRICT COUNCIL

Report of the Assistant Director – Finance and Procurement to the meeting of Governance and Audit Committee to be held on 30 July 2018.

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Subject:

STATEMENT OF ACCOUNTS 2017-18

Summary statement:

The 2017-18 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 2017-18 Statement of Accounts and includes a response to the Council's Audit Completion Report.

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Portfolio:

Corporate

Improvement Area:

Corporate

1. BACKGROUND

1.1 The Assistant Director – Finance and Procurement approved and issued the unaudited 2017-18 Statement of Accounts (SOA) by 31 May 2018 in accordance with the Accounts and Audit Regulations 2015. Per these same Regulations, Members are also asked to approve the audited SOA on or before 31 July 2018.

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 also 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 Wednesday 18 July. Following the completion of the external audit, an update will be provided as appropriate.

2. SIGNIFICANT ITEMS INCLUDED IN THE STATEMENT OF ACCOUNTS

- At 31 March 2018, the Council held £203m of useable reserves and balances, an increase over the previous year. Of this amount, £37m is held to fund capital expenditure.

- The reason for the increase in useable reserves was the rescheduling of nominal debt repayments. More debt has been paid in previous years than required under the new scheduling. To align with the new scheduling, less debt repayments are required in 2017-18, reducing spend and increasing useable reserves.

- Another key point is that the total value of the Council's financial assets was less than its outstanding liabilities, as measured by accounting rules. This means that the Council had a negative net worth of £265m on its balance sheet at 31 March 2018.

- The reason for this negative net worth is that the valuation of the pension fund shows a deficit of £824m.

- This pension fund deficit is based on one projection of the future using assumptions prescribed by accounting rules. There is already a plan in place to finance future pension costs. This plan is based on the triennial valuation. It projects an alternative view of the future in which the costs of pension benefits versus investments are more in balance. It also determines Bradford's actual pension contributions, which is the financial implication included in the Medium Term Financial Plan.

- A further contributing factor to the deficit are the net liabilities of £136m 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 the

Council receives a Government grant to pay off the building cost each year.

- An additional factor contributing to the negative net worth is that 4 further schools previously shown as assets on the Council's balance sheet converted to academies in 2017-18. Again because insufficient control is exercised over academies, this led to a further £27.8m reduction in the value of long term assets shown on the Council's balance sheet.

- Other significant items in the Statement of Accounts (SOA) are the £22.5m (£20.4m at 31 March 2017) set aside in provisions. These provisions are for outstanding financial commitments incurred up to 31 March 2018.

- The long term borrowing shown on the Council's balance sheet was reduced by £10m to £312m in 2017-18. This was because £10m of past borrowing due to be repaid in 2018-19 was transferred to short term creditors on the balance sheet.

- Total expenditure on the capital programme in 2017-18 was £72.9m. This includes £13m on affordable housing, £4m on expanding primary school provision and £3.9m on disabled adaptations in residents' homes. Overall 23% of the whole capital programme was funded by borrowing, with the remainder funded from grants, the revenue budget and capital receipts (page 16 SOA).

- The Collection Fund Statement shows Council Tax and Business Rates collected by the Council and its distribution to the Council and other parts of the public sector. Overall, the deficit on the Collection Fund in 2017-18 was higher than previously predicted. However, amounts have already been set aside in useable reserves to finance this additional pressure. The impact on the Council's Medium Term Financial Plan is marginal.

3 OVERVIEW OF 2017-18 STATEMENT OF ACCOUNTS (SOA)

The Council's full set of accounts runs to 136 pages and is prescribed by statutory accounting standards. Listed below are the items Members may wish to consider when reviewing the Council's financial position and approving the 2017-18 SOA.

a) Reserves (Note 5, Page 42)

At 31 March 2018 the Council had £203m of useable reserves and balances. However, this includes £37.1m which can only be used to support the Capital Programme.

The amount also includes a £10.8m minimum General Fund balance and an amount for £20.6m which is owned by schools and cannot be used by the Council. Overall this leaves £134.5m to manage the Council's outstanding commitments and risks.

This £134.5m is higher than last year because a new Council policy enabled the rescheduling of nominal debt repayments. This meant that there were £23.7m lower debt repayments in 2017-18. This £23.7m has been set aside in a new useable reserve called the "Dedicated MRP adjustment reserve". There will also be lower debt repayments in 2018-19 and 2019-20, allowing additional amounts to be

transferred into the Dedicated MRP adjustment reserve in future years. In total it is anticipated that £52.5m will eventually be transferred into this reserve by the end of 2019-20.

A detailed listing of current useable reserves is shown below:

Reserves	31 March 2017 £m	31 March 2018 £m
Corporate earmarked reserves to cover specific financial risks or initiatives	38.0	40.1
Dedicated MRP adjustment reserve	0	23.7
Reserves to support the capital investment plan	14.4	5.8
Service earmarked reserves supported by spending plans	41.7	37.5
Grants received but not yet used for their specified purposes	8.4	12.9
Unallocated corporate reserves	14.5	14.5
Sub-total revenue reserves	**117.0**	**134.5**
School balances	25.2	20.5
General Fund balance	10.8	10.8
Sub-total revenue reserves	**36.0**	**31.3**
Sub-total capital grants and receipts	38.3	37.1
Total	**191.3**	**202.9**
Unallocated reserves used immediately to support following year's budget	-16.8	-2.7
Remaining reserves	**174.5**	**200.2**

b) 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 2018 the Council's net worth increased by £26.752m from a negative net worth of £265.294m to a negative net worth of £292.046m.

The net worth position is dominated by the pension fund deficit. However, as noted above, this is based on a valuation prescribed by accounting standards. It 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. This suggests that the Council's Pension Fund is close to a break even position.

The overriding factor causing the difference between the triennial and IAS19 valuations are the assumptions each uses to project the future. One of the most important difference in the assumptions is the future value of money. Small changes

to this assumption, substantially alters the deficit position in the SOA from the IAS 19 valuation. Each 0.1% decline in the assumed value of money will improve the IAS19 pension deficit by £49m.

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 future value of money.

As also noted previously, the net pension deficit is showing the position over the very long term. There are no budget implications because Bradford's employer pension contributions are set on the triennial valuation and already incorporated in the Medium Term Financial Plan.

Another significant element of the overall net worth is the PFI liability of £136m but as this will be funded from an annual government grant, there are no funding implications for the Council.

b) Long term assets – Balance Sheet p24

Long term assets have increased by £22m from £1,023m at 31 March 2017 to £1,045m at 31 March 2018.

Long term assets mostly comprise Property, Plant and Equipment, which have increased by £12m from £935m to £947m.

The £12m net increase includes £56m of capital expenditure, £32m of depreciation £19m of revaluation increases and £31m of property disposals.

The £56m of capital expenditure directly added to the value of long term assets is less than the £72.9m total of the capital programme. The remaining £16.9m of expenditure in the capital programme was on investment properties and also on assets that the Council does not own, such as disabled adaptations in residents' homes.

The £32m depreciation charge in 2017-18 represents a cost of using up one year of the finite lives of the property, plant and equipment held by the Council. The £19m of net revaluation increases is mainly from the 5 year revaluation programme of the Council's assets and this has no impact on the revenue budget.

The £31m of disposals was mainly due 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.

Four of the Council's maintained schools converted to academies during 2017-18, in effect treated as disposals for nil value in the SOA. A further 3 schools converted to academies but were already excluded from the balance sheet because they were voluntary aided or foundation schools over which the Council exercises insufficient

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

Type of school	2016-17	2017-18	Accounting Treatment
Community	68	65	On Balance Sheet
Special Schools	6	4	On Balance Sheet
Foundation	9	8	1 Church of England Off Balance Sheet, 7 owned by Governing Bodies On Balance Sheet
Voluntary Aided	24	24	Off Balance sheet
Voluntary Controlled	10	8	Off Balance sheet (with the exception of 3 VC schools the Council still holds the legal title)
Academies	72	79	Off Balance sheet
Trust	2	2	Off Balance sheet
TOTAL SCHOOLS	**191**	**190**	
Nurseries	7	7	On Balance Sheet

c) Heritage Assets (Note 12, Page 48)

The £37m valuation at 31 March 2018 for Heritage assets showed a small increase of £0.2m above the valuation of £36.8m at 31 March 2017. The £0.2m was a revaluation increase on museum collections.

d) Investment Properties (Note 13, Page 49)

The value of investment properties at 31 March 2018 was £58.9m, showing an increase of £10.3m. The increase was due to £7m of revaluations increases and £4.3m of capital expenditure net of £1m of property sales.

e) Provisions (Note 20, Page 53).

At 31 March 2018 the Council's provisions increased slightly to £22.5m compared to £20.4m as at 31 March 2017.

Notable movements in provision balances in year were as follows:

- £8.1m was set aside at 31 March 2018 to fund future redundancy payments for voluntary redundancies agreed as part of the 2018-19 saving proposals. This compares with £5.9m set aside at 31 March 2017.
- Provisions set aside for insurance claims reduced from £7.4m at 31 March 2018 to £5.8m at 31 March 2017.
- The Business Rate provision increased from £5.8m in 2016-17 to £7.4m in 2017-18.

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

When the Council's long term assets of £1.045bn at 31 March 2018 are compared to the Council's long term borrowing of £312m and long term gross PFI liability of £136m, this gives a ratio of long term borrowing to fixed assets of 0.43 (0.50 in 2016-17).

The lower ratio in 2017-18 is driven by a £10m repayment of long term loans and the further year to pay down the PFI liability, with no significant net change in long term assets.

g) Current assets (Note 18, Page 52)

The Council's short term liquidity is good with a positive ratio of current assets of £147m (£154m in 2017) compared to current liabilities of £123m (£116m in 2017).

Also at £61.5m on 31 March 2018 (£70m at 31 March 2017), the Council's and schools' cash and short term investments balances remain strong, although reducing.

h) Collection Fund Statement – Page 94

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 2017-18 distributions are legally fixed amounts. They were based on budgeted income for Council Tax and Business Rates, set prior to the start of 2017-18.

For 2017-18, Bradford's actual share of the Council Tax collected was £0.975m lower than budgeted, mainly due to the award of more mandatory discounts. The deficit was £0.575m higher then estimated when the 2018-19 budget was set. However, an additional £0.575m was set aside in earmarked reserve to finance the increased deficit so there is no impact on the Medium Term Financial Plan.

Bradford's 2017-18 actual share of Business Rates collected created a £1.8m deficit, mainly because the overall taxable base was lower than expected. This deficit was anticipated at £0.7m when the 2018-19 budget was set, leading to a £1.1m pressure. A reason for this pressure were the additional awards of mandatory relief, especially to small businesses.

Such mandatory reliefs are set by the Government and reduce Bradford's share of collectable Business Rates. To compensate for this, the Council receives grants. These compensatory grants were therefore also higher than expected. This excess is £0.735m which was set aside in an earmarked reserve, reducing the overall impact on the Medium Term Financial Plan to just £0.4m.

4 RESPONSE TO THE AUDIT COMPLETION REPORT

- There are no matters to bring to Members' attention in connection with the significant risks and key judgements set out in the 2017-18 Audit Strategy Memorandum.

- The Council will seek to finalise the prior year internal audit recommendations relating to IT controls for leavers and contingency planning.

- The Council will review the input of journals with no narrative description, to identify whether those identified by external audit were exceptional and whether controls can be strengthened. The Council will review related party transactions earlier in future years.

- There were two adjusting misstatements on the main statements. One grant stream was misclassified. One journal was incorrectly allocated against creditors rather than the bad debt provision. There were also another five amendments on the disclosure notes.

- All the changes have been adjusted for in the Statement of Accounts. None of these changes impacted on the Council's useable balances or reserves.

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 2018. 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 2018, which are disclosed in the SOA.

The non adjusting post balance sheet event after 31 March 2018 were four schools that transferred to Academy status. As a result, three Community Schools (Farnham, Laycock and Byron) and one Foundation (Hollingwood), with an estimated value of £11.1m at 31 March 2018, will be removed from the 2018-19 Balance Sheet.

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 2017-18 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 2017-18 as at Wednesday 18 July. A revised statement of accounts will be provided at the meeting if appropriate.