

BATH & NORTH EAST SOMERSET COUNCIL

STATEMENT OF ACCOUNTS 2017/18

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BATH & NORTH EAST SOMERSET COUNCIL

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bath and North East Somerset Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts 2017/18 set out on pages other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BATH & NORTH EAST SOMERSET COUNCIL

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the accounts set out on page 118, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Corporate Audit Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BATH & NORTH EAST SOMERSET COUNCIL

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts 2017/18. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2018. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Peter Barber

Peter A Barber
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

2 Glass Wharf
Bristol
BS2 0EL

31st July 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BATH AND NORTH EAST SOMERSET COUNCIL ON THE FINANCIAL STATEMENTS OF AVON PENSION FUND

Opinion

We have audited the pension fund financial statements of Bath and North East Somerset Council (the 'Authority') for the year ended 31 March 2018 which comprise the Fund Account, the Net Assets Statement and notes to the financial statements of Avon Pension Fund (the 'pension fund'), including the pension fund's statement of accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Director of Finance has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Authority's Statement of Accounts, other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BATH AND NORTH EAST SOMERSET COUNCIL ON THE FINANCIAL STATEMENTS OF AVON PENSION FUND

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Authority's Statement of Accounts for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Director of Finance is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Corporate Audit Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these pension fund financial statements.

A further description of our responsibilities for the audit of the pension fund financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Julie Masci

Julie Masci
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

2 Glass Wharf
Bristol
BS2 0EL

31st July 2018

NARRATIVE REPORT

Introduction

The Statutory Statement of Accounts have been produced in accordance with the CIPFA Code of Practice on Local Authority Accounting based on International Financial Reporting Standards.

The Accounts and Audit Regulations (2015) require that the Statement of Accounts are approved by a resolution of a Committee of the relevant body and that following approval, the Statement of Accounts be signed and dated by the person presiding at the Committee.

The main purpose of a Local Authority's published Statement of Accounts is to provide Electors, Council Tax Payers, Members of the Council, Employees and other interested parties, with clear information about the Council's financial position. It should aim to provide answers to the following questions:

- What did the Council's services cost in the year?
- Where did the money come from?
- What are the Council's assets and liabilities at the year-end?

The main financial statements are:

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement summarises the resources that have been generated and consumed in providing services and managing the Council during the year.

Movement in Reserves Statement

The Movement in Reserves Statement shows the movement in the year of different reserves held by the Authority.

Balance Sheet

The Balance Sheet shows the assets and liabilities of the Council as a whole as at the 31 March 2018.

Cash Flow Statement

This statement summarises the inflows and outflows of cash arising from external transactions for both capital and revenue purposes.

Collection Fund

These statements show the transactions of the billing authority in relation to the collection from taxpayers of Council Tax and National Non-Domestic Rates (NDR) and its distribution to precepting bodies.

Pension Fund Accounts

A summary of the Pension Fund accounts is included, as the Council is the administering authority for the Avon Pension Fund.

Statement of Accounting Policies

The statement describes the accounting concepts and policies adopted in the preparation of the accounts. It contains a number of technical notes, none of which are unusual or which differ from the concepts adopted by the majority of other Local Authorities. The Council complied with all recommended accounting practices contained within the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, which is recognised by statute as representing proper accounting practices. The Code of Practice incorporates Best Value Accounting principles with which the Council has also complied.

NARRATIVE REPORT

An Introduction to Bath & North East Somerset

The Population at a Glance

The area of Bath & North East Somerset was formed in 1996 and covers approximately 135.2 square miles, with a population of 186,946 (ONS Population Estimates mid-2016).

Bath is the largest urban settlement in the area and forms the main urban conurbation, acting as the commercial and recreational centre of the district. It is home to approximately 50% of the population and is one of the few cities in the world to be named a UNESCO World Heritage Site.

Keynsham lies to the west of Bath, and is a traditional market town with almost 9% of the total population of Bath and North East Somerset. Midsomer Norton and Radstock are small historic market towns, located in the south of the district with approximately 12% of the total population split between them. They both have a strong heritage of mining and industry stemming from the North Somerset Coalfield.

The rest of the district consists of 69 diverse rural communities of varying sizes and characteristics, including a line of villages along the foothills of the Mendips, the Chew Valley and Cotswolds villages around Bath.

Bath and North East Somerset is less ethnically diverse than the UK as a whole, with 90% of local residents defining their ethnicity as White British. This is followed by 3.8% defining as White Other and 1.1% defining as Chinese. The local population's age structure is similar to the UK's population as a whole, however within this, there is higher number of people aged between 20-24 highlighting the student population.

In the 2011 Census, 16% of B&NES residents reported that their day to day activities were limited through a long term illness or disability and 10% of the population stated that they spent a substantial portion of their time caring for a friend or relative.

The Office for National Statistics projects that the Bath and North East Somerset population will increase to 199,100 by 2037, an increase of 12% from 2012. The most significant increases expected are in the number of older people, in particular the 85+ population (a 124% increase from 5,000 to 11,200).

A recent study suggested that nearly 88% of the population is satisfied with their local area as a place to live, significantly higher than the national figures.

Despite being an area with generally good health and low crime, there is significant variation within Bath and North East Somerset.

- The gap in male life expectancy at birth between those males living in the least deprived decile and the most deprived decile areas in B&NES during the period 2014-16 is 7 years, i.e. males in the most deprived decile of areas die, on average, 7 years younger when compared to males in the least deprived of areas in B&NES.
- The smoking rate for adults in B&NES is 13.6% (2016), and adults in routine and manual occupations is 29.2%.

The Local Economy

The local workforce is highly skilled, with 47.8% educated to NVQ4 level and above in 2017 compared to 39% regionally and 38.6% nationally.

House prices are very high; in Q3 2016 the average house price was £290k making the average price of a home nearly 10 times (9.72) the average earnings in the area.

B&NES has a lower percentage of the working age population included in ONS Benefit Claimant Count, 2,170 total claimants represent 1.8% of local working age population, compared to 1.5% regionally and 2.1% nationally.

The largest sector employment in the area is the public sector (around 34% in total – The Council is one of the area's biggest employers); followed by construction and banking, and finance and insurance.

Bath has World Heritage Status and an international reputation as a tourist destination, attracting about 7 million day visits every year. Hence, tourism plays a key role in Bath and North East Somerset's economy, employing an estimated 11,800 people.

As a result, wage levels are lower than the national average, however, in some technology based industries wages have increased. Related industries also attract higher wage levels. The West of England Combined Authority has come into existence, leveraging significant national infrastructure spending and enabling the West of England to make more decisions locally on issues including regional transport, housing, adult education and skills.

Summary of the Council's financial performance

The 2017/18 budget included the requirement for the delivery of £14.5m of savings of which over 80% were achieved. The Council had an underlying overspend on its revised revenue budget of £1.1m in 2017/18, after allowing for the proposed carry forwards of underspends totalling £0.2m, this gives a total outturn position overspend of £1.3m. This represents the underlying position before allowing for the release of corporate mitigations totalling £2.5m, which were identified during the year as part of the budget monitoring process in light of the additional demand pressures being experienced in Adult and Children Social Care. As a result of the improvement in the final overall revenue outturn position, the remaining corporate mitigations of £1.2m were transferred to the Transformation Investment Reserve (£0.9m) and the Severance & Restructuring Reserve (£0.3m) to provide a contingency for one-off costs of delivering service changes required over the medium term.

The main areas contributing to the underlying overspend relate to continued increasing demand pressures being experienced in both Adult and Children's Social Care budgets. These pressures were partially mitigated by underspends in other service and corporate budgets, including additional income generated from increased visitor numbers to the Roman Baths, higher than forecast parking income and an underspend in Capital Financing costs owing to the re-phasing of capital programme schemes delaying the need to borrow.

NARRATIVE REPORT

The Next Twelve Months & Medium Term Outlook

The Budget for 2018/19 was the third to be prepared following the announcement by Government of the Comprehensive Spending Review for 2016/17 to 2019/20 and the resulting challenging Local Government Finance settlement for the same period.

The Government Spending Review, announced in December 2016 confirmed that the financial challenge facing local government will continue to 2019/20 at least. This represents a full decade of sustained funding reductions which will have changed fundamentally the way in which Councils are funded for providing public services. Indeed by 2019/20 we have confirmation that our core Government grant funding will effectively be removed. This reduction in funding combined with the unprecedented increases in demand for Adult and Children's social care services the council is experiencing set the background for the Council's future financial and organisation plans.

In response to this challenge a revised Medium Term Financial Strategy (MTFS) was approved by Council in October 2017 and updated as part of the February 2018 Budget Report, outlining how the budget will be delivered over the medium to long term. The MTFS spans the remaining two years of the spending review period to end of 2019/20 with a further three years added to show the likely longer term picture.

The MTFS estimates that savings and income generation of £28.7m will be required over the next two years, with the budget report approved in February 2018 including savings proposals of £26.8m, leaving a savings gap of £1.9m in 2019/20 for which savings plans will need to be developed by February 2019. The MTFS also currently estimates further savings requirements of £16.4m covering the three year period from 2020/21 to 2022/23.

An Efficiency Strategy was approved in November 2017 which outlined the use of Government's capital receipts flexibility. This enables the utilisation of capital receipts for revenue spend which results in ongoing savings. This is a key part of the strategy for funding the one-off costs, such as severance, in reducing on-going salary costs. The Council utilised £3.1m of capital receipts to fund one-off costs of delivering savings in 2017/18.

During 2016, the Council provided an Efficiency Plan submission to the Government as part of the national scheme, to secure the basis of a 4-year financial settlement through to 2019/20. This was agreed by the Government and basically provides some protection to the Council against any additional funding reductions over this period.

The Local Government Finance Settlement was therefore broadly in line with expectations for reductions to core government grant funding with reductions of 10.6% in 2018/19 and a further 12.5% in 2019/20.

Within the settlement the Government made a number of further provisions and funding changes including:-

- The continuation of the West of England Devolution Authorities 100% Business Rate Retention pilot in 2018/19. This provides a significant financial benefit to the Council with estimated benefits of £2.5 million factored into the Councils budget in 2017/18.
- Inclusion of a one-off Adult Social Care Grant for 2018/19 worth £456k to the Council.
- Confirmation of the increase in the Adult Social Care Council Tax increase threshold to 3% in 2018/19, although maintaining a maximum combined increase of 6% across the three year period up to and including 2019/20.
- An increase in the general council tax referendum limit to 3% (this excludes the Adult Social Care Council Tax increase).

The Budget presented in February 2018 addresses the financial challenge facing the Council and included a balanced budget for 2018/19 together with proposals to reduce the budget gap to £1.9m in 2019/20. The Cabinet have identified three core aims as a focus to ensure the Council,

- **Is efficient and well run,**
- **Invests in the future of the area, and**
- **Puts the interests of residents first.**

In order to present proposals covering the next two year period, the Cabinet implemented the following savings strategy to be delivered as part of the authority's assessment of its long term delivery model:

- **Priority based resourcing**
- **Maximising commercial income**
- **Shared services where appropriate / right sizing**
- **Targeted capital spend**
- **Managing demand (and the processes surrounding demand)**
- **Contract savings**

The Council's four strategic priorities as set out in the Corporate Strategy remain at the heart of this process:

- **A strong economy and growth**
- **A focus on prevention**
- **A new relationship with customers and communities**
- **An efficient business**

The Budget agreed for 2018/19 included the following key proposals:

- An increase of 3% to Council Tax for the Adult Social Care Precept was approved in recognition of the current demands and financial pressures on this service.

- Whilst significant savings and additional income generation proposals totalling £17m relating to 2018/19 were included in the budget, a Council Tax increase of 1.95% was agreed in order to help protect frontline services and meet additional pressures in Children's services.

As part of its saving plans for 2018/19 and 2019/20, a target of £8m was set for staffing reductions to be achieved through management restructuring and organisational redesign. Plans are currently underway to deliver £5.3m of this target in 2018/19.

Given the scale of savings already achieved, and the £27m proposals outlined in the 2018/19 Budget report covering the period to 2019/20, it is likely that future savings will require continued prioritised changes to, and redesign of Council Services.

NARRATIVE REPORT

Total Resources Available for the Capital Programme

The table below summarises the approved resources available for the 2018/19 Capital Programme and the indicative programme for the next five years. This level of resource ensures that overall planned spending and funding are in balance.

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Total Schemes	217,305	60,581	28,402	23,312	7,326
Funding Sources					
Grant	43,056	9,649	6,974	6,166	3,139
Capital Receipts	9,966	16,390	635	635	635
Revenue	1,527	0	0	0	0
Borrowing	148,745	33,305	19,956	16,261	3,452
3rd Party (incl. s106 & CIL)	14,012	1,237	837	250	100
Total Funding	217,305	60,581	28,402	23,312	7,326

NARRATIVE REPORT

Revenue outturn and balances - 2017/18

The Council's net revenue budget was set at £112.889m with an increase of 3.50% in its part of the 2017/18 Council Tax (split 2% for the Adult Social Care precept and a 1.50% general increase). Dedicated Schools Grant funding of £63.979m separately supports expenditure on schools.

Total net spending amounted to £116.775m against a revised budget (excluding corporate mitigations) of £115.675m, with an underlying year end overspend of £1.100m on general fund spending before the impact of carry forwards of specific underspends into 2018/19 totalling £0.155m. The total underlying overspend including the carry forwards of £1.255m required the release of corporately held mitigations which were identified during the year as part of the budget monitoring process in light of the additional demand pressures being experienced in Adult & Children's Social Care. This enabled a balanced revenue position to be achieved without any unplanned use of reserves.

The Council followed well established procedures for monitoring its finances and reporting the position to Senior Management and the Cabinet throughout the year.

The Council continues with its programme of budget management where overspends and underspends can be carried forward subject to policy approval. After allowing for carry forwards, the General Fund balance stands at £12.3m, which is in accordance with the current risk assessed target range approved by the Council in February 2018.

The main adverse variances from budget incurred, at Cabinet Portfolio level, are:

Children's Services - overspend of £1.534m - The overspend relates to demand driven pressures mainly relating to children's social care placement costs due to a significant increase in expenditure for supporting individual children, in particular, the support for residential placements, support for fostered (including independent fostering) and court directed parent and baby placements, along with direct payments for clients at risk of care and inter-agency adoption placements.

Adult Care, Health & Wellbeing - overspend of £1.148m - The overspend relates to continued pressure on Adult Social care spend arising from demographic change, with increasing levels of complexity and acuity of need impacting on the cost of individual packages of care / placements, despite enhanced control measures. The service has also experienced inflationary pressures arising from factors including the implementation of the National Living Wage / Sleep-in Cover, and a lack of resilience in the care home market leading to a shortfall in supply and a "sellers-market", a position which has been exacerbated by recent care home closures and the full-year effect of closures in 2016/17. The net overspend of £1.148m is after the planned use of £1.3m from earmarked Social Care reserves.

The main favourable variances from budgets incurred, at Cabinet Portfolio level are:

Economic & Community Development - underspend of £0.636m - Visitor numbers to the Roman Baths have continued to increase which has contributed to Heritage Services generating net income of £1m above budget for the year. This impact is partly offset by delays in achieving strategic review income targets relating to the visitor economy, markets and events.

Finance & Efficiency (excluding corporately held mitigations) - underspend of £676k - The main favourable variances in this area relates to additional income received from the Thermae Spa Profit Share arrangements and an underspend in Capital Financing costs owing to re-phasing of capital programme schemes delaying the need to borrow leading to lower than forecast spend on borrowing interest and Minimum Revenue Provision (MRP) charges. The main unfavourable variance was an overspend in Human Resources due to reduced income generated from services and other service demand exceeding budget as the Council changes, a major review of the service has been undertaken during the year with structural changes being implemented during 2018/19.

The outturn position compared to the budget is as follows:

Service (based on Cabinet Portfolios)	Budget	Actual	(Under)/ Over
	£'000	£'000	Spend £'000
Leader	2,583	2,469	(114)
Finance & Efficiency	725	49	(676)
Transformation & Customer Services	7,159	6,944	(215)
Adult Care, Health & Wellbeing	60,507	61,654	1,148
Children & Young People	28,029	29,563	1,534
Development & Neighbourhoods	20,894	20,756	(138)
Economic & Community Regeneration	(4,134)	(4,771)	(636)
Transport & Environment	(87)	111	197
Sub Total (excluding carry forwards & mitigations)	115,675	116,775	1,100
Carry Forward of specific underspends to 2018/19		155	155
Revised Total (including carry forwards)	115,675	116,930	1,255
Less: Corporately Held Mitigations	1,255	-	(1,255)
Overall Total (including carry forwards and Mitigations)	116,930	116,930	-

The Leader Portfolio is made up of Legal & Democratic Services.

The Finance & Efficiency Portfolio is made up of Finance, Information Technology, Audit & Procurement, Human Resources, Property Services, Traded Services, and Corporate & Agency budgets.

Transformation & Customer Services Portfolio is made up of Libraries, Customer Services (including Council Connect, Council Tax, Business Rates & Housing Benefits) and Strategy & Performance.

Children & Young People Portfolio is made up of Children & Young People Strategy & Commissioning (including Education, Safeguarding & Commissioning) and Children & Young People Specialist Services (including Children In Care, Early Years, Assessment & Intervention and Youth Services).

Adult Care, Health & Wellbeing Portfolio is made of Adult Care, Health & Housing Strategy & Commissioning (including Mental Health, Learning Difficulties, Adult Social Care & Adult Safeguarding), and Public Health (including Health Improvement, Health Intelligence and support to NHS Commissioning).

Development & Neighbourhoods Portfolio is made up of Development Management, Building Control, Parks, Leisure, Waste and Community Safety.

Economic & Community Regeneration Portfolio is made up of Economy & Culture, World Heritage, Heritage Services, Housing, Project Delivery, Regeneration, Skills & Employment.

Transport & Environment is made up of Highways, Parking and Public & Passenger Transport.

Schools balances have reduced by £0.929m to £1.118m at the year-end, this is mainly due to schools transferring their balances when they convert to academies. The central element of Dedicated Schools Grant (DSG) has overspent by £1.994m reducing earmarked reserves to £0.020m. The main reason for the reduction is an overspend in special educational needs expenditure.

NARRATIVE REPORT

Collection Fund

As part of the 2018/19 budget setting, an estimate was made on the position of the Collection Fund as at 31st March 2018. The estimate is split into two elements, one relating to Council Tax and the other relating to Business Rates. The estimated and actual position for each is shown in the following table. The figures relate to the Council's share of the surplus / deficit, excluding any preceptor and central government shares. The increase in the deficit on the Council Tax is mainly due to higher bad debts provision and the decrease in deficit on the Business Rates Collection Fund is mainly due to decreasing cost of settling appeals. The difference will be taken into consideration when estimating the closing 2018/19 Collection Fund as part of the 2019/20 budget process.

	Estimated surplus / (deficit)	Actual surplus / (deficit)	Difference
	£'000	£'000	£'000
Council Tax	(42)	(154)	(112)
Business Rates	(1,731)	(1,473)	258
Total	(1,773)	(1,627)	146

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement includes a number of items that are not required to be included in the General Fund and to be taken into account in setting the Council Tax. The Comprehensive Income and Expenditure Statement included within this Statement of Accounts shows the net cost of services for the year of £144.3m.

This reconciles to the General Fund spending reported above as follows:

	£m	£m
Total net spending by departments		116,775
Add:		
Charges related to capital assets:		
- depreciation and impairments	20,528	
- revenue expenditure funded from capital under statute	13,132	
- loss on revaluations	1,478	
		35,138
Offset by:		
Grant funded revenue expenditure funded from capital under statute	6,630	
Unapportioned pensions contributions	1,587	
Levy payments	4,449	
Interest received and paid	(5,518)	
Other movements on funds and balances	(2,348)	
Net transfers to reserves	2,814	
		7,613
Cost of services - continuing operations		144,300

The principal differences relate to capital assets. The General Fund includes the cost of financing capital assets whereas the Comprehensive Income and Expenditure Statement includes depreciation and impairment.

NARRATIVE REPORT

Capital Expenditure

Capital expenditure in 2017/18 totalled £76.3m. Overall capital spending was 67% of the revised capital budget, primarily reflecting the delivery time to complete projects moving into future financial periods. Details are:

Cabinet Portfolio's

	Planned Spend	Actual Spend	Variation on planned spend
	£'000	£'000	£'000
Finance & Efficiency	49,675	38,914	(10,761)
Transformation & Customer Services	1,164	368	(796)
Adult Care, Health & Wellbeing	848	836	(12)
Children & Young People	9,527	5,078	(4,449)
Development & Neighbourhoods	19,956	13,235	(6,721)
Economic & Community Regeneration	22,045	9,664	(12,381)
Transport & Environment	11,485	8,202	(3,283)
	<u>114,700</u>	<u>76,297</u>	<u>(38,403)</u>

Capital expenditure was financed by:

	£'000
Capital receipts	4,510
Capital grants and contributions	19,700
Revenue	198
Borrowing	51,889
	<u>76,297</u>

Capital spend of £28.2m was incurred on Commercial Estate Investment, £7.6m on Highways Infrastructure along with £7.4m on vehicles, plant and equipment for Waste Services. £2.4m of spend was also incurred on improvement and repairs to Schools. Economic development scheme spend including Bath Quays Development, being on general delivery of £2.8m and Flood Mitigation £1.3m.

Property, Plant & Equipment

In addition to capital spend, the value of assets also reflected:-

Transfers of £20.9m from Assets Under Construction reflecting projects becoming operational in the year:-

	£'000
Bath Quays North Flood Mitigation (1314 BEA Flood Mitigation)	6,461
Street Lighting LED Replacement Programme	2,469
Replacement of Destructor Bridge	3,574
Western Riverside - Roads	7,329
Locksbrook Road Cleansing Depot	567
Castle Primary School	313
Royal Victoria Park Welfare Pods	145
Workplaces Follow Me Storage	42
	<u>20,900</u>

Transfers of £0.02m of former investment properties to Other Land and Buildings to reflect that their purpose is not solely for the purpose of income generation or capital gain, being typically held in support of development and other objectives.

	£'000
Greenacres Court Care Homes	20
	<u>20</u>

Net Revaluation Gain of £2.2m for Other Land and Buildings for the following classes of assets:-

	£'000
Schools' Valuations	(3,234)
Corporate Estate	(1,563)
Cemeteries/Closed Burial Grounds	(1,244)
Community Centres	(615)
Indexation of all OLB	5,164
Land	1,204
Depots/Stores	849
Gain from Heritage Services (Incl. Victoria Art Gallery, Pump Room & Roman Baths)	546
Elderly People's Homes	469
Children's Centres	404
Other	251
	<u>2,231</u>

Other Property Assets Values

Investment Properties were subject to new valuations in 2017/18 and reflected a valuation basis of market value.

The valuer reported an £20.3m increase in Investment Property values since the last full valuation was undertaken (31st March 2017), with a further potential increase of £5.4m identified from an indexation exercise.

NARRATIVE REPORT

Non Financial Performance of the Council - 2017/18

The Corporate Strategy 2016-2020 highlights the following four priorities through which we are delivering our Cabinet's manifesto commitments. The summary below provides some high level points on Council performance in 2017/18.

1. A Strong Economy & Growth

- The West of England Combined Authority has come into existence, leveraging significant national infrastructure spending and enabling the West of England to make more decisions locally on issues including regional transport, housing, adult education and skills. In 2017/18 funding was secured for broadband, transport and affordable housing projects.
- Heritage Services had another record-breaking year by welcoming over 1.2 million visitors to the Roman Baths and 1.5m visitors across the Roman Baths, Fashion Museum and Victoria Art Gallery, a 7% increase on the previous year. As a result the profit generated was also at a record high of £7.7m. Turnover increased by 4% on the previous year, and through excellent cost control, profit rose by 17%.
- The Roman Baths and Pump Room is a member of the Association of Leading Visitor Attractions (ALVA) and during 2017 rose to the 23rd most visited attraction in the UK. This group includes the National Museums which are free to enter. In relation to charging attractions the Roman Baths and Pump Room is the 9th most popular attraction in the UK.
- The Bath Quays Development project has secured significant public funding and will leverage private sector investment by appointing a long-term development partner (target Dec 2018). The development has potential to deliver some 2,500 jobs.
- New housing is being provided through the Council's property company (ADL) to support the delivery of new local housing need and generate a return for both the Council and taxpayers.
- The Council's Affordable Housing completions are forecast to exceed the 2015-18 target of 465 homes with outturn expected to be around 540 homes - a significant difference.

2. A Focus on Prevention

- The Council and Clinical Commissioning Group (CCG) is establishing a new interim Health and Care Board from May 2018 to further their shared ambition of working more closely together to plan, commission and deliver better quality services in a seamless way in order to improve the health and care of the population of B&NES.
- Historically, demand for services across Child Protection settings has increased overall. Despite this increase in demand, the authority received a Good rating from Ofsted. There are early signs that demand is levelling off, with the number of new Child Protection Plans reducing over the course of the year. However overall rates of 50.1 remain at historically high level although there has been a significant increase in understanding about the factors influencing this high rate.
- 72% of all Reception Year pupils in B&NES's schools achieved a "Good Level of Development" in 2016/17 academic year, whereas for pupils eligible and in receipt of Free School Meals, only 47% achieved a "Good Level of Development".
- The large majority of pupils in Bath and North East Somerset are taught in Good or Outstanding schools and educational outcomes are in line with or above national targets at most key stages. In some cases attainment in B&NES is the best or amongst the best in the South West. However, the achievement of disadvantaged pupils (those eligible for Free School Meals, Children in Care and those Adopted from Care), those with SEND and some BME groups are much lower than similar groups nationally. As a result, pupils from these groups often achieve lower qualifications and fewer sustain education, employment or training destination post-18.
- The first three packages of works of the Bath Leisure Centre Development are now open to the public (Sports Hall, new Fitness Suite and new Studios/ Bowling/ Soft Play and Trampoline Park). The Reception and Wet Zones (pools and wet changing) are currently being fully refurbished. Expected completion is early Summer 2018. Work on Keynsham Leisure Centre is expected to start in the first quarter of 2018/19.
- Demographic changes following historically high levels of housing completion are being observed. Taking expected housing growth into account, the overall population is expected to increase to nearly 200,000 by 2024, an increase of 11% from 2014.

3. A New Relationship with Customers and Communities

- All Council Departments remain accredited for the Customer Service Excellence standard.
- A new Parish Charter provides a positive opportunity to engage with Parish Councils.
- A brand new Community Empowerment Fund has been agreed by Council, to help support local projects.
- A diverse range of Community Asset Transfers are in place or underway, including a package of assets in Midsomer Norton Town Hall, Saltford Library and Alexandra Park Bowls Club.

4. An Efficient Business

- The Changing Together Programme has commenced and will deliver significant management and service downsizing in line with financial savings targets over the course of 2018/19 to enable a smaller, sharper and more focussed organisation.
- Movement of Bath Tourism Plus to a council owned company has been agreed.
- New waste collection arrangements were implemented in Autumn 2017.
- Growth in demand for support to children with Special Education Needs and Disability (SEND) remains challenging. There were 1,185 SEND Statement/EHC plans in January 2018 compared to 692 in January 2013.

NARRATIVE REPORT

Corporate Risk Management

The Council's Risk Management Strategy is reviewed on an ongoing basis and sets out the framework to manage risk.

Senior Management assess key risks at a strategic level. However risks are being actively managed on a daily basis to respond to the challenges of delivering services in a complex environment.

Key risks have been kept under review during the year and will continue to form an ongoing focus for successful delivery of the Council's plans. Work to manage risk in 2017/18 has focussed on –

- How we plan for and meet the severe Financial Challenge facing the public sector
- Delivering on savings projects by reshaping the Council through its Strategic Review and reducing costs
- Supporting and stimulating Economic Growth and Regeneration such as the Bath Quays projects
- Safeguarding children and vulnerable adults in our community
- Delivering joined up commissioning of social care through the new Virgin Care contract
- Working across the West of England to stimulate housing needs, skills and employment and support major transport projects
- Managing and investing in the key infrastructure and assets of the area and tackling major transport issues

As we move into 2018/19 the Council will be heavily focussed on delivering its savings plans and managing the financial challenge including a significant management restructure and reduction in staff numbers. It will also build on the first year of joint working with the West of England Combined Authority and emerging opportunities in this area, along with a strong focus on improving Community Health and Care Services through its major contract with Virgin Care. All of these feature regularly at Cabinet and Senior Management team level and the Council is well placed to meet the challenges ahead.

Pension Fund

As required by the Local Government Pension Scheme (LGPS) Regulations 2013, an actuarial valuation of the Avon Pension Fund was carried out as at 31 March 2016. The market value of the Fund's assets at the valuation date was £3,737m. The Actuary estimated that the value of the Fund was sufficient to meet 86% of its expected future liabilities of £4,355m in respect of service completed to 31 March 2016. This triennial valuation set the employer contribution rates from 1 April 2017. The next triennial valuation will be as at 31st March 2019.

The Actuary has estimated that the funding level as at 31 March 2018 has risen to 96.2% from 95% at 31 March 2017 based on the 2016 valuation financial assumptions. The improvement is due to positive investment returns offsetting a slight increase in liabilities.

Pension Liabilities

The Council itself has a liability of £265.4m for future pensions costs. This is because under IAS19 the Council must account for pensions for former members of staff when the commitment is made not when the pension is paid.

The estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discounts used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

The decrease in 2017/18 is mainly due to gains from changes in the Actuary's assumptions in valuing the liabilities, as detailed in Note 41 below.

The Actuary has estimated that the funding level as at 31 March 2018 has risen to 96.2% from 95% at 31 March 2017 based on the 2016 valuation financial assumptions. The improvement is due to positive investment returns offsetting a slight increase in liabilities.

In 2017/18, the Council made an up-front payment of the LGPS deficit contributions for the three years 2017/18 - 2019/20 totalling £14.837m (net of academy conversions). The up-front payment took advantage of the independent Actuary's calculation of the return these contributions could achieve once invested by the Pension Fund. The discount calculated by the Actuary for making the up-front payment (net of academy conversions) rather than the typical approach of monthly payments in arrears over the three year period was £1.034m, reducing total payments from £15.871m to £14.837m. The return was judged to be far greater than could have been achieved by investing the amounts as part of the Council's Treasury Management Strategy and the approach represented good value for money for the Council.

NARRATIVE REPORT

100% Business Rate Retention Pilot Scheme

In 2016 the Government announced that it was introducing pilot schemes for 100% Business Rate retention from 2017/18 in advance of a potential national scheme later in the parliament. Only authorities with a signed devolution deal were eligible to participate in the schemes and the pilot scheme for the West of England therefore includes Bath & North East Somerset, Bristol, South Gloucestershire and the West of England Combined Authority.

The pilot commenced on the 1st April 2017 and provides for the authorities to retain 100% of any Business Rate growth above an agreed baseline. The pilot includes the rolling in of each authorities' Revenue Support Grant as well as the Integrated Transport Block and Highways Capital Maintenance grants from the Department of Transport, with the Business Rate Tariff adjusted to take account of the revised retention of Business Rates and the transfer of these grants.

As part of the pilot, the Department of Housing, Communities & Local Government has agreed to a "no worse off" clause that ensures that pilot authorities have no downside financial risk when compared to remaining in the current National Rates Retention Scheme.

West of England Combined Authority

As part of the West of England devolution deal, Bath & North East Somerset, Bristol and South Gloucestershire councils agreed to the establishment of the West of England Combined Authority (WECA) to support economic growth and development across the region. Under the devolution deal certain functions were transferred from the constituent authorities to WECA from 1st April 2017. These included concessionary fares, community transport, key route network development and bus service information.

WECA levies the constituent authorities for the cost of the service for which is now responsible. In 2016/17, the cost for the year would be shown in the Comprehensive Income and Expenditure Statement as a Net Cost of Service against the Transport & Environment Services line. In 2017/18, it is shown under Other Operating Expenditure. The value of the levy in 2018/19 is £4.211m.

Prior to the creation of the West of England Combined Authority, the Council was the accountable body to the West of England Partnership acting as agent for the West of England Revolving Investment Fund regional central government grants. Following the creation of WECA, the new authority has taken over the accountable body role for these funds going forward and the balance of the funds held by B&NES Council were transferred to WECA during 2017/18. In 2016/17, the balance of these funds not distributed were treated as a creditor in the Council's accounts, the value of the creditor provision as at 31st March 2017 was £31.822m.

Group Accounts

There is now a requirement to consider a consolidation of group accounts under the Local Authority Statement of Recommended Practice (SORP) 2010. The Council has group relationships with Bath Tourism Plus Ltd., Aequus Developments Ltd (ADL) and Aequus Construction Ltd. (ACL). The turnover and assets held by these companies is not considered significant enough to produce Group Accounts, with further details in Note 45 below

Further Information

Further information on the Council's Accounts and those of the Avon Pension Fund is available on the Councils' website and that of the Avon Pension Fund:

www.bathnes.gov.uk/services/your-council-and-democracy/budgets-and-spending

www.avonpensionfund.org.uk

Once again the accounts have been produced promptly and to a high standard. This is the second year that the draft accounts have been prepared in accordance with the faster closing timetable, reducing the time available to produce the accounts by a third (from three months to two months) and reflects the exceptional commitment and hard work undertaken by Finance staff across the Council. My thanks go to all Finance staff and to Service Directors for their assistance in the preparation of these accounts and for their support throughout the year.



Donna Parham

Director of Finance (Section 151 Officer)

Date: 30th July 2018

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT 2017/18

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the Movement in Reserves Statement and the Expenditure Funding Analysis note to the accounts.

Notes	2016/17 Gross Exp	2016/17 Gross Inc	2016/17 Net Exp		2017/18 Gross Exp	2017/18 Gross Inc	2017/18 Net Exp
49	Restated £'000	Restated £'000	Restated £'000	Expenditure on Services	£'000	£'000	£'000
	3,590	(852)	2,738	Leader	3,224	(755)	2,469
	73,706	(59,851)	13,855	Finance & Efficiency	64,598	(56,257)	8,341
	115,973	(53,726)	62,247	Adult Care, Health & Wellbeing	107,520	(45,022)	62,498
	123,722	(87,293)	36,429	Children & Young People	118,163	(79,475)	38,688
	35,064	(10,668)	24,396	Development & Neighbourhoods	33,232	(14,976)	18,256
	15,037	(17,179)	(2,142)	Economic & Community Regeneration	14,033	(17,826)	(3,793)
	14,127	(2,428)	11,699	Transformation & Customer Services	11,579	(2,482)	9,097
	28,483	(14,605)	13,878	Transport & Environment	23,848	(15,104)	8,744
	409,702	(246,602)	163,100	Cost of Services - continuing Operations	376,197	(231,897)	144,300
9			22,104	Other Operating Expenditure			25,907
10			4,636	Financing and Investment Income & Expenditure			(30,640)
11			(132,398)	Taxation and Non-Specific Grant Income			(128,112)
			57,442	(Surplus) or Deficit on Provision of Services			11,455
12, 13 & 14			(43,308)	(Surplus) or Deficit on Upward Revaluation of Non-current Assets			(20,717)
12, 13 & 14			27,158	(Surplus) or Deficit on Downward Revaluation of Non-current Assets			7,421
41			70,229	Remeasurement of the net defined benefit liability			(28,002)
			54,079	Other Comprehensive Income & Expenditure			(41,298)
			111,521	Total Comprehensive Income & Expenditure			(29,843)

MOVEMENT IN RESERVES STATEMENT 2017/18

This Statement shows the movement from the start of the year to the end of the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable' reserves. The statement shows how the movements in year of the Authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices, and the statutory adjustments required to return the amounts chargeable to Council Tax for the year. The Net Increase / Decrease line shows the statutory General Fund Balance movements in the year, following those adjustments.

<u>Current Year</u>	Unearmarked General Fund Balance	Earmarked General Fund Balance	Total General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves (Note 23)	Unusable Reserves (Note 24)	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2017	12,657	36,300	48,957	2,208	2,737	53,902	112,557	166,459
Movements During 2017/18:								
Total Comprehensive Income & Expenditure	(11,455)		(11,455)	-	-	(11,455)	41,298	29,843
Adjustments between accounting basis and funding basis under statutory provisions	8,455		8,455	562	(1,362)	7,655	(7,655)	-
Increase / (Decrease) during year	(3,000)	-	(3,000)	562	(1,362)	(3,799)	33,643	29,843
Transfers to / (from) earmarked reserves	2,814	(2,814)	0					
Balance at 31 March 2018	12,473	33,487	45,960	2,770	1,375	50,105	146,199	196,304
<u>Comparative Year</u>	Unearmarked General Fund Balance	Earmarked General Fund Balance	Total General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves (Note 23)	Unusable Reserves (Note 24)	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2016	9,047	49,726	58,774	451	9,689	68,916	209,064	277,979
Movements During 2016/17:								
Total Comprehensive Income & Expenditure	(57,442)		(57,442)	-	-	(57,442)	(54,079)	(111,521)
Adjustments between accounting basis and funding basis under statutory provisions	47,624		47,624	1,757	(6,952)	42,428	(42,428)	-
Increase / (Decrease) during year	(9,818)		(9,818)	1,757	(6,952)	(15,014)	(96,507)	(111,521)
Transfers to / (from) earmarked reserves	13,426	(13,426)	-					
Balance at 31 March 2017	12,657	36,300	48,957	2,208	2,737	53,902	112,556	166,459

BALANCE SHEET as at 31 MARCH 2018

The Balance sheet shows the value as at the Balance Sheet date of the asset and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Authority is not able to use to provide services. This category of reserves include reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold, and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis regulations".

Notes	31 March 2017 £'000		31 March 2018 £'000
12	206,928	Property, Plant & Equipment:	
	677	Land & Buildings	197,379
	79,742	Community Assets	583
	12,481	Infrastructure	97,269
	25,922	Vehicles, Plant & Equipment	16,830
	2,560	Assets under Construction	13,006
13	31,301	Surplus assets	2,272
14	268,616	Heritage Assets	33,467
15	1,082	Investment Property	322,272
19	3,351	Intangible Assets	790
	<u>632,660</u>	Long Term Debtors	<u>6,398</u>
		Long Term Assets	690,266
16	44,031	Short Term Investments	-
18	510	Inventories	441
19	38,495	Short Term Debtors	37,675
20	23,097	Cash and Cash Equivalents	38,645
17	-	Assets Held for Sale	<u>800</u>
	<u>106,133</u>	Current Assets	77,561
16	(4,001)	Short Term Borrowing	(18,586)
21	(100,146)	Short Term Creditors	(52,331)
35	(1,573)	Grants Receipts In Advance - Revenue	(2,790)
35	(10,961)	Grants Receipts In Advance - Capital	<u>(14,566)</u>
	<u>(116,681)</u>	Current Liabilities	(88,273)
22	(3,374)	Provisions	(6,993)
16	(121,684)	Long Term Borrowing	(175,886)
41&42	(310,688)	Other Long Term Liabilities	(277,785)
35	(19,907)	Grants Receipts In Advance - Capital	<u>(22,586)</u>
	<u>(455,653)</u>	Long Term Liabilities	(483,250)
	<u>166,459</u>	Net Assets	196,304
23	53,902	Usable reserves	50,105
24	112,556	Unusable Reserves	146,199
	<u>166,459</u>	Total Reserves	<u>196,304</u>

The accounts were authorised for issue on 30th July 2018.

Donna Parham Director of Finance (s.151 Officer)

Date: 30th July 2018

CASH FLOW STATEMENT

The cash flow statement shows the changes in cash and cash flow equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

	2016/17	See Note 25 for further details	2017/18
	£'000		£'000
	(57,442)	Net surplus or (deficit) on the provision of services	(11,455)
		Adjustment to surplus or deficit on the provision of services	
A	82,000	for non cash movements	(14,448)
		Adjust for items included in the net surplus or deficit on the provision	
A	(17,724)	of services that are investing and financing activities	36,866
	6,834	Operating Activities	10,963
C	(26,043)	Investing Activities	(60,093)
D	4,203	Financing Activities	64,678
	(15,006)	Net Increase/(decrease) in cash equivalents	15,548
E	38,103	Cash & cash equivalents at the beginning of the reporting period	23,097
E	23,097	Cash & cash equivalents at the end of the reporting period	38,645

NOTES TO MAIN FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end 31 March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts & Audit Regulations 2015, which require the accounts to be prepared in accordance with proper accounting policies. These practices primarily comprise of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.2 Qualitative Characteristics of Financial Statements

Relevance - The accounts have been prepared with the objective of providing information about the Council's financial performance and position that is useful for assessing the stewardship of public funds, and for making financial decisions.

Materiality - The concept of materiality has been utilised in preparing the accounts so that insignificant items and fluctuations under an acceptable level of tolerance are permitted, provided that in aggregate, they would not affect the interpretation of the accounts.

Faithful Representation - The financial information in the accounts is a faithful representation of the economic performance of the Council as they have been prepared to reflect the reality or substance of the transaction, are free from deliberate or systematic bias, are free from material error and contain all the information necessary to aid understanding.

Verifiability - Different knowledgeable and independent observers will be able to reach the same conclusion from the information presented in the accounts.

Timeliness - The information provided in the accounts is available to decision makers in time to be capable of influencing their decisions.

Understandability - These accounts are based on accounting concepts and terminology which require reasonable knowledge of accounting and Local Government. Every effort has been made to use plain language, and where technical terms are unavoidable, they have been explained in the glossary contained within the accounts.

1.3 Underlying Assumptions

Accruals Basis

The financial statements, other than the cash flow, are prepared on an accruals basis. Income and expenditure is recognised in the accounts in the period in which it is earned or incurred, not as the cash is received or paid.

Going Concern

The accounts have been prepared on the assumption that the Council will continue in existence for the foreseeable future.

Primacy of Legislation Requirements

In accordance with the Code, where an accounting treatment is prescribed by law then it has been applied, even if it contradicts accounting standards. The following are examples of legislative accounting requirements which have been applied when completing the accounts:

- * Capital receipts from the disposal of property, plant & equipment are treated in accordance with the provisions of the Local Government Act 2003.
- * The Local Government Act 2003 requires the Council to set aside a minimum revenue provision.

1.4 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- * Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- * Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received, and their consumption, they are carried as inventories on the Balance Sheet.
- * Works are charged as expenditure when they are completed, before which they are carried as Works In Progress on the Balance Sheet.
- * Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- * Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- * Income and expenditure are credited and debited to the relevant service account, unless they properly represent capital receipts or capital expenditure.
- * Employee benefits are accounted for as they are earned.

NOTES TO MAIN FINANCIAL STATEMENTS

1.5 Revenue Recognition

Revenue is defined as the gross inflow of economic benefits or service potential during the reporting period when these inflows result in an increase in net wealth.

Revenue is measured at the fair value of the consideration received or receivable. In most cases, the consideration receivable is in the form of cash and cash equivalents, and the amount of revenue is the amount of cash and cash equivalents receivable. Where the Council is acting as an agent of another organisation, the amounts collected for that organisation are excluded from revenue.

Revenue relating to the sale of goods is recognised when the amount of revenue can be measured reliably, it is probable that the revenue will be received by the Council, and the risks and rewards of ownership have been passed to the purchaser. Revenue relating to the provision of services is recognised when the amount of revenue can be measured reliably, it is probable that the revenue will be received by the Council, and the stage of completion of the service can be measured.

1.6 Tax Income (Council Tax & Non-Domestic Rates)

Non Domestic Rates (NDR)

- Retained Business Rate income included in the Comprehensive Income & Expenditure Statement for the year will be treated as accrued income.
- Top Up income included in the Comprehensive Income & Expenditure Statement for the year will be treated as accrued income.

Council Tax

- Council Tax income included in the Comprehensive Income & Expenditure Statement for the year will be treated as accrued income.

Both Non Domestic Rates (NDR) and Council Tax will be recognised in the Comprehensive Income & Expenditure Statement in the line Taxation and Non-Specific Grant Income. As a billing Authority, the difference between the NDR and Council Tax included in the Comprehensive Income & Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken into the Collection Fund Adjustment Account and reported in the Movement In Reserves Statement. Each major preceptor's share of the accrued NDR and Council Tax income will be available from the information that is required to be produced in order to prepare the Collection Fund Statement.

The income for Non Domestic Rates and Council Tax is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Authority, and the amount of the revenue can be measured reliably.

1.7 Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

1.8 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Surplus of Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and do not represent useable resources for the Council - these reserves are explained in the relevant policies below. Capital reserves are not available for revenue purposes.

NOTES TO MAIN FINANCIAL STATEMENTS

1.9 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- * the Authority will comply with the conditions attached to the payments, and
- * the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be transferred to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

1.10 Employee Benefits

Benefits Payable During Employment: Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees, and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that the holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits: Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy in exchange for those benefits, and are charged on an accruals basis to the appropriate service, or where applicable, to the Non Distributed Costs line in the Comprehensive Income & Expenditure Statement at the earlier of when the Authority can no longer withdraw the offer of those benefits, or when the Authority recognises costs for restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the Pension Fund or pensioner in the year, not the amount calculated according to the relevant Accounting Standard. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits, and replace them with debits for the cash paid to the Pension Fund and pensioner and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees of the Council are members of two separate pension schemes:

- * The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
 - * The Local Government Pension Scheme (Avon Pension Fund). The Fund itself is administered entirely by Bath & North East Somerset Council under arrangements made following the abolition of the former Avon County Council on 31 March 1996. Bath & North East Somerset Council is one of over 200 contributing employers into the Avon Pension Fund.
- Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees who worked for the Council.

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a Defined Contribution Scheme - no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education line in the Comprehensive Income & Expenditure Statement is charged with the employer's contributions payable to Teacher's Pensions in the year.

NOTES TO MAIN FINANCIAL STATEMENTS

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a Defined Benefit Scheme:

- * The liabilities of the Avon Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the Projected Unit Method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projected earnings for current employees.
- * Liabilities are discounted to their value at current prices, using a discount rate of 4.9% (based on the indicative rate of return on high quality corporate bonds).
- * The assets of the Avon Pension Fund attributable to the Council are included in the balance sheet at their fair value:
 - Quoted Securities - bid price
 - Unquoted Securities - professional estimate
 - Unlisted Securities - average of the bid and offer rates
 - Property - market value.The change in the net pensions liability is analysed into the following components:

Service Costs:

- Current service cost - the increase in the present value of the liabilities as result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
 - Past service cost - the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the Authority in the number of employees covered by a plan) - debited to the Surplus or Deficit on The Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
 - Any gain or loss on settlement - arising when an Authority enters into a transaction which eliminates all further legal or constructive obligations for part or all of the benefits provided under a Defined Benefit Plan.
- Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority - the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income & Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period - taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurements of the Net Defined Benefit Liability (asset) comprising:

- the return on plan assets - excluding amounts included in net interest on the net defined benefit liability (asset) - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- actuarial gains and losses - changes in the present value of the defined benefit obligation resulting from: a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), and b) the effects of changes in actuarial assumptions - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions by Scheme Participants - the increase in scheme liabilities and assets due to payments made into the scheme by employees (where increased contribution increases pensions due to the employee in the future).

Contributions by the Employer - the increase in scheme assets due to payments made into the scheme by employer.

Benefits Paid - payments to discharge liabilities directly to pensioners.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant Accounting Standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

In 2017/18, the Council made an up-front payment of the LGPS deficit contributions for the three years 2017/18 - 2019/20 totalling £14.837m (net of academy conversions). The up-front payment took advantage of the independent Actuary's calculation of the return these contributions could achieve once invested by the Pension Fund. The discount calculated by the Actuary for making the up-front payment (net of academy conversions) rather than the typical approach of monthly payments in arrears over the three year period was £1.034m, reducing total payments from £15.871m to £14.837m. The return was judged to be far greater than could have been achieved by investing the amounts as part of the Council's Treasury Management Strategy and the approach represented good value for money for the Council.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

NOTES TO MAIN FINANCIAL STATEMENTS

1.11 VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them. VAT receivable is excluded from income

1.12 Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Authority's arrangements for accountability and financial performance.

1.13 Property, Plant & Equipment

Property, plant and equipment are assets held for use in the provision of services or for administrative purposes on a continuing basis.

Recognition: expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of assets (e.g. repairs and maintenance) is charged to revenue as it is incurred. In relation to Assets Under Construction, these are recognised at invoiced cost. Once an Asset Under Construction has reached practical completion, it will become operational and will be transferred to the appropriate asset class.

Measurement: Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- * dwellings, other land and buildings, vehicles, plant and equipment - current value, unless there is no market-based evidence because of the specialist nature of the asset then depreciated replacement cost
- * infrastructure assets, community assets and assets under construction - depreciated historical cost.
- * surplus assets - fair value, determined by the measurement of the highest and best use value of the asset.
- * all other assets - current value determined as the amount that would be paid for the asset in its existing use.

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of current value.

Where non-property assets that have short useful lives or low values, depreciated historical cost basis is used as a proxy for current value.

Non-current assets are valued in accordance with the guidance published by the Royal Institute of Chartered Surveyors. Valuations are undertaken by the Council's Property Services Department on a recurring, minimum 5 year basis and reviewed annually for impairment and material changes. The valuations were done on the basis of Existing Use Value, Market Value or, in the case of specialised properties on the basis of, Depreciated Replacement Cost in accordance with the RICS Valuation Standards. Valuations are reviewed and signed off by Richard Long FRICS (Registered Valuer), Head of Property Services. The carrying value of asset in the Balance Sheet ahead of new valuations can be different due to both depreciation, an assumed diminution in value, as well as new capital spend.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account.

Impairment: Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- * where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of accumulated gains).
- * where there is no balance or insufficient balance in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

NOTES TO MAIN FINANCIAL STATEMENTS

Depreciation: depreciation is provided for on all assets with a determinable finite life (except for investment properties) by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use. Changes to depreciation charges to reflect revaluations and additions are made a year in arrears.

Depreciation is calculated on the following bases:

- * other buildings - straight-line allocation over the life of the property as estimated by the valuer
- * vehicles, plant and equipment - straight-line allocation over the life of the asset as advised by a suitably qualified officer
- * community assets - straight line allocation over the life of the property as estimated by the valuer
- * infrastructure - straight-line allocation over 10 - 50 years.
- * assets under construction - assets are not depreciated until they become operational.

Where an asset has major components whose cost is significant in relation to the total cost of the item (i.e. 20% or more of the asset as a whole), with different estimated useful lives, these are depreciated separately. Assets with a value of less than £500,000 are not subject to the Componentisation Policy.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-Current Assets Held for Sale: when it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as Held for Sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Usable Capital Receipts reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account then reversed out in the Movement in Reserves Statement so there is no impact on the level of council tax.

Charges to Revenue for Property, Plant & Equipment

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- * depreciation attributable to the assets used by the relevant service
- * impairment losses attributable to the clear consumption of economic benefit on property, plant and equipment used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off
- * amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement in accordance with its approved Minimum Revenue Provision (MRP) Policy. Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Movement in Reserves Statement, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

1.14 Intangible Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment on a straight line basis to reflect the pattern of consumption of benefits.

NOTES TO MAIN FINANCIAL STATEMENTS

1.15 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable partners at arms-length. Properties are not depreciated but values are reviewed on a recurring annual basis according to market conditions at year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rental received in relation to Investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

1.16 Heritage Assets

The Council's museum, galleries, Record Office and libraries hold a number of collections of historical artefacts. The collections include archaeological artefacts, coin collections, fine and decorative art collections, fashionable dress, accessories and associated paperwork collections, rare books, maps, manuscripts and local history collections.

They are maintained for their contribution to knowledge and culture and are held in order to preserve them for future generations. Details relating to accessibility of these items to the public is available on the Council's website.

Museum Collections

Museum collections will be reported in the Balance Sheet at market value where the information is available. In other circumstances, valuations for insurance purposes will be used if appropriate. Valuations need not be all recurring and are not required to be carried out or verified by external valuers, and so in most cases will be undertaken by the Museum's Curator. Where officers are unable to value items themselves, external expertise may be used.

Acquisitions will only relate to existing subject fields and areas of collection. The collections will not be extended into new areas. This is in line with the policy set by the Museums and Archives Service. New acquisitions will be recognised at cost for assets purchased. Donated assets will be recognised at valuation if available or insurance values where relevant.

Chandeliers

The chandeliers located in the Guildhall will be reported in the balance sheet at a valuation representing their insurance value.

Statues and Monuments

The Authority has a number of statues, fountains, memorials and monuments throughout the area. As there is no readily available valuation held by the Council and no definitive market value for these types of assets they will not be recognised on the Council's Balance Sheet.

Historical Buildings

The Council owns many historic buildings. Buildings such as the Roman Baths, Victoria Art Gallery and Guildhall are operational buildings and as such remain classified within Property, Plant and Equipment in the Council's balance sheet. Others are held within the Council's Investment Estate. The accounting treatment of these buildings will not change. Some of these buildings contain some items of antique furniture.

1.17 Fair Value Measurement

The Council measures some of its assets and liabilities at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows and, in future years, we will track movements between these levels:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date.

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - unobservable inputs for the asset or liability.

NOTES TO MAIN FINANCIAL STATEMENTS

1.18 Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Previously called 'Deferred charges' this is expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets. Revenue expenditure funded from capital incurred during the year has been written off as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the costs from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged on General Fund Balances in the Movement in Reserves Statement so there is no impact on the level of Council Tax.

1.19 Cash & Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

1.20 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease inception. The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the period in which they are incurred.

Lease payments are apportioned between:

- * a charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability, and
- * a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the assets estimated useful life.

The Authority is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

NOTES TO MAIN FINANCIAL STATEMENTS

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal, matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- * a charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease debtor (together with any premiums received), and
- * finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Authority grants an operating lease over a property or item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

1.21 Financial Instruments

Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Financial Assets

- * loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market
- * available-for-sale assets - assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

The Council has no soft loans.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

Available-for-sale Financial Assets

The Authority has no available-for-sale financial assets.

NOTES TO MAIN FINANCIAL STATEMENTS

Instruments Entered into Before 1 April 2006

The Authority entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in Policy 3 below.

1.22 Inventories and Work in Progress

Inventories and work in progress are included in the Balance Sheet at the lower of cost and net realisable value.

1.23 Controlled Companies

The Authority has three controlled companies - Aequus Construction Limited, Aequus Developments Limited Bath Tourism Plus Ltd. The turnover and assets held by the companies are not considered material and therefore no Group Accounts have been produced.

1.24 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but wither is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably. Contingent Liabilities are not recognised in the accounting statements but disclosed by way of a note giving a brief explanation of any possible obligations and an estimate of the likely financial effect if known.

1.25 Accounting for Schools

In determining these accounting policies we have considered the treatment of land and building separately and referred to the requirements and considerations within the following publications and standards:

- The Code of Practice on Local Authority Accounting in the United Kingdom;
- IAS 16 Property, plant and equipment as adopted by the Code;
- IFRIC4 / IAS 17 Leases.

The Code of Practice on Local Authority Accounting concluded that schools are separate entities and that under IFRS 10, Maintained Schools (but not Free Schools or Academies) meet the definition of entities controlled by local authorities which should be consolidated in group accounts. However, rather than requiring local authorities to prepare group accounts, the Code requires local authorities to account for Maintained Schools within their single entity accounts. This includes schools Income and Expenditure as well as assets and liabilities.

Academies and Free Schools are managed completely independently of the Council with funding provided directly by Central Government, with the exception of some top up funding typically for Special Needs. The Council has granted long leases as part of the Academies transfer which includes a peppercorn rent, with the net present value of future minimum lease payments deemed to be nil in the finance lease calculation. No revenue or capital amounts are therefore recognised in the Council's accounts for these schools.

No adjustment is made in the Council's accounts for a Maintained School in the process of conversion to Academy, as it is still possible for them to withdraw from the conversion process, and only treated outside of the Council's accounts from the date of the transfer.

In respect of Maintained Schools, the Council oversees many different types of school including Community, Voluntary Aided and Voluntary Controlled schools, as well as a Foundation School, and has included all income and expenditure and liabilities for these schools in the accounts.

The recognition of Community Schools Non-current Assets within the Property Plant and Equipment Land and Building Valuations is in accordance with usual Service provision and is generally straightforward, with the Council being the freeholder of land and buildings. However, for other Maintained Schools (Voluntary Aided, Voluntary Controlled Schools and Foundation Schools) the accounting is a little more complex, in particular where ownership with the Trustee is not formalised. A further consideration is that the ownership of these school sites can be split into areas of Playing Fields and Buildings, and individual buildings.

A review of Land Registry records has established ownership of the asset by Trustees. However, there is no formal documentation that assigns control of economic benefits and service potential from Trustees to the schools. This arrangement is termed by CIPFA in LAAP101 as a "mere license", terminable by a Trustee at any time without causal action and the Diocese of Clifton has confirmed this as their view for the Catholic schools. It was concluded that "mere licenses" under a lease accounting analysis would not be recognised as assets.

The substance of the arrangement was further tested under IAS16 and IAS17. We considered the tests for legal ownership and future economic benefit, especially with regard to sale proceeds, were clearly determined by matching to Land Registry records held, a view endorsed by valuers that the cost or value of the asset could be measured reliably. We further considered service control tests and we recognise that both parties have influence on decision making, with on balance Trustees being the ultimate decision makers, especially in the longer term. Also in reality the Council has never had cause to challenge Trustee decision making. Our judgement therefore, was to value Trustee schools as Council assets only if their transfers had not been completed. The Land Registry record is the substance of the arrangement as to whether the value of non-current assets should be included in our financial statements.

The Council's adopted policy in the Financial Statements for the accounting treatment of Non-Current Assets Used by Local Authority Maintained Schools that fall within the Authority's boundary is as follows:

- i. Where assets are fully transferred to a Diocese or Trustee Body and there is strong supporting evidence of a transfer, the Authority will not include these assets on its Balance Sheet.
- ii. Where elements of an asset are retained by the Authority and there are Land Titles to support this, the Authority will include these as assets on its Balance Sheet.
- iii. Where transfer to a Diocese or Trustee Body is not complete or pending, the Authority will include these assets on its Balance Sheet.
- iv. Where there is no evidence to support transfer to a Diocese or Trustee Body, the Authority will include these assets on its Balance Sheet

NOTES TO MAIN FINANCIAL STATEMENTS

1.26 Group Accounts

Group Accounts are covered by IFRS Standard 10 - Consolidated Financial Statements, IFRS 11 - Joint Arrangements, IFRS 12 - Disclosure of Interests in Other Entities, IAS27 - Separate Financial Statements and IAS 28 - Investments in Associates and Joint Ventures. An assessment of the criteria for the completion of Group Accounts has been undertaken and the conclusion reached that there was no requirement to produce such accounts.

All material assets and liabilities relating to maintained schools are included in the Council's accounts. Owing to the nature of schools, it is highly unlikely that there would be any losses.

1.27 Joint Working Arrangements

Where the Authority has a joint working arrangement with other organisations, the Authority's share of income and expenditure is accounted for only in the Authority's accounts. An example of this the West of England Partnership.

1.28 Pooled Budget Arrangements

Under the Section 75 Pooled Funding Arrangement where the Council is lead commissioner and responsible for making contract payments, the Council and CCG have adopted a Net Accounting Policy resulting in costs and income attributable to CCG funded Health and Care services being offset to ensure there is no risks of reporting this expenditure in the Council's statement of accounts. Where the CCG is lead commissioner, costs which they fund and pay together with the payment to the Council as lead, are reported in the CCG Statement of Accounts in line with NHS accounting guidance. An example of this is the Better Care Fund.

1.29 Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date that the Statement of Accounts is authorised for issue. Two types of events can be identified:

1) those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.

2) those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.30 City Region Deal

The Council has applied the principles of IPSAS 23 'Revenue from non-Exchange transactions' (taxes and transfers) in accounting for the transactions and balances relating to the City Region Deal.

Growth paid to the accountable body (South Gloucestershire Council - SGC) for the Business Rate Pool (BRP) is recognised by the Council as a debtor (and by SGC as an associated creditor) until such point that the funds are paid out by the BRP to fund Economic Development Fund (EDF) payments in respect of approved programmes.

Income

Income receivable by B&NES from the BRP is recognised as revenue in the year it occurs.

Expenditure

Expenditure is recognised by the Council on payments being made to the BRP. Expenditure is recognised in proportion to the degree that the Council has contributed to the BRP through its growth figure, and is capped at the limit of the Council's payment of growth to the BRP in this period, and any previous growth figures paid over which have not been previously paid by the BRP.

NOTES TO MAIN FINANCIAL STATEMENTS

2 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Council Accounting in the United Kingdom 2018/19 (the Code) has introduced several changes in accounting policies which will be required from 1 April 2018. If these had been adopted for the financial year 2017/18 there would be no material changes. These changes are:

IFRS9 Financial Instruments - The change to this standard includes a single classification approach for financial assets driven by cash flow characteristics and how an instrument is managed, and a forward looking "expected loss" model for impairment rather than the current "incurred loss" model. It is anticipated that due to the classification and security of the Authority's financial instruments, it is unlikely to have a material impact on the financial statements.

IFRS15 Revenue from Contracts With Customers - The introduction of a five-step process for recognising revenue based on the transfer of control rather than the current transfer of risk and rewards.

These changes are not expected to have a material effect on the Council's Statement of Accounts.

3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1 above, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

Future Funding Levels

Government spending announcements have identified a significant reduction in Central Government funding for local authorities over the medium term financial planning period.

The Authority's medium term financial planning process is based on the anticipated implications for the Authority although, at this stage, it is not possible to provide an indication whether any of the Authority's assets might be impaired as a result of potentially needing to close facilities and reduce future levels of service provision.

Property Valuations

Our valuers confirmed the value for Other Land and Buildings to be £192.9m as at the 31st March 2018, and confirmed no specific properties with no material impairments as at the 31st March 2018. An indexation exercise identified a further potential change in value of £5.2m. The Authority is satisfied that its balance sheet figure of £199.3m is not materially different from this amount, the difference being to costs incurred since the last valuations. The valuers also confirmed the value of Investment Properties as £316.6m as at 31st March 2018, with an indexation exercise identifying a further potential change in values of £5.4m. The balance sheet figure of £322.3m is consistent with these figures.

Fair Value of Public Works Loan Board (PWLB) Loans

The fair values for loans are based on observable inputs from the financial markets applied to a model developed by our specialist Treasury Advisors, leading to our judgement of level 2 status in the IFRS13 hierarchy for all Financial Instruments. With no history of PWLB loans being transferred we have taken the view that if the PWLB decided to sell its loan assets to other parties, then the market for local authority loans and bonds would be the most similar market. The model uses interest rates as supplied by money market brokers for up to five years from the active market in Local Authority to Local Authority loans. Beyond five years, it uses Local Authority Bonds in Issue, mainly from Transport for London. Interest rate swaps are as supplied by Bloomberg, compiled from banks operating in the over the counter swap market. It then subtracts swap rates from observed rates to calculate the margin, which is interpolated to give a smooth curve.

City Region Deal

The Authority has determined that transactions occurring in respect of the City Regions Deal arrangement arise from non-exchange transactions (the collection of Non-Domestic Rates by the Authority) and so IPSAS 23 may be applied in accounting for them. The Authority's accounting policy and note to the Statement of Accounts are described in Notes 1 & 50 respectively.

NOTES TO MAIN FINANCIAL STATEMENTS

4 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Pensions Liability

An estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in Note 41.

The liability as at 31st March 2018 is £265.4m.

Property, Plant and Equipment Values

The Council has a large number of properties which are valued in accordance with the RICS valuation standards.

Individual valuations are undertaken to reflect material changes in circumstances affecting individual properties and properties are valued on a minimum five year basis to comply with the Code of Practice on Local Authority Accounting.

As a consequence the balance of properties valued differs from year to year.

The Authority is required to review whether there is any indication of material impairment to property values at the Balance Sheet date, including changes in the value of the asset due to market changes.

To satisfy this requirement the Council's Property Services has undertaken a desktop re-valuation of the asset portfolio using national indices (Investment Property Database (IPD), Building and Construction Industry Standard (BCIS) and a residential land index) and also considered other local factors. They have confirmed that there has been no material impairment to property values and consequently no adjustments have been required.

NNDR Appeals

Since the introduction of the Business Rates Retention Scheme effective from 1st April 2013, Local Authorities are liable for successful appeals against Business Rates charged to businesses in 2017/18 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31st March 2018. For 2010 rating list the estimate has been calculated using the latest Valuation Office Agency (VOA) list of appeals and analysis of successful appeals to date. For 2017 rating list the process of lodging an appeal has been changed to a three stage process of Check, Challenge & Appeal. Provision for appeals on the 2017 rating list has been estimated at 4.7% of net business rates payable, which is Central Government's forecasted cost of appeals nationally. The Council's share of the balance of business rate appeals provisions held at 31st March 2018 amounted to £6.5m, this has increased by £3.6m from the previous year. The increase is mainly due to higher business rates retention share for the Council in 2017/18 (94%) as compared to previous year (49%) reflecting the participation in the 100% Business Rate Retention pilot. If appeals were to increase by 10% then this could require an increase in the Council's share of its appeals provision by £653k.

5 MATERIAL ITEMS OF INCOME AND EXPENSE

There were no material items of Income and Expenditure which are not separately detailed elsewhere in the accounts.

6 EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Director of Finance (Section 151 Officer) on 30th July 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this situation.

Academy Schools

These accounts reflect the transfer of assets and liabilities in respect of those schools which became Academies during the 2017/18 financial year. The following schools are expected to convert to Academy status during the financial year 2018/19, although the timeframe for conversion is not fixed:

- Bathford CofE VC Primary
- Freshford CofE Primary
- St Michael's CofE Junior

NOTES TO MAIN FINANCIAL STATEMENTS

7 EXPENDITURE AND FUNDING ANALYSIS

The Expenditure & Funding Analysis shows how the annual expenditure is used and funded from resources (Government grants, rents, Council Tax and Business Rates) by Local Authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's Directorates / Services / Departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income & Expenditure Statement.

	As reported for Resource Management	Adjustment to arrive at the new amount chargeable to the General Fund Balance (Note 7a)	Net Expenditure charged to the General Fund Balance	Adjustments Between Accounting & Funding Basis	Net Expenditure in the Comprehensive Income & Expenditure Statement
2017/18	£'000	£'000	£'000	£'000	£'000
Leader	2,469	-	2,469	-	2,469
Finance & Efficiency	49	5,844	5,893	2,448	8,341
Adult Care, Health & Wellbeing	61,654	-	61,654	844	62,498
Children & Young People	29,563	-	29,563	9,124	38,687
Development & Neighbourhoods	20,756	332	21,088	(2,832)	18,256
Economic & Community Regeneration	(4,771)	324	(4,447)	654	(3,793)
Transformation & Customer Services	6,944	-	6,944	2,153	9,097
Transport & Environment	111	(187)	(76)	8,820	8,744
Net Cost Of Services	116,775	6,313	123,088	21,211	144,300
Other Income & Expenditure	(115,039)	(5,052)	(120,091)	(12,754)	(132,845)
(Surplus) or Deficit on Provision of Services	1,736	1,261	2,997	8,457	11,455
Opening General Fund Balance at 31 March 2017			48,957		
Closing General Fund Balance at 31 March 2018			45,960		

	As reported for Resource Management	Adjustment to arrive at the new amount chargeable to the General Fund Balance (Note 7a)	Net Expenditure charged to the General Fund Balance	Adjustments Between Accounting & Funding Basis	Net Expenditure in the Comprehensive Income & Expenditure Statement
2016/17 (Restated)	£'000	£'000	£'000	£'000	£'000
Leader	2,971	-	2,971	(233)	2,738
Finance & Efficiency	(499)	9,087	8,588	5,267	13,855
Adult Care, Health & Wellbeing	61,222	-	61,222	1,025	62,247
Children & Young People	29,301	-	29,301	7,128	36,429
Development & Neighbourhoods	22,189	349	22,538	1,857	24,395
Economic & Community Regeneration	(2,805)	324	(2,481)	338	(2,143)
Transformation & Customer Services	8,137	-	8,137	3,562	11,699
Transport & Environment	4,788	-	4,788	9,090	13,878
Net Cost Of Services	125,304	9,760	135,064	28,036	163,100
Other Income & Expenditure	(114,095)	(11,153)	(125,248)	19,590	(105,658)
(Surplus) or Deficit on Provision of Services	11,209	(1,393)	9,816	47,626	57,442
Opening General Fund Balance at 31 March 2016			58,773		
Closing General Fund Balance at 31 March 2017			48,957		

NOTES TO MAIN FINANCIAL STATEMENTS

7a NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

	Rental Income reported at Portfolio Level (a) £'000	Other Income reported at Portfolio Level (a) £'000	Interest Payments reported at Portfolio Level (a) £'000	Other Payments reported at Portfolio Level (a) £'000	Adjustments to the net amount chargeable to the General Fund £'000
2017/18					
Leader					-
Finance & Efficiency	18,184	370	(6,882)	(5,828)	5,844
Adult Care, Health & Wellbeing					-
Children & Young People					-
Development & Neighbourhoods				332	332
Economic & Community Regeneration				324	324
Transformation & Customer Services					-
Transport & Environment				(187)	(187)
Net Cost of Services	18,184	370	(6,882)	(5,359)	6,313
Other Income & Expenditure	(18,184)	(370)	5,888	7,614	(5,052)
Surplus or Deficit	-	-	(994)	2,255	1,261

	Adjustment for capital purposes (b) £'000	Net charges for Pension Fund adjustment (c) £'000	Other Adjustments (d) £'000	Total Adjustments Between Funding & Accounting Basis £'000
Leader	-	-	-	-
Finance & Efficiency	2,946		(498)	2,448
Adult Care, Health & Wellbeing	878	(63)	29	844
Children & Young People	10,379	(838)	(417)	9,124
Development & Neighbourhoods	(2,512)	(256)	(64)	(2,832)
Economic & Community Regeneration	787	(133)		654
Transformation & Customer Services	2,153			2,153
Transport & Environment	8,929	(109)		8,820
Net Cost of Services	23,560	(1,399)	(950)	21,211
Other Income & Expenditure	(19,597)	6,874	(31)	(12,754)
Surplus or Deficit	3,963	5,475	(981)	8,457

NOTES TO MAIN FINANCIAL STATEMENTS

2016/17 (Restated)	Rental Income reported at Portfolio Level (a) £'000	Other Income reported at Portfolio Level (a) £'000	Interest Payments reported at Portfolio Level (a) £'000	Other Payments reported at Portfolio Level (a) £'000	Adjustments to the net amount chargeable to the General Fund £'000
Leader					-
Finance & Efficiency	16,554	2,704	(9,490)	(681)	9,087
Adult Care, Health & Wellbeing					-
Children & Young People					-
Development & Neighbourhoods				349	349
Economic & Community Regeneration				324	324
Transformation & Customer Services					-
Transport & Environment					-
Net Cost of Services	16,554	2,704	(9,490)	(8)	9,760
Other Income & Expenditure	(16,554)	(2,704)	4,831	3,274	(11,153)
Surplus or Deficit	-	-	(4,659)	3,266	(1,393)

	Adjustment for capital purposes (b) £'000	Net charges for Pension Fund adjustment (c) £'000	Other Adjustments (d) £'000	Total Adjustments Between Funding & Accounting Basis £'000
Leader	(233)	-		(233)
Finance & Efficiency	5,838	-	(571)	5,267
Adult Care, Health & Wellbeing	1,072	(47)		1,025
Children & Young People	7,349	(221)		7,128
Development & Neighbourhoods	1,944	(87)		1,857
Economic & Community Regeneration	377	(39)		338
Transformation & Customer Services	3,562	-		3,562
Transport & Environment	9,111	(21)		9,090
Net Cost of Services	29,022	(415)	(571)	28,036
Other Income & Expenditure	11,580	7,475	535	19,590
Surplus or Deficit	40,602	7,060	(36)	47,626

(a) For Management Reporting, the Authority includes rental income from investment properties and interest income in the Finance & Efficiency Portfolio. Also, expenditure relating to borrowing, Investment Estate Management and Traded Operations are also reported within the Portfolios. However, these items are reported in the Financial Statements below the Cost of Service line, and are therefore reallocated within this note. Transfers to balances & revenue funding of capital which are shown as expenditure within the Portfolio reporting have also been removed, in order to show the net expenditure chargeable to the general fund balance.

(b) This column adds depreciation, impairments and revaluation gains and losses. It also adjusts for the capital disposals with a transfer of the income on the disposal and the amounts written off, and adjusts for the recognition of Capital Grant income.

(c) This column shows which lines have been affected by the removal of pension contributions and replacement with IAS19 debits and credits.

(d) These adjustments are the timing differences for debits relating to premiums, variations in the amount chargeable for NDR & Council Tax under statute and the Code, and accumulated absence adjustments.

NOTES TO MAIN FINANCIAL STATEMENTS

8 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2017/18	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance £'000's	Capital Receipts Reserve £'000's	Capital Grants Unapplied £'000's	
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement:				
Charges for depreciation of Non-Current Assets	20,232			(20,232)
Revaluation gains / Impairments on Property Plant & Equipment	1,478			(1,478)
Movements in the Market Value of Investment Properties	(25,609)			25,609
Amortisation of Intangible Assets	296			(296)
Capital Grants & contributions applied	(6,630)			6,630
Revenue expenditure funded from Capital under Statute	13,132			(13,132)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	21,168			(21,168)
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement:				
Statutory provision for the financing of capital investment expenditure charged against the General Fund	(4,236)			4,236
Principal repayment of Avon Loan	(514)			514
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement	(11,717)		11,717	
Application of grants to capital financing transferred to the Capital Adjustment Account			(13,079)	13,079
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(5,065)	5,065		
Use of the Capital Receipts Reserve to finance new capital expenditure		(4,264)		4,264
Capital expenditure financed from revenue	(198)			198
Contributions from the capital receipts reserve to finance payments to the Government capital receipts pool	-	-		
Transfer from Deferred Capital Receipts Reserve upon receipt of cash		7		(7)
Adjustments primarily involving the Deferred Capital Receipts Reserve:				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-			-
Adjustments primarily involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements	(169)			169
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	(617)			617
Employer's pensions contribution and direct payments to pensioners payable in the year	22,670			(22,670)
Employer's pensions contribution and direct payments to pensioners payable in the year	(16,578)			16,578
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which income credited to the Comprehensive Income & Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	(369)			369
Adjustments primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(445)			445
Other movements	1,626	(246)		(1,380)
Total Adjustments	8,455	562	(1,362)	(7,655)

NOTES TO MAIN FINANCIAL STATEMENTS

2016/17	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	
	£'000's	£'000's	£'000's	£'000's
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement:				
Charges for depreciation of Non-Current Assets	18,204			(18,204)
Revaluation gains / Impairments on Property Plant & Equipment	14,553			(14,553)
Movements in the Market Value of Investment Properties	8,324			(8,324)
Amortisation of Intangible Assets	457			(457)
Capital Grants & Contributions Applied	(4,458)			4,458
Revenue expenditure funded from Capital under Statute	8,469			(8,469)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	24,993			(24,993)
Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement:				
Statutory provision for the financing of capital investment expenditure charged against the General Fund	(3,783)			3,783
Principal repayment of Avon Loan	(536)			536
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement	(9,369)		9,369	
Application of grants to capital financing transferred to the Capital Adjustment Account			(16,321)	16,321
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(9,314)	9,314		
Use of the Capital Receipts Reserve to finance new capital expenditure		(11,171)		11,171
Capital expenditure financed from revenue	(470)			470
Contributions from the capital receipts reserve to finance payments to the Government capital receipts pool	-	-		
Transfer from Deferred Capital Receipts Reserve upon receipt of cash		3,614		(3,614)
Adjustments primarily involving the Deferred Capital Receipts Reserve:				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-			-
Adjustments primarily involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements	(170)			170
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	16,916			(16,916)
Employer's pensions contribution and direct payments to pensioners payable in the year	(16,970)			16,970
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which income credited to the Comprehensive Income & Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	365			(365)
Adjustments primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(238)			238
Other movements	651			(651)
Total Adjustments	47,623	1,757	(6,952)	(42,428)

NOTES TO MAIN FINANCIAL STATEMENTS

9 OTHER OPERATING EXPENDITURE

	2017/18	2016/17
	£'000	£'000
(Gain)/Loss on disposal of non-current assets	19,054	19,560
Parish Precepts	2,404	2,309
Levy payments to joint bodies*	4,449	235
	<u>25,907</u>	<u>22,104</u>

* The 2017/18 figure includes the £4.211m levy paid to the newly formed West of England Combined Authority, which was new for 2017/18.

10 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2017/18	2016/17
	£'000	£'000
Interest Payable & Premiums	5,888	5,001
Interest & Investment Income	(370)	(340)
Net Deficit/(Surplus) on Trading Services	(118)	31
Income & expenditure in relation to Investment properties and changes in fair value	(42,914)	(7,531)
Net Interest on the Net Defined Benefit Liability (Asset)	6,874	7,475
	<u>(30,640)</u>	<u>4,636</u>

11 TAXATION AND NON-SPECIFIC GRANT INCOME

	2017/18	2016/17
	£'000	£'000
Council Tax Income	(84,488)	(80,897)
Non -Domestic Rates Income & Expenditure	(30,551)	(20,764)
Non ring fenced government grants*	-	(14,433)
Capital grants and contributions	(13,073)	(16,304)
	<u>(128,112)</u>	<u>(132,398)</u>

* The reduction in "Non ring fenced governments grants" reflects the transfer of the Council's 2017/18 Revenue Support Grant (RSG) entitlement of £8.259m (£14.423m 2016/17) into the 100% Business Rate Retention Pilot Scheme, with a corresponding increase in the Non-Domestic Rates Income & Expenditure figure for 2017/18.

NOTES TO MAIN FINANCIAL STATEMENTS

12 PROPERTY, PLANT & EQUIPMENT

Movement in 2017/18:

	Other Land & Buildings	Community Assets	Infrastructure Assets	Veh'cls, Plant & Equipment	Assets Under Construction	Surplus Assets	Heritage Assets	Total Property Plant & Equipment £'000
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation as at 1 April 2017	209,875	688	142,290	27,976	25,922	2,584	31,301	440,636
Additions	3,629	140	7,417	7,783	11,848	228	0	31,045
Revaluations increases/decreases recognised in the Revaluation Reserve	7,014		-			(109)	2,166	9,071
Revaluations increases/decreases recognised in the Surplus/Deficit on Provision of Services	(4,783)	(5)	1,037		(40)	(47)		(3,838)
De-recognition - Disposals	(17,322)	-	(77)	(5,344)	(3,824)			(26,567)
Assets reclassified to/from Held for sale	(627)				-			(627)
Reclassifications - other	1,500	(240)	19,823	187	(20,900)	(370)	-	-
Valuation as at 31 March 2018	199,286	583	170,490	30,602	13,006	2,286	33,467	449,720
Accumulated Depreciation and Impairment								
Accumulated depreciation as at 1 April 2017	(2,947)	(11)	(62,548)	(15,495)	-	(24)	-	(81,025)
Depreciation charge in year	(6,123)		(10,588)	(3,497)	-	(24)		(20,232)
Depreciation written out to the Revaluation Reserve	4,000					-		4,000
Depreciation written out to the Surplus/Deficit on Provision of Services	2,378					34		2,412
Impairment losses/(reversals) recognised in the Revaluation Reserve	-							-
Impairment losses/(reversals) recognised in the Surplus/deficit on Provision of Services*	-					-		-
De-recognition - disposals	796		(85)	5,220				5,931
Other Movements in Depreciation & Impairment	(11)	11						-
Accumulated depreciation at 31 March 2018	(1,907)	-	(73,221)	(13,772)	-	(14)	-	(88,914)
Balance sheet amount 31 March 2018	197,379	583	97,269	16,830	13,006	2,272	33,467	360,806
Revaluations (GBV)								
Carried at Historic Cost	3,333	583	170,490	30,602	13,006	197		218,211
Heritage Valuations (Insurance or Curatorial)							33,467	33,467
Surplus Properties at Fair Value								-
Valued at Current value as at:								
Y/E 31/03/2018	126,320					1,714		128,034
Y/E 31/03/2017	53,933							53,933
Y/E 31/03/2016	1,671							1,671
Y/E 31/03/2015	5,895					375		6,270
Y/E 31/03/2014	7,802							7,802
Y/E 31/03/2013	332							332
Total Cost or Valuation	199,286	583	170,490	30,602	13,006	2,286	33,467	449,720

NOTES TO MAIN FINANCIAL STATEMENTS

Comparative Movements in 2016/17:

	Other Land & Buildings	Community Assets	Infrastructure Assets	Veh'cls, Plant & Equipment	Assets Under Construction	Surplus Assets	Heritage Assets	Total Property Plant & Equipment £'000
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation as at 1 April 2016	223,112	564	134,649	32,505	20,158	2,556	24,821	438,365
Adjustment to opening balance	-	-	-	-	-	-	-	-
Additions	9,008	190	8,748	2,552	15,201	13	-	35,712
Revaluations increases/decreases recognised in the Revaluation Reserve	5,325	(3)	10	1	-	67	6,480	11,880
Revaluations increases/decreases recognised in the Surplus/Deficit on Provision of Services	(9,261)	(63)	(1,117)	(397)	(6,388)	-	-	(17,226)
De-recognition - Disposals	(21,109)	-	-	(7,338)	-	(52)	-	(28,499)
Assets reclassified to/from Held for sale	-	-	-	-	-	-	-	-
Reclassifications - other	2,800	-	-	653	(3,049)	-	-	404
Valuation as at 31 March 2017	209,875	688	142,290	27,976	25,922	2,584	31,301	440,636
Accumulated Depreciation and Impairment								
Accumulated depreciation as at 1 April 2016	(5,199)	-	(53,733)	(19,503)	-	-	-	(78,435)
Adjustment to opening balance	-	-	-	-	-	-	-	-
Depreciation charge in year	(6,045)	(11)	(8,815)	(3,307)	-	(24)	-	(18,202)
Depreciation written out to the Revaluation Reserve	4,269	-	-	-	-	-	-	4,269
Depreciation written out to the Surplus/Deficit on Provision of Services	2,674	-	-	-	-	-	-	2,674
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-	-
Impairment losses/(reversals) recognised in the Surplus/deficit on Provision of Services	-	-	-	-	-	-	-	-
De-recognition - disposals	1,354	-	-	7,315	-	-	-	8,669
Other Movements in Depreciation & Impairment	-	-	-	-	-	-	-	-
Accumulated depreciation at 31 March 2017	(2,947)	(11)	(62,548)	(15,495)	-	(24)	-	(81,025)
Balance sheet amount 31 March 2017	206,928	677	79,742	12,481	25,922	2,560	31,301	359,611

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

Other Land and Buildings	30 - 60 years
Vehicles, Plant and Equipment	3 - 10 years
Infrastructure	10 - 50 years

NOTES TO MAIN FINANCIAL STATEMENTS

Revaluations

The Council carries out a recurrent rolling programme that ensures all PPE required to be measured out at least every five years, along with other revaluations as required. New valuations undertaken in 2017/18 were carried out to the value of £122.9m. Along with existing valid valuations, acquisitions and disposals this gave a total valuation of £192.9m. An indexation exercise identified a further potential change in value of £5.2m from the date of valuation to the balance sheet date of 31st March 2018. All valuations of land & buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The general assumptions applied in estimating the values are as follows:

- Properties classified as occupied by the council for the purpose of its business have been valued on the basis of Fair Value (Existing Use Value), assuming vacant possession on all parts occupied by the Council.
- Surplus Properties have been valued with their "highest and best use" and are deemed to be level 2 Valuations from the hierarchy outlined in policy 1.17.
- Specialist building are valued at Depreciation replacement cost (e.g. Schools)
- All other assets are valued at Historical Costs, including Infrastructure and Vehicles
- Specific Voluntary Aided / Controlled schools, along with the Foundation School, where title deeds are not assigned to the Council are not included on the Council's Balance Sheet. In addition, no Academy Schools are held on the balance sheet.
- To Assets not revalued in year, estimated for enhancing expenditure and depreciation of useful life is applied.

Capital Commitments

At 31 March 2018 the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2017/18 and future years estimated to cost £6.984m
These are detailed below:

	2017/18	2016/17
	£'000	£'000
Leisure Centres	3,447	5,000
Waste and Cleaning Vehicles	725	3,773
Bath Quays	-	2,022
Education & Children's Services	1,454	1,621
Bath Transport Package	256	-
Resources (Property) Schemes	1,071	1,003
Other	33	27
Total	6,986	13,446

13 HERITAGE ASSETS

Reconciliation of the Carrying Value of Heritage Assets Held by the Authority:

2017/18	Victoria Art Gallery	Roman Baths	Fashion Museum	Chandeliers	Records Office	Library	Total
Cost or Valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1st April	14,856	9,084	1,635	1,800	1,303	2,623	31,301
Additions							-
Disposals							-
Revaluations	72		2,094				2,166
Impairment Losses/(reversals) recognised in the Reval Reserve							-
Impairment Losses/(reversals) recognised in the Surplus or Deficit on Provision of Service							-
31st March	14,928	9,084	3,729	1,800	1,303	2,623	33,467

Reconciliation of the Carrying Value of Heritage Assets Held by the Authority:

2016/17	Victoria Art Gallery	Roman Baths	Fashion Museum	Chandeliers	Records Office	Library	Total
Cost or Valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1st April	14,856	3,078	1,528	1,800	936	2,623	24,821
Additions							-
Revaluations		6,006	107		367		6,480
31st March	14,856	9,084	1,635	1,800	1,303	2,623	31,301

NOTES TO MAIN FINANCIAL STATEMENTS

14 INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

	2017/18	2016/17
	£'000	£'000
Rental Income from Investment Property	18,184	16,554
Direct operating expenses arising from Investment Property	(879)	(699)
Net gain/(loss)	<u>17,305</u>	<u>15,855</u>

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year.

	2017/18	2016/17
	£'000	£'000
Balance at start of year	268,616	274,132
Adjustment to opening balance		
Additions of expenditure	29,007	8,205
Disposals	(960)	(4,993)
Net gains/losses from fair value adjustments	25,609	(8,324)
Transfer to/from Property, Plant & Equipment		(404)
Balance at end of the year	<u>322,272</u>	<u>268,616</u>

The Council carries out recurring annual valuations of all investment properties. The valuer's report identified a total valuation of £322.3m, being all level 2 in the hierarchy outlined in policy 1.17 before in year capital expenditure was applied. An indexation exercise identified a further potential change in value of £5.4m from the valuation date of 30th September 2017 to balance sheet date of 31 March 2018. Valuations were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

15 INTANGIBLE ASSETS

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of property, Plant and Equipment. All software is given a finite useful life based on assessments of the period that the software is expected to be of use to the Authority.

	2017/18	2016/17
	£'000	£'000
Cost or valuation as at 1 April	1,544	3,757
Purchases	4	67
Transfers	-	-
Disposals		(2,279)
Net gains/losses from fair value adjustments		(2)
Cost or valuation as at 31 March	<u>1,548</u>	<u>1,544</u>
Accumulated depreciation as at 1 April	462	2,114
Depreciation for the period	296	457
Depreciation Write Back (Disposals)		(2,109)
Accumulated depreciation at 31 March	<u>758</u>	<u>462</u>
Net Carrying amount at 31 March	<u>790</u>	<u>1,082</u>

NOTES TO MAIN FINANCIAL STATEMENTS

16 FINANCIAL INSTRUMENTS

Balances: The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments.

	Long-Term		Current	
	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000
	Financial liabilities at amortised cost - loans	120,468	174,424	4,000
Accrued Interest (1)			1,217	1,547
Financial liabilities at amortised cost trade creditors			15,717	21,889
Total borrowings	120,468	174,424	20,934	41,936

The Authority does not have any Financial Liabilities at fair value through profit and loss.

	31 March 2017 £'000		31 March 2018 £'000		
	Loans & receivables	-	-	67,807	37,700
	Accrued Interest (1)			138	41
Cash			(817)	904	
Loans & receivables - trade debtors			11,844	13,418	
Total Investments	-	-	78,972	52,063	

(1) Accrued interest reflects interest on financial liabilities/loans & receivables which is payable within 12 months of the balance sheet date.

The Authority does not have any material Unquoted Equity Instruments at Cost.

The Authority has not granted any financial guarantees or material soft loans.

Financial Instruments Gains & Losses

	Financial Liabilities 31 March 2017			Financial Assets 31 March 2018		
	Liabilities measured at amortised cost £'000	Loans & Receivables £'000	Total £'000	Liabilities measured at amortised cost £'000	Loans & Receivables £'000	Total £'000
Interest Expense *	(4,298)	-	(4,298)	(5,212)	-	(5,212)
Premium on Early Repayment of Debt	-	-	-	-	-	-
Interest payable & similar charges	(4,298)	-	(4,298)	(5,212)	-	(5,212)
Interest Income	-	340	340	-	370	370
Interest & investment Income	-	340	340	-	370	370
Net gain/(loss) for the Year	(4,298)	340	(3,958)	(5,212)	370	(4,842)

*The Authority also paid £1.19m (of which £0.51m related to principal), in respect of its share of debt relating to the former Avon County Council which is managed by Bristol City Council.

NOTES TO MAIN FINANCIAL STATEMENTS

Fair value of assets and liabilities carried at amortised cost

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. IFRS 13 reporting has required fair values to be disclosed, defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the balance sheet date.

Our valuations of assets and liabilities represent present value of the cash flows that will take place over the remaining term of the instruments. Valuations also have the following specific features:

+ cash flows arising from Public Works Loan Board loans have been discounted on an IFRS13, so that the fair value equals the amount at which the authority could repay its loans on balance sheet date.

+ The fair values of long-term "Lender's Option Borrower's Option" (LOBO) loans have been calculated by discounting the contractual cash flows over the whole life of the instrument at the appropriate interest rate swap rate and adding the value of the embedded options. Lender's options to propose an increase to the interest rate on the loan have been valued according to Bloomberg's proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.

+ cash flows arising from Local & Police Authority Loans have been discounted at money market rates available for loans of similar remaining maturities on the balance sheet date.

+ cash flows arising from investments have been discounted at money market rates available for investments of similar remaining maturities on the balance sheet date.

+ the fair value of trade receivables and payables is taken to be the invoiced amount.

+ The purpose of the fair value disclosure is primarily to provide a comparison with the carrying value in the Balance Sheet. Since this will include accrued interest as at the Balance Sheet date, we have also included accrued interest in the fair value calculation.

The fair values calculated are as follows:

	31 March 2017		31 March 2018	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Financial Liabilities - PWLB Loans (Long Term Borrowing)	90,748	120,884	144,955	172,704
Financial Liabilities - Local & Police Authority Loans (Long Term Borrowing)	10,065	10,398	10,065	10,643
Financial Liabilities - Market Loans (Long Term Borrowing)	20,871	34,475	20,866	33,137
Total Long Term Borrowing	121,684	165,757	175,886	216,484
Financial Liabilities - Local & Police Authority Loans (Short Term Borrowing)	4,001	3,997	18,586	18,581
Financial Liabilities - trade creditors (see Note 21)	15,717	15,717	21,889	21,889
	<u>141,402</u>	<u>185,471</u>	<u>216,361</u>	<u>256,954</u>

The total long term borrowing shown above is the sum of the financial liabilities at amortised costs and the accrued interest from the table in the previous page.

The fair value as at 31st March 2018 on the Council's portfolio of loans is more than the carrying amount because the interest rate payable is higher than the premature repayment rates available for similar loans at the Balance Sheet date. This commitment to pay interest above market exit prices increases the amount that the Council would have to pay if it requested early repayment of the loan.

	31 March 2017		31 March 2018	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Loans & Receivables - investments*	67,945	67,949	37,741	37,741
Cash	(817)	(817)	904	904
Loans & Receivables - trade debtors (see Note 19)	11,844	11,844	13,418	13,418

* The "Loans & Receivables - investments" figures above can include those short-term investments classed as Cash Equivalents, as detailed in Note 20. This equated to **£37.741m** as at 31st March 2018 with no short term investments, in line with policy to reduce investments and minimise cost of borrowing. (£23.914m Cash Equivalents as at 31st March 2017, with £44.031m being short term investments).

The fair value of loans and receivables is slightly higher than the carrying amount as at 31st March 2018 due to fixed interest investments being held by the authority where the interest rate is higher than the prevailing rate estimated to be available on the balance sheet date.

Fair Value Hierarchy

Our valuations of assets and liabilities are deemed to be Level 2 in terms of hierarchy set out in Policy 1.17, with all inputs being observable but not quoted prices.

NOTES TO MAIN FINANCIAL STATEMENTS

Disclosure of nature and extent of risks arising from financial instruments

The Authority's activities expose it to a variety of financial risks:

- * credit risk - the possibility that other parties might fail to pay amounts due to the Authority
- * liquidity and refinancing risk - the possibility that the Authority might not have funds available, or that it may have to borrow funds at a high rate of interest, to meet its financial obligations.
- * market risk - the possibility that changes in market variables such as interest rates and asset prices may place an unexpected burden on the Authority's finances.

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the central treasury team, under policies approved by the Authority in the Annual Treasury Management Strategy. The Authority provides written principles for overall risk management, as well as written policies covering specific areas, such as credit risk interest rate risk and investment of surplus cash.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. The Council's approved Treasury Management Strategy (as revised) for 2017/18 sets the minimum credit ratings for the banks and financial institutions with which deposits can be made. The minimum credit ratings were Long Term rating BBB+ or equivalent for UK banks and A for Foreign banks. The Council also set additional criteria in relation to the time limit and amount of monies which will be invested with financial institutions based on the level of their credit rating with a maximum lending limit of £10m restricted to UK banks and foreign banks. For operational reasons, the Treasury Management Strategy for 2017/18 permitted the overnight use of the Council's current bank account provider (NatWest), subject to maintaining a credit rating of not lower than BBB-.

Investments in foreign countries will be limited to those that hold a AAA or AA+ sovereign credit rating from all three major credit rating agencies, and to a maximum of £20m per country for those rated AAA and £15 million per country. Banks that are domiciled in one country but are owned in another country will need to meet the rating criteria of and will count against the limit for both countries. There is no aggregate limit on investments in the UK.

Customers are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the council.

The following analysis summarises the Authority's potential maximum exposure to credit risk, based on experience of default and uncollectability over the last 12 months, adjusted to reflect current market conditions.

	Amount at 31 March 2018	Historical Experience of default (12 Months)	Estimated maximum exposure to default & uncollectability
	£'000	%	£'000
Deposits with banks & financial institutions			
(grouped by LT credit rating):			
Government Debt Management Office & Local Authorities - AAA rated	0	0.03	0
Banks/Financial Institutions with lowest equivalent rating of AAA	36,063	0.04	14
Banks/Financial Institutions with lowest equivalent rating of AA	1,659	0.03	0
Banks/Financial Institutions with lowest equivalent rating of A	0	0.06	0
Banks/Financial Institutions with lowest equivalent rating of BBB	19	0.16	0
Total deposits with Banks & Financial Institutions	37,741	-	15
	2018	2017	
	£'000	£'000	
Trade Debtors	13,418	11,844	
Total debtors at 31st March including trade debtors	37,675	38,495	

The historical experience of default for deposits is based on a simple tri-agency average of historic default rates over the past 12 months from Fitch, Moody's and Standard & Poor's rating agencies.

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non performance by any of its counterparties in relation to deposits due to its tight investment policy.

The Authority does not generally allow credit for customers, such that the balance of £13.4m outstanding at 31st March 2018 is all past its due date for payment.

The past due but not impaired amount can be analysed by age as follows:

	2017/18 £'000's	2016/17 £'000's
Less than three months	9,192	8,052
Three to six months	658	361
Six months to one year	631	555
More than one year	2,937	2,876
	13,418	11,844

NOTES TO MAIN FINANCIAL STATEMENTS

The following table provides analysis of investment balances (including accrued interest) as at 31st March by the country of the counterparty. If the financial institution is part of a group, the country is assessed by the parent financial institution.

	Amount at 31 March 2018		Amount at 31 March 2017	
	£'000's	%	£'000's	%
Loans & Receivables (Cash on Deposit) by Country Analysis				
UK Debt Management Office	-	0.0%	-	0.0%
UK Local Authorities	-	0.0%	49,023	72.2%
UK - Other Financial Institutions	36,082	95.6%	14,422	21.2%
Singapore	-	0.0%	-	0.0%
Sweden	1,659	4.4%	4,500	6.6%
Total	37,741	100%	67,945	100%

Liquidity and Refinancing Risk

As the Council has ready access to borrowing from both the money market and the Public Works Loan Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy is to ensure that not more than 50% of loans are due to mature within 12 months, this is in line with the Treasury Management Strategy and is managed by careful planning when new loans are taken out or any debt restructuring takes place.

The maturity analysis of borrowing is as follows:

	31 March 2017	31 March 2018
	£'000	£'000
Borrowing due for repayment:		
Under 1 year *	24,464	38,959
Between 1 and 2 years		
Between 2 and 5 years	10,000	10,000
Between 10 and 15 years	15,000	15,000
Between 15 and 20 years	20,300	20,300
Between 20 and 25 years	29,704	66,699
Between 25 and 30 years	-	10,000
Between 40 and 45 years	25,000	25,000
Between 45 and 50 years	-	6,966
	<u>124,468</u>	<u>192,924</u>

Trade creditors and interest on borrowing are not included in the above table. They fall due to be paid in less than one year.

The Council does hold £20m of borrowing through market loans called LOBOs (Lenders Option Borrowers Option) where, after an initial fixed interest period, the lender has six monthly options to increase the coupon rate of the loan (call date). If the lender decided to increase the coupon rate the Council would have the option to either agree to the increased rate or to repay the loan with no penalty charge. In the event that the Council decided to repay the loan and long term borrowing rates were unfavourable, it is likely that short term borrowing would be undertaken until long term rates return to target levels. The fixed interest period has passed on all loans and the lender has options to change the rate of interest in April and October of each year the loan continues.

* The Council's LOBO loans are included as maturing within 1 year in the table above as the CIPFA Treasury Management Code requires to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e. the next call date (6 monthly).

All trade and other payables are due to be paid in less than one year.

NOTES TO MAIN FINANCIAL STATEMENTS

Market Risk

Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- * borrowings at variable rates - the interest expense charged to the Income and Expenditure Statement will rise
- * borrowings at fixed rates - the fair value of the liabilities borrowings will fall
- * investments at variable rates - the interest income credited to the Income and Expenditure Statement will rise
- * investments at fixed rates - the fair value of the assets will fall.

Borrowings and fixed rate investments are not carried at fair value, so nominal gains and losses on fixed rate borrowings & investments would not impact on the Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Statement and effect the General Fund Balance £ for £.

The effect of interest rates is monitored throughout the year and the impacts are reflected in budget monitoring reports which identify performance against the budget. This allows any adverse changes to be accommodated.

For indication purposes, at 31st March 2018, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£'000
Increase in interest payable on variable rate borrowings	-
Increase in interest receivable on variable rate investments	(219)
Impact on Income and Expenditure Statement	(219)
Decrease in fair value of fixed rate investment assets (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income & Expenditure)	-
Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income & Expenditure)	28,088

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk

The Authority does not invest in equity shares and doesn't have shareholdings in any joint ventures and is therefore not exposed to losses arising from movements in the prices of shares. Changes in the price of fixed interest investments are managed as part of the Authority's interest rate risk management strategy.

Foreign Exchange Risk

The Authority has no financial assets or liabilities denominated in foreign currencies and it makes few purchases or sales in foreign currencies. It therefore has no material exposure to loss arising from movement in exchange rates.

17 ASSETS HELD FOR SALE

	Current		Non-Current	
	2017/18	2016/17	2017/18	2016/17
	£'000	£'000	£'000	£'000
Balance outstanding at start of year	-	-	-	-
Assets newly classified as held for sale:	627	-	-	-
Property, Plant & Equipment		-	-	-
Additions		-	-	-
Revaluation gains/(losses)	173	-	-	-
Assets declassified as held for sale:		-	-	-
Assets sold		-	-	-
Balance outstanding at year end	800	-	-	-

18 INVENTORIES

	Balance 2016/17	Purchases	Recognised as expense in year	Written off Balances	Balance 2017/18
	£'000	£'000	£'000	£'000	£'000
Consumable Stores	510	23	(92)		441
Total Inventories	510	23	(92)	-	441

NOTES TO MAIN FINANCIAL STATEMENTS

19 DEBTORS

	2017/18 £'000	2016/17 £'000
Amounts falling due in one year:		
Central Government bodies	9,496	6,344
Other local authorities	3,297	5,742
NHS bodies	659	1,594
Other entities and individuals (Trade Debtors)	13,418	11,844
Other entities and individuals (Non-Trade Debtors)	7,388	9,313
Prepayments	3,417	3,658
Total - Current Assets	37,675	38,495
Amounts falling after one year:	£'000	£'000
Other entities and individuals	6,398	3,351
Total - Long Term Assets	6,398	3,351

20 CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents is made up of the following elements:

	2017/18 £'000	2016/17 £'000
Cash held by the Authority	111	98
Bank current accounts	793	(915)
Short-term deposits	37,741	23,914
Total cash and cash equivalents	38,645	23,097

21 CREDITORS

	2017/18 £'000	2016/17 £'000
Central government bodies	1,936	35,223
Other local authorities	2,392	11,821
NHS bodies	565	420
Other entities and individuals (Trade Creditors)	21,889	15,717
Other entities and individuals (Non-Trade Creditors)	12,587	22,767
Income Received in Advance	8,572	7,815
Pensions Fund	4,390	6,383
	52,331	100,146

Included in the 2016/17 Central Government Bodies was £27m held on behalf of West of England's Revolving Investment Fund, which was transferred to the West Of England Combined Authority during 2017/18.

22 PROVISIONS FOR LIABILITIES

Provisions comprise:	31 March 2017 £'000	New Provisions £'000	Utilised in Year £'000	Written Back £'000	31 March 2018 £'000
Provision for Child Care Costs	11				11
Children's Services Provision	32				32
Social Services Pension Provision	327				327
Planning Provision	74				74
NNDR Appeals Provision	2,911	4,964	(1,345)		6,530
Land Charge Fee Provision	19				19
	3,374	4,964	(1,345)	-	6,993

- * The provision for child care costs is to provide for fees and charges in relation to a recent court case, the amount of which is unknown.
- * The Children's Services Provision is for an employee claim.
- * The Social Services Provision relates to Pension deficit costs relating to the transfer of staff between the Council and a care provider.
- * The Planning Provision is for a number of Planning Appeals.
- * The NNDR Appeals Provision is for appeals made to the Valuation Office in respect of NNDR valuations.
- * The Land Charges Fee Provision is for search fee claims.

The amounts payable and the timing of the outflow of economic benefits is unknown.

NOTES TO MAIN FINANCIAL STATEMENTS

23 GENERAL FUND BALANCES AND RESERVES

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2017/18.

Unearmarked Reserves	31 March 2017 £'000	transfers to £'000	transfers from £'000	31 March 2018 £'000
General Fund Balances unearmarked	12,656	18,996	(19,179)	12,473
Earmarked Reserves	31 March 2017 £'000	transfers to £'000	transfers from £'000	31 March 2018 £'000
LMS Schools Balances	2,047		(929)	1,118
Corporate Earmarked Reserves	29,403	16,744	(16,215)	29,932
Service Specific Reserves	561	595	(307)	849
General Service Earmarked Reserves	4,290	1	(2,703)	1,588
	36,301	17,340	(20,154)	33,487
Total General Fund Balances and Reserves	48,957	36,336	(39,333)	45,960
Other Usable Reserves				
Capital Receipts Reserve	2,208	5,072	(4,510)	2,770
Capital Grants Unapplied Reserve	2,737	33,355	(34,717)	1,375
Total Usable Reserves	53,902	74,763	(78,560)	50,105

LMS Schools balances will be used by individual schools

Corporate Earmarked Reserves	31 March 2017 £'000	transfers to £'000	transfers from £'000	31 March 2018 £'000
Insurance Fund	1,774	353	(296)	1,831
Capital Financing Reserve	8,521	671	(3,262)	5,930
Revenue Funding of Capital	432	103	(250)	285
Financial Planning & Smoothing Reserve	3,609	5,287	(1,774)	7,122
Affordable Housing & Capital Development	3,000		(3,000)	-
Revenue Budget Contingency Reserve	2,419	472	(121)	2,770
Invest To Save Reserve	-	1,649	-	1,649
Revenue Grants Unapplied	1,033		(196)	837
Transformation Investment Reserve	2,595	2,900	(3,114)	2,381
Restructuring & Severance Reserve	76	2,791	(640)	2,227
Dedicated Schools Grant Reserve	2,014	20	(2,014)	20
Business Rates Reserve	1,633	1,684	(796)	2,521
Other	2,297	814	(752)	2,359
	29,403	16,744	(16,215)	29,932

The Insurance Fund exists in order to meet the cost of claims which fall below the policy excesses.

The Capital Financing reserve is used to match capital financing costs arising in the future.

The Revenue Funding of capital reserve is used to finance specific capital spend items.

The Financial Planning & Smoothing reserve will be used to smooth the timing effects of delivery of the savings required through the organisational change programme.

The Affordable Housing & Capital Development reserve has been reallocated following a review of reserves as part of the MTF process and any future funding requirements will utilise either regional capital funding or future Right to Buy (RTB) capital receipts.

The Revenue Budget Contingency reserve is used to fund unforeseen revenue costs not containable within the annual revenue budget and related risks.

The Invest To Save Reserve is used to fund the upfront costs of specific projects that have robust and credible plans to deliver future income or savings.

The Revenue Grants Unapplied Reserve is used to fund future costs where the revenue grant is received without any conditions, in advance of Service spend.

The Transformation Investment Reserve is used to support the Authority's change programme including the development and implementation of specific transformation business cases.

The Restructuring & Severance reserve is used to fund severance related costs related to service changes arising from the Medium Term Financial Plan.

The Dedicated Schools Grant (DSG) Reserve holds the balance of DSG to be carried forward for use in future years.

The Business Rates Reserve exists in order to meet costs arising from volatility in NNDR income due to changes in the Rateable Value of properties or the granting of new exemptions and reliefs and is utilised to fund deficits impacting in future years.

NOTES TO MAIN FINANCIAL STATEMENTS

	31 March 2017 £'000	transfers to £'000	transfers from £'000	31 March 2018 £'000
General Service Earmarked Reserves				
Information Technology Reserve	1,732	1	(1,200)	533
Finance VAT Advice Reserve	392		(75)	317
Leisure Reserves	498		(1)	497
CDSM Interpretation Centre Reserve	156			156
Care & Health Reserve	138		(138)	-
Care Act Reserve	1,211		(1,211)	-
Other Service Reserves	163		(78)	85
	<u>4,290</u>	<u>1</u>	<u>(2,703)</u>	<u>1,588</u>

The Information Technology Reserve is used to fund investment in the IT service including the refresh of IT assets as part of a managed replacement programme.

The Care & Health Reserve and the Care Act Reserve have been utilised to enable the protection of social care in meeting demographic demand and transformation projects.

24 UNUSABLE RESERVES

	2017/18 £'000	2016/17 £'000
Revaluation Reserve	119,199	115,302
Capital Adjustment Account	310,632	304,389
Deferred Capital Receipts Reserve	422	429
Financial Instruments Adjustment Account	(6,171)	(6,340)
Accumulated Absences Account	(743)	(1,188)
Pensions Reserve	(275,301)	(297,828)
Collection Fund Adjustment Account	(1,839)	(2,208)
Total Unusable Reserves	<u>146,199</u>	<u>112,556</u>

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- * re-valued downwards or impaired and the gains are lost
- * used in the provision of services and the gains are consumed through depreciation, or
- * disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2017/18 £'000	2016/17 £'000
Balance at 1 April	115,302	112,415
Adjustment to opening balance		
Upwards revaluation of assets	20,717	43,308
Downwards revaluation of assets not charged to the Surplus/Deficit on the Provision of Services	(7,421)	(27,158)
Impairment losses not charged to the Surplus/Deficit on the Provision of Services	-	-
Transfer of depreciation on re-valued assets	(2,160)	(1,490)
Written Back on asset disposal and transfer	(7,238)	(11,772)
Impairment of fixed assets - transfer		
Balance at 31 March	<u>119,199</u>	<u>115,302</u>

NOTES TO MAIN FINANCIAL STATEMENTS

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement. The account is credited with the amounts set aside by the Authority as finance for the cost of acquisition, construction and enhancement.

The account contains accumulated gains and losses on Investment Properties.

The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 8 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

	2017/18 £'000	2017/18 £'000	2016/17 £'000
Balance at 1 April		304,389	330,038
Adjustment to opening balance			
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement:			
Charges for depreciation and impairment of non-current assets	(20,232)		(18,204)
Revaluation losses on Property, Plant & Equipment	(1,478)		(14,553)
Amortisation of intangible assets	(296)		(457)
Revenue expenditure funded from capital under statute	(13,132)		(8,469)
Grant funding of revenue expenditure funded from capital under statute	6,630		4,458
		(28,508)	(37,225)
Adjusting amounts written out of the Revaluation Reserve			
Transfer of depreciation on re-valued assets		2,160	1,490
Transfer of revaluation reserve balance on asset disposal		7,238	11,772
Net written out amount of the cost of non-current assets consumed in the year		(19,110)	(23,963)
Capital financing applied in the year:			
Use of capital receipts reserve to finance new capital expenditure	4,264		11,171
Capital grants and contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing	13,079		16,321
Capital expenditure financed from revenue	198		470
Minimum Revenue Provision	4,236		3,783
		21,777	31,745
Movements in the market value of investment properties debited or credited to the Comprehensive Income & Expenditure Statement		25,609	(8,324)
Deferred liability - Repayment of Avon Loan Debt		514	536
Carrying value of fixed assets disposed of		(21,168)	(24,993)
Other movements		(1,378)	(650)
Balance at 31 March		310,632	304,389

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Council uses the Account to manage premiums paid on early redemption of loans.

Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax.

Discounts received have the opposite entries.

	2017/18 £'000	2017/18 £'000	2016/17 £'000
Balance at 1 April		(6,340)	(6,510)
Premiums incurred in year and charged to the Comprehensive Income & Expenditure Statement			
Proportions of Premiums incurred to be charged against General Fund Balance in accordance with statutory requirements	169		170
Amount by which finance costs charged to the Comprehensive Income & Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements.		169	170
Balance at 31 March		(6,171)	(6,340)

NOTES TO MAIN FINANCIAL STATEMENTS

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2017/18 £'000	2016/17 £'000
Balance at 1 April	(297,828)	(227,653)
Remeasurements of the net defined benefit liability / (asset)	28,002	(70,229)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(22,670)	(16,916)
Business Combinations	617	
Employer's pensions contributions and direct payments to pensioners payable in the year	16,578	16,970
Balance at 31 March	(275,301)	(297,828)

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2017/18 £'000	2016/17 £'000
Balance at 1 April	429	4,043
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement		
Transfer to the Capital Receipts Reserve upon receipt of cash	(7)	(3,614)
Balance at 31 March	422	429

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax, and from 2013/14, National Non Domestic Rates income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers and Business Rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2017/18 £'000	2016/17 £'000
Balance at 1 April	(2,208)	(1,843)
Amount by which income credited to the Comprehensive Income & Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	369	(365)
Balance at 31 March	(1,839)	(2,208)

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2017/18 £'000	2017/18 £'000	2016/17 £'000
Balance at 1 April		(1,188)	(1,426)
Settlement or cancellation of accrual made at the end of the preceding year	1,188		1,426
Amounts accrued at the end of the current year	(743)		(1,188)
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		445	238
Balance at 31 March		(743)	(1,188)

NOTES TO MAIN FINANCIAL STATEMENTS

25 CASH FLOW STATEMENT

Note A to the cash flow statement	2017/18	2016/17
	£'000	£'000
Net Surplus or (Deficit) on the Provision of Services	(11,455)	(57,442)
<u>Adjust net surplus or deficit on the provision of services for non cash movements</u>		
Depreciation	20,253	18,203
Impairment and downward valuations	1,478	14,553
Amortisation	296	457
Adjustment for internal interest charged	9	-
Adjustments for effective interest rates	(5)	(1)
Increase/Decrease in Interest Creditors	330	85
Increase/Decrease in Creditors	(36,756)	13,525
Increase/Decrease in Interest and Dividend Debtors	296	(180)
Increase/Decrease in Debtors	4,811	1,446
Increase/Decrease in Inventories	69	(1)
Pension Liability	(4,387)	(54)
Pension Fund Gains on Past Service Costs		
Contributions to/(from) Provisions	3,619	(958)
Carrying amount of non-current assets sold [property plant and equipment, investment property and intangible assets]	21,148	24,993
Movement in investment property values	(25,609)	8,324
Other movements		1,608
Total adjustments on the provision of services for non cash movements	(14,448)	82,000
<u>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</u>		
Capital Grants credited to surplus or deficit on the provision of services	(18,339)	(8,352)
Net adjustment from the sale of short and long term investments	58,900	(50)
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(3,695)	(9,322)
Total adjustments on the provision of services that are investing or financing activities	36,866	(17,724)
Net Cash Flows from Operating Activities	10,963	6,834

Note B to the Cash Flow Statement - Operating Activities (Interest)

	2017/18	2016/17
	£'000	£'000
Operating activities within the cash flow statement include the following cash flows relating to interest		
Ordinary interest received	370	340
Other adjustments for differences between Effective Interest Rates and actual interest receivable-Long Term I	-	3
Opening Debtor	326	15
Closing Debtor	(30)	(195)
Interest Received	666	163
Interest charge for year	(5,888)	(5,001)
Adjustment for difference between effective interest rates and actual interest payable	(5)	(4)
Adjustment for internal interest charged to balance sheet funds	9	
Opening Creditor	-	-
Closing Creditor	330	85
Interest Paid	(5,554)	(4,920)

NOTES TO MAIN FINANCIAL STATEMENTS

Note C to the Cash Flow Statement - Cash Flows from Investing Activities	2017/18	2016/17
	£'000	£'000
Property, Plant and Equipment Purchased	(31,051)	(35,779)
Purchase of Investment Properties	(29,007)	(8,205)
Other Capital Payments	-	-
Opening Capital Creditors	(6,349)	(6,163)
Closing Capital Creditors	5,154	6,349
Purchase of Property, Plant and Equipment, investment property and intangible assets	(61,253)	(43,798)
Purchase of short term investments	(15,000)	(96,031)
Long term loans granted		(1,496)
Proceeds from the sale of property plant and equipment, investment property and intangible assets	4,942	8,932
Proceeds / (Purchase) from short term investments		81,549
Proceeds from long term investments	-	50
Other capital cash receipts	12,441	2,634
Capital Grants Received / (Repaid)	(1,223)	22,117
Other Receipts / (Payments) from Investing Activities	11,218	24,751
Total Cash Flows from Investing Activities	(60,093)	(26,043)
Note D to the Cash Flow Statement - Cash Flows from Financing Activities	2017/18	2016/17
	£'000	£'000
Cash receipts of long term borrowing	74,000	34,000
Billing Authorities - Council Tax and NNDR adjustments	(3,503)	(965)
Precepting Authorities Only - Appropriation to/from Collection Fund Adjustment Account	-	-
Other receipts from Financing Activities	234	
Repayment of Short-Term and Long-Term Borrowing	(6,053)	(28,832)
Payments for the reduction of a finance lease liability	-	-
Total Cash Flows from Financing Activities	64,678	4,203
Note E - Makeup of Cash and Cash Equivalents	2017/18	2016/17
	£'000	£'000
Cash and Bank Balances	904	(817)
Cash Investments - regarded as cash equivalents	37,741	23,914
Bank Overdraft	-	-
	38,645	23,097

NOTES TO MAIN FINANCIAL STATEMENTS

26 EXPENDITURE & INCOME ANALYSED BY NATURE

	2017/18 £'000	2016/17 £'000
Expenditure		
Employee benefits expenses	119,452	118,053
Other service expenses	234,751	258,434
Depreciation amortisation & impairment	22,006	33,214
Loss on disposal of non-current assets	19,054	19,560
Net Loss on Trading Operations	-	31
Interest payments (Inc. Net Interest on Net Defined Benefit Liability)	12,762	12,476
Precepts and levies	6,853	2,544
	<u>414,878</u>	<u>444,312</u>
Income		
Fees and charges and other service income (including Contributions)	(95,752)	(103,191)
Income from Council Tax & Business Rates	(115,039)	(101,661)
Gain on disposal of non-current assets	-	-
Surplus from Trading Operations	(118)	-
Income from Investment Estate & Changes in fair value	(42,914)	(7,531)
Government Grants & Contributions	(149,230)	(174,146)
Interest & Investment Income	(370)	(340)
	<u>(403,423)</u>	<u>(386,869)</u>
Deficit on provision of services	<u>11,455</u>	<u>57,442</u>

26a SEGMENT REPORTING

	2017/18 £'000	2016/17 £'000 Restated
Depreciation amortisation & impairment		
Leader	-	-
Finance & Efficiency	3,943	9,230
Adult Care, Health & Wellbeing	528	678
Children & Young People	5,832	7,552
Development & Neighbourhoods	2,953	3,368
Economic & Community Regeneration	(89)	634
Transformation & Customer Services	(8)	339
Transport & Environment	8,847	11,413
Total	<u>22,006</u>	<u>33,214</u>
Revenues from external customers / Contributions		
Leader	(528)	(550)
Finance & Efficiency	(6,367)	(5,807)
Adult Care, Health & Wellbeing	(31,839)	(43,756)
Children & Young People	(9,532)	(10,554)
Development & Neighbourhoods	(14,307)	(10,368)
Economic & Community Regeneration	(17,711)	(17,058)
Transformation & Customer Services	(1,068)	(1,179)
Transport & Environment	(14,400)	(13,919)
Total	<u>(95,752)</u>	<u>(103,191)</u>

NOTES TO MAIN FINANCIAL STATEMENTS

27 TRADING OPERATIONS

The Council has the following Trading Services which are required to operate in a commercial environment and balance their budget by generating income from providing services to the public and other organisations, or as support functions to other frontline Council Departments.

	2017/18 Income £'000	2017/18 Expenditure £'000	Deficit/ (Surplus) £'000	2016/17 £'000
School and Other Catering	(1,386)	1,690	304	660
Cleaning Services	(45)	34	(11)	(29)
Fleet Management	(204)	62	(142)	(159)
Passenger Transport Services	(159)	346	187	3
Trade Refuse Collection	(861)	671	(190)	(133)
Print Services	(1)	59	58	9
Bath Museum Shops	(2,283)	1,959	(324)	(320)
Surplus for Year	(4,939)	4,821	(118)	31

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Some are an integral part of one of the Authority's services to the public whilst others are support services to the Authority's services to the public. The expenditure of these operations is allocated or recharged to headings in the Net Operating Expenditure of Continuing Operations. Only a residual amount of the net surplus on trading operations is charged as Financing and Investment Income and Expenditure.

	2017/18 £'000	2016/17 £'000
Net surplus on trading operations	(118)	31
Services to the public included in Expenditure of Continuing Operations	(327)	(450)
Support services recharged to Expenditure of Continuing Operations	209	481
Net Surplus credited to Other Operating Expenditure	(118)	31

28 POOLED FUNDING

The Council has Pooled Budget arrangements under section 31 of the Health Act 1999 with NHS Bath & North East Somerset CCG. The Pooled Budgets are hosted by the Council. There are five Pooled Budgets :-

Adult Learning Difficulties

	2017/18 £'000	2016/17 £'000
Gross Funding		
Bath & North East Somerset Council	20,496	20,044
NHS Bath & North East Somerset Clinical Commissioning Group	6,139	5,663
Income from Client Contributions	1,796	1,825
Total Funding	28,431	27,532
Total Expenditure	29,929	28,881
Net (Underspend) / Overspend	1,498	1,349
Overspend Recharged		
Bath & North East Somerset Council	1,148	
NHS Bath & North East Somerset Clinical Commissioning Group	350	

Community Equipment

	2017/18 £'000	2016/17 £'000
Gross Funding		
Bath & North East Somerset Council	203	203
Bath & North East Somerset Council - Additional Capital Grant	81	-
NHS Bath & North East Somerset Clinical Commissioning Group	473	473
Total Funding	757	676
Total Expenditure	757	849
Net (Underspend) / Overspend	0	173
Overspend Recharged		
Bath & North East Somerset Council	-	52
NHS Bath & North East Somerset Clinical Commissioning Group	-	121

NOTES TO MAIN FINANCIAL STATEMENTS

Better Care Fund

	2017/18 £'000	2016/17 £'000
Gross Funding		
Bath & North East Somerset Council	6,062	1,500
Bath & North East Somerset Council - YCYW	19,669	-
NHS Bath & North East Somerset Clinical Commissioning Group	11,205	8,545
NHS Bath & North East Somerset Clinical Commissioning Group - YCYW	24,182	-
NHS Bath & North East Somerset Clinical Commissioning Group - Risk Share	500	-
Total Funding	61,618	10,045
Spend on Better Care Fund schemes	13,161	10,045
Spend on YCYW	48,457	
Total Expenditure	61,618	10,045

Mental Health

	2017/18 £'000	2016/17 £'000
Gross Funding		
Bath & North East Somerset Council	3,885	-
NHS Bath & North East Somerset Clinical Commissioning Group	3,114	-
Total Funding	6,999	-
Total Expenditure	7,733	-
Net (Underspend) / Overspend	734	0
Overspend Recharged		
Bath & North East Somerset Council	661	-
NHS Bath & North East Somerset Clinical Commissioning Group	73	-

Children and Young People with Multiple and Complex Needs

	2017/18 £'000	2016/17 £'000
Gross Funding		
Bath & North East Somerset Council	2,537	2,515
Bath & North East Somerset Primary Care Trust	392	392
Total Funding	2,929	2,907
Total Expenditure	3,495	3,889
Net (Underspend) / Overspend	566	982
Overspend Recharged		
Bath & North East Somerset Council	490	848
Bath & North East Somerset Clinical Commissioning Group	76	134

NOTES TO MAIN FINANCIAL STATEMENTS

29 MEMBERS' ALLOWANCES

The total cost of Members Allowances for 2017/18 including employers national insurance, pensions contributions and expenses was £857,659 (£885,029 in 2016/17).

Payments to Members listed below do not include the cost of employers national insurance or pension contributions:

		Basic & Special Allowance	Expenses	Total
		£	£	£
ANKETELL-JONES	PM	14,849	-	14,849
APPLEYARD	R	11,081	-	11,081
BALL	TM	8,135	41	8,175
BARRETT	CV	8,135	107	8,242
BEATH	CE	17,158	393	17,551
BECKER	J	8,135	-	8,135
BEVAN	SF	16,850	344	17,194
BLACKBURN	C	8,135	-	8,135
BULL	JA	15,780	144	15,924
BUTTERS	TN	8,135	-	8,135
CLARKE	AK	13,320	-	13,320
COCHRANE	M	10,397	-	10,397
CROSSLEY	PN	8,135	403	8,538
DANDO	C	8,135	-	8,135
DAREY	F	8,135	-	8,135
DAVIES	M	8,135	-	8,135
DAVIS	S	21,894	-	21,894
DEACON	DE	8,135	51	8,186
DIXON	E	8,745	-	8,745
EVANS	M	13,320	703	14,024
FURSE	AJ	8,135	-	8,135
GERRISH	CD	26,863	6	26,869
GILCHRIST	IA	8,135	-	8,135
GLADWYN	E	8,135	-	8,135
GOODMAN	R	22,304	664	22,968
HAEBERLING	F	15,780	-	15,780
HALE	AD	9,319	22	9,341
HARDMAN	EJ	8,135	283	8,418
HEDGES	SP	8,685	-	8,685
HORSTMANN	D	8,135	-	8,135
JACKSON	EM	8,135	216	8,351
JEFFRIES	S	8,135	-	8,135
KEW	LJ	12,991	831	13,822
LONGSTAFF	M	8,135	-	8,135
MACRAE	BJ	8,135	-	8,135
MAY	P	22,304	1,826	24,129
McGALL	S	11,805	182	11,987
MILLAR	A	14,250	494	14,745
MOSS	R	13,089	709	13,798
MYERS	P	30,533	-	30,533
NORTON	M	8,135	-	8,135
O'BRIEN	B	10,397	55	10,452
O'DOHERTY	M	7,304	-	7,304
ORGAN	BS	8,135	-	8,135
PATTERSON	L	8,135	-	8,135
PEARCE	C	12,538	32	12,569
PLAYER	J	8,135	-	8,135
PRITCHARD	VL	26,863	2,364	29,227
RAYMENT	J	8,135	-	8,135
RICHARDSON	EA	13,320	282	13,602
ROBERTS	CM	8,135	101	8,236
ROBERTS	N	8,135	-	8,135
ROMERO	UM	16,355	143	16,498
SAMUEL	R	7,932	17	7,948
SANDRY	WA	15,780	-	15,780
SHELFORD	M	22,304	68	22,371
SIMMONS	B	8,135	-	8,135
TURNER	P	8,135	-	8,135
VEAL	M	13,773	284	14,058
VEALE	DJ	12,991	151	13,142
WALKER	K	10,160	496	10,656
WARD	G	8,135	117	8,252
WARREN	T	39,321	445	39,766
WARRINGTON	K	21,677	833	22,510
WATT	C	8,135	-	8,135
Total		806,079	12,806	818,885

NOTES TO MAIN FINANCIAL STATEMENTS

30 SENIOR OFFICER REMUNERATION

Senior Officers emoluments - annualised salary of £150,000 or more for the year ending 31 March 2018						
Post Holder	Salary	Expenses	Benefits in Kind e.g. Relocation, Subscriptions	Employer Pension Contrib'ns	Total	
	£	£	£	£	£	
Chief Executive - Ashley Ayre	153,015	234		34,428	187,677	
Senior Officers emoluments - annualised salary between £50,000 and £150,000 for the year ending 31 March 2018						
Post Holder	Salary (incl. Honorarium)	Expenses	Benefits in Kind e.g. Relocation, Subscriptions	Compensation for Loss of Office	Employer Pension Contrib'ns	Total
	£	£	£	£	£	£
Strategic Director - People & Communities	118,282	374			26,613	145,269
Strategic Director - Resources*	122,412	332	848	136,162	164,496	424,250
Strategic Director - Place**	122,412	20	-	91,557	27,542	241,531
Director of Public Health	122,654	728	-		17,637	141,019
Head of Legal & Democratic Services	96,069	55	-		21,615	117,739
Divisional Director - Business Support (to 12/07/17)	32,620		231		7,339	40,190
Divisional Director - Business Support (from 20/06/17)	59,688		-		13,429	73,117
Director Integrated Health & Care Commissioning	101,211				22,772	123,983
Divisional Director - Environmental Services	101,211	-			22,772	123,983

* The £136,162 compensation for loss of office figure for this post, along with the associated strain on pension fund costs of £136,954 (included in Employer Pension Contributions figure), were not due to be paid until the 2018/19 financial year.

** The £91,557 compensation for loss of office figure for this post was not due to be paid until the 2018/19 financial year.

Senior Officers emoluments - annualised salary of £150,000 or more for the year ending 31 March 2017						
Post Holder	Salary	Expenses	Benefits in Kind e.g. Relocation, Subscriptions	Employer Pension Contrib'ns	Total	
	£	£	£	£	£	
Chief Executive - Josephine Farrar (to 31/08/16)	63,125	121		13,887	77,133	
Chief Executive - Ashley Ayre (from 01/09/16)	88,375	216		19,442	108,033	
Senior Officers emoluments - annualised salary between £50,000 and £150,000 for the year ending 31 March 2017						
Post Holder	Salary (incl. Honorarium)	Expenses	Benefits in Kind e.g. Relocation, Subscriptions	Employer Pension Contrib'ns	Total	
	£	£	£	£	£	
Strategic Director - People & Communities (to 31/08/16)	54,707	476	-	12,035	67,218	
Strategic Director - People & Communities (from 01/09/16)	70,700	363		15,554	86,617	
Strategic Director - Resources	121,200	637	355	26,664	148,856	
Strategic Director - Place	121,200	207	-	26,664	148,071	
Director of Public Health	122,654	1,376	-	17,539	141,569	
Deputy Director Adult Care, Health, Housing Strategy	100,209			22,046	122,255	
Head of Legal & Democratic Services *	89,076	1,062	7,000	19,596	116,734	
Divisional Director - Business Support	113,121		221	24,886	138,228	
Head of Heritage Services **	106,575	182		23,277	130,034	

* the benefits in kind payment for this post is a one-off relocation allowance.

** the salary payment for this post includes a one-off payment in the year for arrears of salary following a grading review. The substantive salary is below the reporting threshold.

NOTES TO MAIN FINANCIAL STATEMENTS

31 EMPLOYEES' EMOLUMENTS

The Authority's employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration band	2017/18		2017/18	2016/17		2016/17
	Teachers	Others	Total	Teachers	Others	Total
£50,000 - £54,999	11	27	38	19	28	47
£55,000 - £59,999	11	23	34	9	24	33
£60,000 - £64,999	7	7	14	6	4	10
£65,000 - £69,999	-	5	5	2	4	6
£70,000 - £74,999	1	3	4	3	5	8
£75,000 - £79,999	-	4	4	1	11	12
£80,000 - £84,999	-	12	12	-	4	4
£85,000 - £89,999	-	7	7	-	4	4
£90,000 - £94,999	-	-	-	-	1	1
£95,000 - £99,999	-	3	3	-	6	6
£100,000 - £104,999	-	2	2	-	1	1
£105,000 - £109,999	-	-	-	-	1	1
£110,000 - £114,999	-	-	-	-	2	2
£115,000 - £119,999	-	2	2	-	-	-
£120,000 - £124,999	-	3	3	-	3	3
£125,000 - £129,999	-	-	-	-	-	-
£130,000 - £134,999	-	-	-	-	-	-
£135,000 - £139,999	-	-	-	-	-	-
£140,000 - £144,999	-	-	-	-	1	1
£145,000 - £149,999	-	-	-	-	-	-
£150,000 - £154,999	-	1	1	-	-	-
£155,000 - £159,999	-	-	-	-	-	-
	30	99	129	40	99	139

The above totals include 5 staff who would not have been included in the note if it were not for one-off severance payments (18 staff in 2016/17). This included 0 in the Teacher category (1 in 2016/17) and 5 in the Others category (17 in 2016/17).

The list above includes Senior Officers, who are also listed separately in Note 30.

32 EXIT PACKAGES

The Authority terminated the contracts of a number of employees in 2017/18, incurring liabilities of £3.786m (£2.900m in 2016/17). This amount recognises the on-going impact of the financial challenge across the Council as it seeks to deliver the savings required to balance its budget.

The number of exit packages, split between compulsory redundancies and other departures, and the total cost per band, are set out below:

Exit Package Cost Band (incl. Special Payments)	2017/18		2017/18	2016/17		2016/17
	Number of Compulsory Redundancies	Number of Other Exits Agreed	Total Cost £	Number of Compulsory Redundancies	Number of Other Exits Agreed	Total Cost £
£0 - £20,000	7	32	253,968	7	39	331,394
£20,001 - £40,000	1	16	482,818	3	25	827,319
£40,001 - £60,000	-	18	891,930	4	13	837,602
£60,001 - £80,000	-	5	343,827	-	4	291,793
£80,001 - £100,000	-	4	356,513	-	4	359,112
£100,001 - £150,000	-	6	716,895	-	2	252,765
£150,001 - £200,000	-	3	466,973	-	-	0
£200,001 - £250,000	-	-	0	-	-	0
£250,001 - £300,000	-	1	273,117	-	-	0
	8	85	3,786,040	14	87	2,899,985

NOTES TO MAIN FINANCIAL STATEMENTS

33 EXTERNAL AUDIT COSTS

The Council has incurred the following fees payable to its auditors, Grant Thornton UK LLP	2017/18 £'000	2016/17 £'000
Fees payable with regard to external audit services	124	124
Fees payable for the certification of grant claims and returns	16	14
Fees payable for other services during the year	4	16
	144	154

In addition, fees in relation to the West of England Partnership 2016/17 audit totalled £3k (£6k in 2016/17)

34 DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded primarily by grant monies provided by the Education Funding Agency, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2016. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2017/18 are as follows:

	2017/18 Central Expenditure £'000	2017/18 Individual Schools Budget £'000	2017/18 Total £'000	2016/17 Total £'000
Final DSG for before Academy recoupmnt			128,708	123,430
Academy figure recouped			66,743	56,927
Total DSG after Academy recoupmnt			61,965	66,503
<i>plus</i> Brought forward from previous year			2,014	5,039
<i>less</i> Carry forward into future year agreed in advance				
Final budget distribution	30,045	33,934	63,979	71,542
<i>less</i> Actual central expenditure	30,057		30,057	26,485
<i>less</i> Actual ISB deployed to schools	-	33,902	33,902	43,043
plus Local Authority contribution for year			-	-
Carry forward	(12)	32	20	2,014

35 GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18:

Credited to Taxation and Non Specific Grant Income	2017/18 £'000	2016/17 £'000
Council Tax Income	84,488	80,897
Revenue Support grant	-	14,433
Contribution from the Non-Domestic Rate Pool / Non-Domestic Rate Income	30,551	20,764
Department for Education	1,457	4,330
Department of Transport	1,680	5,228
Department of Health & Social Care	254	127
West of England Combined Authority	6,512	-
Other	1,395	4,247
Third party contributions	39	8
Section 106 Developer Contributions	1,736	2,364
	128,112	132,398

NOTES TO MAIN FINANCIAL STATEMENTS

Credited to Services

Education Services Grant	270	1,269
Education Funding Agency (incl. Universal Infant Free School Meals)	1,947	3,614
Pupil Premium Grant	2,238	2,686
Mandatory rent allowances	40,725	46,821
Public Health Grant	9,166	9,398
Department of Health & Social Care	1,722	588
Department for Education	2,017	-
Department of Transport	574	318
West of England Combined Authority	20	-
DCLG / MHCLG	11,480	4,350
New Homes Bonus Grant	5,325	5,199
Other	4,464	6,122
Third party contributions	372	298
Section 106 Developer Contributions	502	702
	80,822	81,365

The above is in addition to the Dedicated Schools' Grant, which is separately disclosed in Note 34.

The Authority has received a number of grants, contributions & donations that have yet to be recognised as income, as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at year end are as follows:

Current Liabilities

	2017/18	2016/17
	£'000	£'000
Grants Receipts In Advance (Capital Grants & Contributions)		
Section 106 Developer Contributions	3,826	5,488
Various Capital Grants	10,740	5,473
Total	14,566	10,961
Grants Receipts In Advance (Revenue Grants)		
Various Service Grants	2,790	1,573
Total	2,790	1,573

Long-Term Liabilities

	2017/18	2016/17
	£'000	£'000
Grants Receipts In Advance (Capital Grants & Contributions)		
Section 106 Developer Contributions	16,496	12,349
Various Capital Grants	6,090	7,558
Total	22,586	19,907

NOTES TO MAIN FINANCIAL STATEMENTS

36 RELATED PARTIES

The Authority is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority. There are no material outstanding balances between the Council and the Related Parties disclosed below.

Central Government

Central UK Government has effective control over the general operations of the Authority - it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in note 26 on reporting for resources allocation decisions.

Pension Fund

Details of Contributions to the Avon Pension Fund are shown in note 41. As administering body to the Fund, the Council charged the fund for the direct costs of £1,671,166 (£1,656,209 16/17) and support services costs of £528,520 (£379,828 16/17). Five B&NES Councillors are voting members on the Pensions Committee.

Bath Tourism Plus

The Council set up a company to provide tourism information and marketing services, in partnership with the private sector. The company is limited by guarantee. The Council took 100% control of the company in 2017/18. The Directors have day to day control over the management of the company.

Aequus Developments Ltd (ADL)

Bath & North East Somerset Council is a 100% shareholder in Aequus Developments Limited (ADL), which was incorporated on 14th March 2016 and commenced trading on the same day. The purpose of ADL is to develop, deliver, own and manage existing property as well as carry out new development on a case by case basis.

Aequus Construction Ltd (ACL)

Aequus Construction Limited (ACL) is a 100% owned subsidiary of ADL which was incorporated on 22nd June 2017 and commenced trading on the same day. The purpose of ACL is to carry out construction and development of building projects.

Members & Officers

Four Members of the Council are members of the Avon Fire & Rescue Service.

Two Members of the Council are members of the Police and Crime Panel

Eleven Members are Parish / Town Councillors

Two Members of the Council are on the West of England (WECA) Overview & Scrutiny Committee

One Member is on the Board of the Local Enterprise Partnership (LEP)

The Council made payments of £1,224,879 (£738,220 in 16/17) to voluntary bodies and organisations where members have an interest (either due to a Council nomination or in an independent capacity).

	2017/18
	£
B&NES Citizens Advice	312,174
Bath Festivals Trust	8,800
Bath Royal Literary & Scientific Association	1,530
Buro Happold	17,429
Community@67 Association	141
Developing Health & Independence	844,749
Julian House	2,000
MHA Care Group	7,286
Odd Down Community Centre	480
Radstock Museum Society	1,048
Sarah Ann Trust	72
South West Councils	26,398
The Guild Co-Working Hub	578
Theatre Royal Bath Ltd	2,194
	<u>1,224,879</u>

The Council is in partnership with the NHS B&NES Clinical Commissioning Group (CCG) to commission health, social care and preventative support services (previously with the PCT until 31st March 2013 prior to the enactment of the Health & Social Care Act 2012). Community Health & Social Care services, previously delivered through the partnership between the Council and PCT, then transferred to Sirona Care & Health Community Interest Company are now delivered by Virgin Care Ltd through a 7 year prime provider contract that was awarded in November 2016, following the Your Care, Your Way community services review, with the contract commencing April 2017. The contract is a "tri-partite" contract between the Council, CCG and Virgin Care Services Ltd, with the Council acting as lead commissioner for this contract. Contract funding is pooled under Section 75 of the 2016 NHS Act through the Council and CCG Better Care Fund. Relevant elements of the Council's budget are reported to the Health & Wellbeing Board. The Board is Co-Chaired by the Cabinet Member for Adult Care, Health & Wellbeing along with the CCG GP Board Chair. The Council Chief Executive and Cabinet Members are on the Board.

NOTES TO MAIN FINANCIAL STATEMENTS

37 CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

Capital expenditure on fixed assets was as follows:	2017/18	2016/17
	£'000	£'000
Commercial Estate Investment	28,158	-
Waste Project	7,622	-
Highways / Road Safety & Bridge Strengthening	7,374	10,008
Bath Quays Delivery	2,774	3,591
School Improvements	2,434	6,361
Bath Quays Flood Mitigation	1,347	3,381
Housing Delivery Vehicle	1,242	-
Saw Close Development Works	1,173	-
Capitalised Buildings Maintenance	998	1,521
Keynsham Redevelopment Project	545	1,218
Bath Transport Package - Main Scheme	182	1,314
Property Acquisitions - 30-35 Westgate Street	-	7,773
Keynsham Leisure Centre	23	2,273
Other	6,186	6,544
	60,059	43,983

(excludes Revenue expenditure funded from capital under statute)

Capital Expenditure was categorised as follows:

	2017/18	2016/17
	£'000	£'000
Property, plant and equipment	19,200	20,510
Investment properties	29,007	8,205
Intangible assets	4	67
Assets under construction	11,848	15,201
Capital Loans	3,107	1,458
Revenue expenditure funded from capital under statute	13,132	8,469
Total expenditure	76,298	53,910

Sources of finance:

	2017/18	2016/17
	£'000	£'000
Capital Receipts	4,510	11,171
Grants	17,059	17,407
Borrowing	51,889	21,490
3rd Party Contributions	403	306
Revenue	198	470
S.106 contributions & CIL	2,239	3,065
Total financing	76,298	53,910

NOTES TO MAIN FINANCIAL STATEMENTS

Capital Financing Requirement

	2017/18 £'000	2016/17 £'000
Opening Capital Financing Requirement	200,147	182,475
Capital Investment	76,298	53,910
Other Adjustments to CFR (including revenue reversion of prior years spend)	(212)	-
Sources of Finance:		
Capital Receipts	(4,991)	(11,205)
Government grants & other contributions	(19,701)	(20,778)
Sums set aside from revenue (including MRP)	(4,434)	(4,253)
Closing Capital Financing Requirement	<u>247,107</u>	<u>200,147</u>
Increase in underlying need to borrow unsupported by Government financial assistance	51,677	21,490
Repayments received in respect of Capital Expenditure Loans	(481)	(34)
Less minimum revenue provision repayment	(4,236)	(3,783)
Increase / (decrease) in Capital Financing Requirement	<u>46,960</u>	<u>17,673</u>

38 LEASES

Authority as Lessee

Finance Leases

The Authority has acquired a number of buildings and vehicles, plant and equipment under finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	2017/18 £'000	2016/17 £'000
Other Land & Buildings	2,690	2,627
Vehicles, Plant & Equipment	-	-
	<u>2,690</u>	<u>2,627</u>

No deferred liability is disclosed in the Council's Balance Sheet for Other Land & Buildings as these properties are subject to peppercorn rents only. The deferred liability for Vehicles, Plant and Equipment is not material.

Operating Leases

The Council uses vehicles and other equipment financed under the terms of various operating leases. The lease rentals paid in 2017/18 were £3,227,495 (£3,401,317 in 2016/17).

The future payments required under these leases are £1,708,508, comprising the following elements:

	2017/18 £'000	2016/17 £'000
Not later than one year	1,103	1,830
Later than one year and not later than five years	605	952
Later than five years	1	-
	<u>1,709</u>	<u>2,782</u>

The Council holds property leases which are operating leases. The amount paid in rent for 2017/18 was £38,250 (2016/17 was £51,00)

There are no future commitments required under these leases.

	2017/18 £'000	2016/17 £'000
Not later than one year	0	38
Later than one year and not later than five years	-	-
Later than five years	-	-
	<u>0</u>	<u>38</u>

NOTES TO MAIN FINANCIAL STATEMENTS

Authority as Lessor

Finance Leases

The Authority has leased out a number of commercial properties on finance leases in 2017-18, the capital receipts from these total £2.501m.

Operating Leases

The Authority leases out a large number of investment properties.

Rental income receivable from operating property leases on investment properties totalled £16,635,166 (£16,554,137 in 2016/17).

The net book value of these properties is £315,578,153 (£268,616,000 in 2016/17).

The future rental income receivable for investment properties under non-cancellable operating leases in the aggregate and for each of the following periods:

	2017/18	2016/17
	£'000	£'000
Not later than one year	13,907	13,653
Later than one year and not later than five years	44,128	40,029
Later than five years	185,285	184,508
	<u>243,320</u>	<u>238,190</u>

Rental income receivable from operating property leases totalled £1,171,676.

The future rental income receivable for Other Land and Buildings under non-cancellable operating leases in the aggregate and for each of the following periods:

	2017/18	2016/17
	£'000	£'000
Not later than one year	856	791
Later than one year and not later than five years	2,443	2,700
Later than five years	3,926	6,927
	<u>7,225</u>	<u>10,418</u>

39 EXCEPTIONAL ITEMS

There were no exceptional items in 2017/18.

40 PENSIONS SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTIONS SCHEMES

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by the Department for Education. The scheme provides teachers with specified benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Authority is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes.

In 2017/18 the council paid £3.101m to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.6% of pensionable pay. The figures for 2016/17 were £3.804m and 16.5%. There were no contributions remaining payable at the year end.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 41. The Authority is not liable to the scheme for any other entities obligations under the plan.

NOTES TO MAIN FINANCIAL STATEMENTS

41 PARTICIPATION IN PENSIONS SCHEMES

The Council offers retirement benefits as part of the terms and conditions of employment. Whilst these benefits are not payable until employees retire, the Authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two pension schemes:

- The Teachers' Pension Scheme, as detailed in Note 40, and,
- The Local Government Pension Scheme via the Avon Pension Fund. This is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into the fund which are calculated at a level intended to balance the pension liabilities with investment assets, and is governed by statute (principally now the Local Government Pension Scheme Regulations 2013).

· Arrangements for the award of discretionary post retirement benefits upon early retirement - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

2018/19 & 2019/20 Up-Front Payment of Local Government Pension Scheme Deficit Contributions

In 2017/18, the Council made an up-front payment of the LGPS deficit contributions for the three years 2017/18 - 2019/20 totalling £14.837m (net of academy conversions). The up-front payment took advantage of the independent actuary's calculation of the return these contributions could achieve once invested by the Pension Fund. The discount calculated by the actuary for making the up-front payment (net of academy conversions) rather than the normal approach of monthly payments in arrears over the three year period was £1.034m, reducing total payments from £15.871m to £14.837m. The return was judged to be far greater than could have been achieved by investing the amounts as part of the Council's treasury management strategy and the approach represented good value for money for the Council.

The actual payment made in 2017/18 (net of academy conversions) was £14.837m, and the actuary calculated the Equivalent Discounted annual Lump Sums Certified across the 3 years as follows:

£4.975m relating to 2017/18,
£4.947m relating to 2018/19, and
£4.915m relating to 2019/20.

The Pension Liability as at 31st March 2018 has been reduced by the total £14.837m net payment, and the full amount was reflected in the actuarial valuation as at 31st March 2018. However, only the £4.975m relating to 2017/18 has been charged to the General Fund in the 2017/18 Statement of Accounts, with the future years' amounts not yet credited to the Pensions Reserve. The payments relating to 2018/19 and 2019/20 will be credited to the Pension Reserve and charged to the General Fund in the years to which the payment relates, via the Movement In Reserves Statement.

Transactions relating to post-employment benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

NOTES TO MAIN FINANCIAL STATEMENTS

	Local Government Pension Scheme		Unfunded Liabilities (Teachers) Discretionary Benefits	
	2017/18	2016/17	2017/18	2016/17
Comprehensive Income and Expenditure Statement	£'000	£'000	£'000	£'000
<i>Cost of Services:</i>				
Current Service Costs	21,111	14,704	-	-
Past Service Cost	-	-	-	-
Settlement and Curtailment (Gain) / Loss	(5,614)	(5,571)	-	-
Administration Expenses	299	308	-	-
<i>Financing and Investment Income & Expenditure:</i>				
Net Interest Expense	6,294	6,726	580	749
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	22,090	16,167	580	749
<i>Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement</i>				
Remeasurement of the net defined benefit liability:				
Return on plan assets (excluding the amount included in the net interest expenses)	-	(14,722)	-	(638)
Actuarial (gains) and losses arising on changes in demographic assumptions	-	(2,642)	(498)	(275)
Actuarial (gains) and losses arising on changes in financial assumptions	(30,808)	149,671	-	2,890
Total Remeasurements	(30,808)	132,307	(498)	1,977
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(8,718)	148,474	82	2,726
Movement in Reserves Statement				
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	22,090	16,167	580	749
Actual amount charged against General Fund Balance for pensions in the year:				
Employers' contributions payable to scheme	24,924	10,692	-	-
less upfront deficit payment for 2018/19 & 2019/20	(9,862)	-	-	-
add upfront deficit payment recognised in year (paid 2014/15)	-	4,735	-	-
	(853)	(7,620)	-	-
Retirement benefits payable to pensioners			22,542	23,976

NOTES TO MAIN FINANCIAL STATEMENTS

Assets and Liabilities in Relation to Retirement Benefits in the Balance Sheet

The amount included in the Balance Sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

	Funded Liabilities		Unfunded Liabilities	
	Local Government Pension Scheme		(Teachers) Discretionary Benefits	
	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000
Present value of defined benefit obligation	813,854	809,137	22,542	23,976
Fair value of plan assets	(570,957)	(535,285)	-	-
Net liability arising from defined benefits obligation	242,897	273,852	22,542	23,976

Reconciliation of present value of the scheme liabilities:

	Funded Liabilities		Unfunded Liabilities	
	Local Government Pension Scheme		(Teachers) Discretionary Benefits	
	2017/18 £'000	2016/17 £'000	2017/18 £'000	2016/17 £'000
Opening Balance at 1 April	809,137	664,807	23,976	22,793
Current service cost	21,111	14,704	-	-
Interest cost	20,457	22,832	580	749
Contributions from scheme participants	4,039	4,081	-	-
Actuarial gains and losses	(30,808)	132,307	(498)	1,977
Benefits paid	(21,514)	(23,081)	(1,516)	(1,543)
Business Combinations	19,235	-	-	-
Past service costs	354	1,562	-	-
Past service gain	(8,157)	(8,075)	-	-
Closing Balance at 31 March	813,854	809,137	22,542	23,976

Reconciliation of the Movements in the Fair Value of the Scheme Assets:

	Local Government Pension Scheme	
	2017/18 £'000	2016/17 £'000
Opening Fair Value of scheme assets at 1 April	535,285	464,682
Interest on Plan Assets	14,163	16,106
Remeasurement Gain (Loss)	(3,304)	64,055
Administration Expenses	(299)	(308)
Business Combinations	19,852	-
Settlements	(2,189)	(942)
Contributions from employer	24,924	10,692
Contributions from employees into the scheme	4,039	4,081
Benefits paid	(21,514)	(23,081)
Closing Balance at 31 March	570,957	535,285

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £10.859m (2016/17 £80.064m).

Scheme History

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Present value of liabilities:						
Local Government Pension Scheme	(600,996)	(573,606)	(683,245)	(664,807)	(809,137)	(813,854)
Discretionary Benefits	(25,922)	(23,075)	(24,383)	(22,793)	(23,976)	(22,542)
Fair value of assets in the Local Government Pension Scheme	406,443	417,686	481,219	464,682	535,285	570,957
Surplus/(deficit) in the scheme:						
Local Government Pension Scheme	(194,553)	(155,920)	(202,026)	(200,125)	(273,852)	(242,897)
Discretionary Benefits	(25,922)	(23,075)	(24,383)	(22,793)	(23,976)	(22,542)
Long Term Liability in Balance Sheet	(220,475)	(178,995)	(226,409)	(222,918)	(297,828)	(265,439)

NOTES TO MAIN FINANCIAL STATEMENTS

The liabilities show the underlying commitments that the Council has in the long-run to pay retirement benefits. The total liability of £265m has a substantial impact on the net worth of the Council as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- > the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary
- > finance is only required to be raised to cover teachers' pensions when the pensions are actually paid.

Employer contributions to the Pension Fund in 2017/18 are estimated to be £10.1m. Estimated contributions to the Discretionary Benefits scheme are £1.5m.

Regulations governing the Fund require actuarial valuations to be carried out every three years. Contributions for each employer are set having regard to their individual circumstances. The Regulations require the contributions to be set with a view to targeting the Fund's solvency, and the detailed provisions are set out in the Fund's Funding Strategy Statement. The most recent triennial valuation was carried out as at 31 March 2016, which showed a shortfall of assets against liabilities of £0.62 billion as at that date, equivalent to a funding level of 86%. The fund's employers are paying additional contributions over a period of up to 16 years in order to meet the shortfall.

The weighted average duration of the Authority's defined benefit obligation is 17 years, measured on the actuarial assumptions used for IAS19 purposes.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both scheme liabilities have been assessed by an independent firm of actuaries Mercer Ltd, estimates for the Local Government Pension Scheme being based on the latest full valuation of the scheme as at 31 March 2018.

The principal assumptions used by the actuary have been:

	Avon Pension Fund		Discretionary Benefits (Teachers) Scheme	
	2017/18	2016/17	2017/18	2016/17
Mortality assumptions :				
Longevity for current pensioners:	<u>at 65</u>		<u>at 75</u>	
Men	23.6	23.5	14.5	14.4
Women	26.1	26.0	16.6	16.5
Longevity for future pensioners:				
Men	26.2	26.0		
Women	28.8	28.7		
Rate of inflation	2.1%	2.3%	2.1%	2.3%
Rate of increase in salaries	3.6%	3.8%		
Rate of increase in pensions	2.2%	2.3%	2.2%	2.3%
Rate for discounting scheme liabilities	2.6%	2.5%	2.6%	2.5%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring in the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Impact on the Defined Benefit Obligation in the Scheme

	Increase in Assumption £'000	Decrease in Assumption £'000
Longevity (increase or decrease in 1 year)	15,828	(15,828)
Rate of Inflation (increase or decrease by 1%)	13,907	(13,907)
Rate of increase in salaries (increase or decrease by 1%)	1,654	(1,654)
Rate of discounting scheme liabilities (increase or decrease by 1%)	(13,674)	13,674

NOTES TO MAIN FINANCIAL STATEMENTS

Risks and Investment strategy

The Avon Pension Fund does not have an explicit asset and liability matching strategy. The primary objective of its investment strategy is to generate positive real investment return above the rate of inflation for a given level of risk to meet the liabilities as they fall due over time. When setting the investment strategy, the expected volatility of the assets relative to the value placed on the liabilities was measured and taken into account. The aim of the strategy and management structure is to minimise the risk of a reduction in the value of the assets and maximise the opportunity for asset gains across the Fund.

To achieve its investment objective the Fund invests across a diverse range of assets such as equities, bonds, property and other alternative investments, and uses a number of investment managers. The risk management process identifies and mitigates the risks arising from the Fund's investment strategy and policies which are reviewed regularly to reflect changes in market conditions.

Constitution of the fair value of scheme assets

The Discretionary Benefits Scheme has no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

Assets Held :	Assets at 31 March 2018		Assets at 31 March 2017	
	£'000	%	£'000	%
Equity investments	233,522	40.9%	278,349	52.0%
Government Bonds	61,663	10.8%	64,234	12.0%
Other Bonds	69,657	12.2%	42,288	7.9%
Other	206,115	36.1%	150,414	28.1%
Total	570,957	100%	535,285	100.0%

History of experience gains and losses

Actuarial losses identified as movements on the Pensions Reserve in 2017/18 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2018.

	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13
Difference between the expected and actual return on scheme assets:						
amount (£'000)	(3,304)	64,055	(20,621)	39,638	(2,697)	30,725
percentage	0.6	12.0	4.4	8.2	0.6	7.6
Experience gains and losses on liabilities						
amount (£'000)	-	-	-	-	-	-
percentage	0.0	0.0	0.0	0.0	0.0	0.0
	(3,304)	64,055	(20,621)	39,638	(2,697)	30,725
Cumulative gains / losses recognised	107,796	111,100	47,045	67,666	28,028	30,725

42 AVON COUNTY COUNCIL DEBT

Following Local Government Reorganisation in 1996, Avon County Council's residual debt is administered by Bristol City Council. All successor Unitary Authorities make an annual contribution to principal and interest repayment. The amount of residual debt outstanding at 31 March 2018 apportioned to this Council is £12.35m (£12.86m in 2016/17). The debt has now been included in the Council's Balance Sheet as a deferred liability which will reduce each year due to principal repayments.

	31 March 2017	Principal Repaid	31 March 2018
	£000	£000	£000
Ex- Avon loan debt principal repayment	12,860	(514)	12,346

NOTES TO MAIN FINANCIAL STATEMENTS

43 MINIMUM REVENUE PROVISION (MRP)

Minimum Revenue Provision - Provision for Repayment of External Debt

The Local Government Act 2003 requires that where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008.

The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the CLG Guidance), whilst making its own assessment of a prudent MRP.

The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.

The Council reviewed and amended its MRP Policy during 2016/17. The following approved MRP statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

- For capital expenditure incurred before 1st April 2008 MRP will be determined as the principal repayment on a 50 year annuity with an annual interest rate equal to 2% which will fully finance this element of the Capital Financing Requirement (CFR) within 50 years, incorporating an "Adjustment A" of £38.8m.
- For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
- For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
- For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational.

Capital expenditure incurred during each financial year will not be subject to a MRP charge until the following financial year or until the year after the asset becomes operational.

The net amount charged to revenue in compliance with the statutory requirement to set aside a Minimum Revenue Provision for the repayment of external debt is £4.236m calculated as follows:

	2017/18	2016/17
	£000	£000
Provision for capital expenditure incurred before 1st April 2008	542	531
Provision based on estimated useful life of new assets since 2008	3,694	3,252
Total Minimum Revenue Provision (MRP)	4,236	3,783

The excess of depreciation, impairment and the effect of deferred charges and intangible assets charged to Net Operating Expenditure over the Minimum Revenue Provision is reversed through the Statement of Movement on the the General Fund Balance by an adjustment with the Capital Adjustment Account.

NOTES TO MAIN FINANCIAL STATEMENTS

44 TRUST FUNDS

The Council is the trustee of a small number of Trusts which were inherited from the predecessor authorities. These include bequests, schools prize and scholarship funds and grave maintenance.

The only Trusts with material assets are:

	2017/18 Exp. £'s	2017/18 Income £'s	2017/18 Assets £'s	2017/18 Liabilities £'s
Alice Park Trust	39,207	(17,225)	155,210 *	
Total	39,207	(17,225)	155,210	0

* Includes external investments valued at £18,366

	2016/17 Exp. £'s	2016/17 Income £'s	2016/17 Assets £'s	2016/17 Liabilities £'s
Alice Park Trust	35,485	(36,046)	154,652 *	
Total	35,485	(36,046)	154,652	0

* Includes external investments valued at £18,419.

The purpose of these funds is to provide for the maintenance of specific parks or recreation grounds in Bath.

Other Trust Funds of which B&NES is the sole trustee, relate to assets held - these are for items such as Bequests and Scholarship funds, for which external annual accounts are not prepared:

	2017/18 Exp. £'s	2017/18 Income £'s	2017/18 Assets £'s	2017/18 Liabilities £'s
Educational Funds		(157)	46,930	
Graves/memorial maintenance		(43)	12,492	
Client accounts	94,000		0	
Twinning Fund	88	(91)	26,091	
Bequests		(125)	35,746	
Total	94,088	(416)	121,259	0

	2016/17 Exp. £'s	2016/17 Income £'s	2016/17 Assets £'s	2016/17 Liabilities £'s
Educational Funds	300	(452)	46,773	
Graves/memorial maintenance	0	(42)	12,449	
Client accounts	0	0	94,000	
Twinning Fund	130	(88)	26,088	
Bequests	0	(121)	35,621	
Total	430	(703)	214,931	0

NOTES TO MAIN FINANCIAL STATEMENTS

45 CONTROLLED COMPANIES

Bath Tourism Plus Ltd

The Council set up the above as a company to provide tourism information and marketing services, in partnership with the private sector. The company is limited by guarantee. The Council took 100% control of the company in 2017/18. The Directors have day to day control over the management of the company.

The Company's un-audited accounts to 31st March 2018 show a turnover of £2,777,592, a net profit of £76,107 and net current liabilities of £117,720 (turnover of £2,659,415, a net profit of £11,708 and net current assets of £306,093 in 2016/17). The turnover and assets / Liabilities held by this company are not considered significant enough to produce Group Accounts.

A copy of the accounts can be obtained from Bath Tourism Plus 9-10 Bath Street Bath BA1 1SN

Aequus Developments Ltd (ADL)

The Council set up ADL to develop, deliver, own and manage existing property as well as carry out new developments on a case by case basis.

The Company's draft un-audited accounts to 31st March 2018 show a turnover of £253,220, a net profit of £240,352, net current liabilities of £45,229 and net non-current assets of £158,257. (Turnover of £82,605, a net loss of £127,424, net current liabilities of £151,001 and net non-current assets of £23,677 in 2016/17). These figures include loans made to the company by the Council of £2,017,443 (£1,390,235 2016/17). The turnover and assets held by this company are not considered significant enough to produce Group Accounts.

Aequus Construction Ltd (ACL)

ACL is a 100% subsidiary of ADL which was set up during 2017/18 to carry out construction and development of building projects.

The Company's draft un-audited accounts to 31st March 2018 show a turnover of £nil, a net loss of £138,932, net current assets of £2,306,115 and net non-current liabilities of £2,444,947. (As a new company, there is no previous year comparator). These figures include loans made to the company by the Council of £2,470,000.

A copy of the ADL & ACL accounts can be obtained from Aequus Developments Ltd, 20 Old Bond Street, Bath, BA1 1BP

46 WEST OF ENGLAND PARTNERSHIP

The four Unitary Authorities - Bath & North East Somerset Council, Bristol City Council, North Somerset Council and South Gloucestershire Council - continue to work together and co-ordinate high level planning to improve the quality of life of their residents and provide for a growing population. This joint work focuses on activities that are better planned at the West of England level, rather than at the level of the individual council areas.

B&NES is the accountable body for the Joint Spatial Plan. The expenditures are incurred by B&NES, acting as an intermediary on behalf of the 4 Unitary Authorities. The authorities remain primary local contributors and each provide equal shares of funding. Each Authority's accounts will reflect its own contribution towards expenditure.

B&NES is the grant recipient for funding from West of England Combined Authority WECA for feasibility studies on the Joint Transport Strategy Schemes. The grant is to be utilised for feasibility studies pertaining to the three unitary authorities - Bath & North East Somerset Council, Bristol City Council and South Gloucestershire Council. The grant is received by B&NES and the expenses are incurred by B&NES on behalf of 3 unitary authorities. Each unitary authority's accounts will reflect its own share of expenses and a corresponding grant income.

The table below reflects the revenue expenditure incurred by Bath and North East Somerset on behalf of the West of England Authorities in 2017/18:

West of England Pooled Revenue Expenditure 2017-18

Expenditure	£'000	Acting As
Infrastructure	203	
Feasibility Studies	731	
Total Expenditure	934	
Funding		
Local Authority Contributions	226	Agent
WECA Grant	708	Agent
Total Income	934	

NOTES TO MAIN FINANCIAL STATEMENTS

47 CONTINGENT LIABILITIES

The Council's Senior Management Team have identified / reviewed the potential liabilities arising from appeals or objections to the Council's actions for which there is only a small number of such cases and are not considered material.

48 HERITAGE ASSETS; FURTHER INFORMATION ON THE COLLECTIONS

Roman Baths Museum

The Roman Baths Museum holds a number of collections principally of an archaeological nature but also includes a diverse local history collection and a major collection of coins which together tell the story of 7,000 years of human activity around the hot springs of Bath. The collections have been designated as being of outstanding national significance.

Archaeology: The prehistoric collections include flint and stone objects, mostly from the downs to the north and south of Bath. There is also bronze age metalwork and small quantities of prehistoric pottery, human and faunal remains including objects from the iron age hillfort at Little Solsbury.

In the Roman collection, the bulk of materials relate to the Baths and Temple site in which the museum is situated, consisting of building blocks, architectural fragments, sculptural reliefs, inscriptions, tile and lead and bronze plumbing fittings. There are similar objects from elsewhere in Bath. From elsewhere in the District there are objects from the Roman Villas at Combe Hay, Somerdale Roman House and Medieval Abbey site which is managed locally by the Keynsham Heritage Trust.

The museum has been approved by English Heritage for the deposition of excavation material and the collections are added to continually through receipt of excavation material as well as the occasional stray find. The museum will only normally collect within the boundaries of Bath & North East Somerset.

Numismatics: There is a strong collection of Roman coins of which the most important are those excavated from the King's Spring, as well as the recently acquired Beau Street hoard of coins, purchased with the support of external grants. There are also coins from the Saxon mint at Bath as well as a representative collection of English coinage from the Saxon period to the 20th century. The collection also includes miscellaneous foreign coins, commemorative medals, jettons and reckoning counters and a comprehensive collection of 17th, 18th and 19th century tokens, tickets, inn checks and bank notes from Bath and north eastern Somerset. The museum will continue to develop its collection of locally associated objects.

Local History: These collections consist principally of objects relating to the city and immediate environs of Bath, including a significant and substantial collection of old photographs, postcards and glass negatives.

The museum will continue to take a leading role in promoting the acquisition of objects of local and social historical significance.

The collections are valued for insurance purposes. Valuations are carried out in the main by the museums curator, where this is not possible advice is sought from an external source, with the latest valuation carried out in 2015/16 by Bonham's for insurance purposes.

Bath Record Office

Bath is the only city in the UK to be designated as a UNESCO world heritage site, selected for its 18th century townscape, built around the ancient thermal spa. The archive collections of the Record Office are exceptional for their quality and completeness in documenting the transition from medieval market town to fashionable Georgian resort, preserved today as one of Britain's top visitor destinations.

The wide-ranging subject matter touches on almost every aspect of life in the developing city throughout the last 400 years including records of parishes, schools, crime and punishment, hospitals and medicine, charities, societies, commerce and entertainment. The role played by the Corporation of Bath as a major property developer, from the 17th century to the present is represented by an outstanding collection of title deeds, complemented by major collections from local solicitors. Since the creation of the Record Office in 1967 many substantial and historically important archives collections have been received from private sources.

The Bath Record Office collection will be developed through the acquisition of archives and records from within the Bath & North East Somerset area and may encompass records in any form including manuscripts, photographs, pictures, film and all communication media. Items from the records office are not kept on display but access to the material can be arranged by appointment.

The collections are valued for insurance purposes. Valuations are carried out in the main by the records manager, where this is not possible advice is sought from a commercial source.

Fashion Museum

The museum is one of the largest and most comprehensive collections of fashionable dress and associated material in this country and contains approximately 60,000 objects. The collection has been designated as one of outstanding national significance.

The collection includes items of fashionable dress and accessories to dress for men, women and children from the late 16th century to the present day including day and evening dress, separate garments such as blouses, skirts, shirts and trousers, underwear and outerwear, as well as fashion accessories such as hats, shoes, gloves, parasols, fans and costume jewellery.

The collection also includes works on paper associated with fashionable dress including fashion magazines, fashion photographs and drawings, fashion plates, knitting and dressmaking patterns, historic costume books, trade and designers' archives and costume historians' papers.

The museum's acquisition objectives break down into three areas: to fill the gaps in the collection of fashionable dress; to build on strengths in the collection and to ensure that the collection is up to date.

The collections are valued for insurance purposes. Valuations are carried out in the main by the Museum's Curator, where this is not possible advice is sought from a commercial source.

NOTES TO MAIN FINANCIAL STATEMENTS

Victoria Art Gallery

The Victoria Art Gallery's collections of fine and decorative art date from the 16th century to the present day. To a significant extent they tell the story of art in the city of Bath and the surrounding area. Most of the 15,350 items in the collection were acquired by way of gift and bequest. The latest complete valuation was carried out externally in 2015/16 by Bonhams for insurance purpose.

Fine Art: the bulk of the collection consists of British drawings, paintings, watercolours and miniatures and silhouettes from the 17th to the 21st century. There are also small collections of sculpture and of European works of art. Of particular significance are the collections of prints, drawings and watercolours associated with Georgian Bath. The gallery also holds a large collection of portraits produced by artists who worked in the local area including Thomas Gainsborough and Sir Thomas Lawrence.

Decorative Art: the collections include porcelain, pottery and glass dating from the 17th to the 19th century. The bulk of this material is British and the collections of Delftware and of English drinking glasses are of particular note. The gallery seeks to build on and improve its collection with the acquisition of items which complement existing holdings.

Library Service

The collection of Library Service heritage assets is defined as items available for consultation but not available for loan either due to their local cultural or historical significance, or because they were bequeathed to the library by local citizens.

The collection is divided into 4 categories:

Reserve & Reference stock: this includes approximately 44,400 items of books, journals, pamphlets and newspapers, including bound sheet music and loose engravings.

Open Access Reference: containing around 11,200 catalogued books and pamphlets, maps, photos, slides and 10,000 clippings envelopes.

Special Store: this is stock of a non-standard item due to either its format e.g. autographed letters, manuscripts etc. or its value such as rare books and fine bindings.

Local Store: stock that is local or family history oriented, or is a non-standard item due to its format such as maps, Valentine's cards or photographs.

The latest valuations were carried out in 2015/16 by Bonhams for insurance purpose.

Title to the collection of civic regalia and silver of the former Bath City Council was transferred to the Charter Trustees on Local Government re-organisation in 1996 and is therefore not included in the Council's Balance Sheet.

NOTES TO MAIN FINANCIAL STATEMENTS

49 PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES & ESTIMATES & ERRORS

Restatement of Service Income & Expenditure

Expenditure on services and income relating to or derived from those services is classified in the Comprehensive Income & Expenditure Statement in accordance with the CIPFA Code of Local Authority Accounting in the UK. The 2017/18 Code requires that authorities present expenditure and income on services on the bases of its reportable segments. These reportable segments are based on the authority's reporting structure. The Authority's reportable segments are the Cabinet Portfolios, and following a change to the Cabinet structure during 2017/18, the Portfolios of responsibility are structured differently to those included in the 2016/17 Statement of Accounts. This note shows how the net expenditure and income has been restated.

	As originally reported in the CIES 2016/17 £'000	Adjustments between Cabinet Portfolio structure £'000	As Restated 2016/17 £'000
NET EXPENDITURE			
Cabinet Portfolio			
Transport & Environment	13,878	-	13,878
Leader	5,793	(3,055)	2,738
Homes & Planning	3,633	(3,633)	-
Finance & Efficiency	17,372	(3,517)	13,855
Adult Care, Health & Wellbeing	62,247	-	62,247
Children & Young People	36,429	-	36,429
Economic Development	(3,991)	3,991	-
Community Services	27,739	(27,739)	-
Development & Neighbourhoods	-	24,396	24,396
Economic & Community Regeneration	-	(2,142)	(2,142)
Transformation & Customer Services	-	11,699	11,699
Cost of Services	163,100	-	163,100
GROSS EXPENDITURE			
Cabinet Portfolio			
Transport & Environment	28,483	-	28,483
Leader	6,778	(3,188)	3,590
Homes & Planning	9,048	(9,048)	-
Finance & Efficiency	79,396	(5,690)	73,706
Adult Care, Health & Wellbeing	115,973	-	115,973
Children & Young People	123,722	-	123,722
Economic Development	12,372	(12,372)	-
Community Services	33,930	(33,930)	-
Development & Neighbourhoods	-	35,064	35,064
Economic & Community Regeneration	-	15,037	15,037
Transformation & Customer Services	-	14,127	14,127
Cost of Services	409,702	-	409,702
GROSS INCOME			
Cabinet Portfolio			
Transport & Environment	(14,605)	-	(14,605)
Leader	(985)	133	(852)
Homes & Planning	(5,415)	5,415	-
Finance & Efficiency	(62,024)	2,173	(59,851)
Adult Care, Health & Wellbeing	(53,726)	-	(53,726)
Children & Young People	(87,293)	-	(87,293)
Economic Development	(16,363)	16,363	-
Community Services	(6,191)	6,191	-
Development & Neighbourhoods	-	(10,668)	(10,668)
Economic & Community Regeneration	-	(17,179)	(17,179)
Transformation & Customer Services	-	(2,428)	(2,428)
Cost of Services	(246,602)	-	(246,602)

NOTES TO MAIN FINANCIAL STATEMENTS

50 CITY REGION DEAL

Background

Under the City Region Deal, Bristol City, Bath & North East Somerset, North Somerset and South Gloucestershire Councils ("the Authorities") are part of a Business Rates Retention Scheme, introduced by the Government in April 2013, allowing Authorities to retain a proportion of the business rates collected locally. The Authorities are allowed to retain 100% of the growth in business rates raised in the City Regions network of Enterprise Areas over a 25 year period ending on 31/3/2039 to create an Economic Development Fund for the West of England and to manage local demographic and service pressures arising from economic growth.

A 'baseline' level of rates for each Authority has been agreed with the government for the areas designated within the Non-Domestic Rating (Designated Areas) Regulations 2014. Rates collected up to this figure (the baseline) are subject to the national rates retention system. Rates collected in excess of this figure (the 'growth figure') are retained by the Authorities under the Non-Domestic Rates Designated Area Regulations 2013 and 2014 in a pooling arrangement. The governance of the distribution of retained pooled funds will occur through a Business Rates Pooling Board constituted under the Business Rates Pooling Principles Agreement (BRPPA) signed by the four Authorities.

Transactions

Each participating Authority pays an annual growth figure to South Gloucestershire Council, as the Accountable Body for the Business Rates Pool (BRP), representing business rates collected in the Enterprise Areas in excess of an agreed baseline figure. Retained funds will be distributed or invested annually in accordance with the 2014 Regulations and the BRPPA as:

Tier 1: to ensure that no individual Authority is any worse off than it would have been under the national local government finance system,

Tier 2: to an Economic Development Fund (EDF) for reinvestment within the designated areas through approved programmes,

Tier 3: for the relief of demographic and service pressures associated with growth.

Cash receivable and disbursements payable by the BRP and the Council's share of these are reflected under 'Cash Transactions' in the table below. Expenditure and Revenue recognised in the Council's CIES is also disclosed:

	Cash Transactions		Revenue & Expenditure	
	Business Rates Pool Total £'000	of which the Council's Share £'000	Council Expenditure £'000	Council Revenue £'000
Funds held by BRP at 1 April 2017	(13,624)	(792)	0	0
Receipts into the Pool in-year:				
- Growth sums payable by Councils to BRP in-year	(16,084)	(336)	336	0
Distributions out of the Pool BRP in-year:				
- Tier 1 no worse off	5,949	121	0	(121)
- BRP Management Fee	37	9	0	0
- EDF Management Fee	64	16	0	(8)
- Tier 2 EDF funding	1,705	34	0	0
- Tier 3 Demographic and service pressures	1,624	33	0	(197)
Funds held by the BRP at 31 March 2018	(20,329)	(915)		
Analysed between:				
Uncommitted cash (Tier 2 incl. Contingency)	(16,732)	(753)	(213)	n/a
Committed cash (Tier 3)	(3,597)	(162)	n/a	n/a
	(20,329)	(915)		
Expenditure / (Revenue) recognised			123	(326)

As stated under the accounting policy note for the City Region Deal, growth paid over to the BRP is recognised as expenditure by each Council to the extent that the use of the funds by the BRP has been incurred. Remaining cash is recognised by each Council as a debtor.

The Council's share of this committed and uncommitted cash balance held by the BRP (£915,000) has been recognised in the accounts and is held in an earmarked reserve to smooth the impact of City Region Deal transactions, and match the release of revenue support and charges for projects. The BRP has made several payments totalling £1.705m on behalf of the EDF in 2017/18.

The council itself has recognised revenue income of £326,000 (2016/17: (£425,000)) from the BRP and expenditure of £123,000 (2016/17: £402,000) to the BRP for the year.

COLLECTION FUND 2017/18

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate collection fund. The statement shows the transactions of the billing Authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

	Notes	£'000	2017/18 £'000	2016/17 £'000
INCOME				
Council Tax	2	(100,881)		(96,726)
Income collectable from business ratepayers	3	(66,870)		(68,161)
			(167,751)	(164,887)
EXPENDITURE				
Council Tax - Precepts and demands				
Bath & North East Somerset		84,596		80,156
Avon & Somerset Police	1	11,635		11,183
Avon Fire	1	4,434		4,262
			100,665	95,601
National Non-Domestic Rates (NNDR)				
Central share payment to Government		-		33,090
Local share payment to Bath & North East Somerset		60,418		32,428
Local share payment to WECA		3,214		
Local share payment to Avon Fire Authority		643		662
Transfer of City Deal Growth Disregard to General Fund	6	354		595
Transfer of Renewable Energy Growth Disregard to General Fund		23		46
Cost of Collection Allowance		259		260
			64,911	67,081
Impairments of debts	4			
Write off of uncollectable amounts			549	1,405
Increases / (decreases) in allowance for impairment			30	(194)
Provision for NNDR Appeals	5		2,437	3,671
Contributions				
Contribution towards previous year's estimated Collection Fund Surplus/(Deficit)			(3,455)	(1,422)
			165,137	166,142
(Surplus)/Deficit for the Year			(2,614)	1,255
(Surplus)/Deficit Brought Forward as at 1 April			5,152	3,897
(Surplus)/Deficit as at 31 March	7		2,538	5,152
Council Tax Surplus / (Deficit) to be refunded to Police & Fire Authorities			(29)	137
NNDR Deficit to be charged to Government, WECA & Fire Authority			(882)	(3,059)
Bath & North East Somerset (Surplus)/Deficit			1,627	2,230

NOTES TO THE COLLECTION FUND

1 The Collection Fund

The Collection Fund Account is a statutory fund for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NDR). The year end surplus on the Fund is due to the Council as 'billing Authority' and the major precepting authorities, Avon & Somerset Police Authority and Avon Fire Authority.

The precepts and demands related to Council Tax are as follows;

	Precept	Surplus	Precept	Surplus
	2017/18	2017/18	2016/17	2016/17
	£'000	£'000	£'000	£'000
The Avon & Somerset Police Authority	11,635	105	11,183	106
The Avon Fire Authority	4,434	40	4,262	41

2 Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands. Estimated values at 1 April 1991 are used for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Bath & North East Somerset Council, the Police Authority and the Fire Authority for the forthcoming year and dividing this by the Council Tax base (adjusted for discounts) of 63,996.16 (62,734.6 for 2016/17). This amount of Council Tax for a Band D property £1,572.98 (£1,523.89 - 2016/17) is multiplied by the proportion specified for the particular band to give an individual amount due.

Council Tax bills were based on the following proportions from Bands A to H:

	Discounted Properties	Ratio to Band D	Band D Equivalents
Band A - Disabled Relief	9	5/9	5
Band A	6,304	6/9	4,203
Band B	16,227	7/9	12,621
Band C	17,136	8/9	15,232
Band D	12,001	9/9	12,001
Band E	8,431	11/9	10,304
Band F	4,912	13/9	7,095
Band G	4,331	15/9	7,219
Band H	353	18/9	705
			69,385
Overall Adjustment for Council Tax Support and Technical Changes			(5,389)
Council Tax Base			<u>63,996</u>

The increase in the Council Tax base between financial years is as a result of a combination of new builds and a reduction in the level of Council Tax Discounts and Exemptions.

The income for 2017/18 is receivable from the following sources:-

	2017/18	2016/17
	£'000	£'000
Billed to Council Tax payers	(100,879)	(96,744)
Localism Act Discounts funded from General Fund	(4)	(2)
Prior Year DWP Benefits funded from General Fund	2	20
	<u>(100,881)</u>	<u>(96,726)</u>

NOTES TO THE COLLECTION FUND

3 Income collectable from business ratepayers - National Non-Domestic Rates (NNDR)

The Council collects NNDR for its area based on local rateable values multiplied by a uniform business rate set nationally by Central Government. The national multipliers for 2017/18 were 46.6 pence for qualifying small businesses and 47.9 pence for all other businesses, subject to transitional arrangements. The NNDR income after reliefs of £66.870 million for 2017/18 (£68.161 million in 2016/17) resulted from a total rateable value at 31 March 2018 of £181.369 million.

Until 2013/14, the total amount due, less certain allowances, was paid to an NNDR pool administered by Central Government, which, in turn, paid to Local Authorities their share of the pool, based on a fixed amount per head of population.

From 1 April 2013, the NNDR scheme changed following the introduction of a business rates retention scheme where local authorities retain a proportion of the total amount due (49% for B&NES and 1% for Avon Fire Authority), subject to safety net and levy payments on disproportionate losses or growth. The remaining 50% was paid to Central Government and redistributed to local authorities as Revenue Support Grant.

In 2017/18 a number of 100% Business Rate Retentions pilot schemes were agreed by central government in areas with signed devolution deals. This included a pilot scheme for the West of England which includes Bath & North East Somerset Council, Bristol City Council, South Gloucestershire Council and the West of England Combined Authority (WECA). Under the pilot, B&NES retains 94% of business rates, with WECA retaining 5% and Avon Fire Authority retaining 1%. The Council's Revenue Support Grant is no longer received directly from the Central Government and has been rolled into the pilot scheme.

The closing deficit on the business rates retention scheme in 2017/18 is £2.354m (£5.998m deficit in 2016/17). The opening deficit relating to 2016/17 is to be allocated to the Council (49%), Central Government (50%) and the Fire Authority (1%) with the in year deficit relating to 2017/18 allocated to the Council (94%), WECA (5%) and Fire Authority (1%) based on the revised proportions under the 100% retention pilot.

4 Council Tax and NNDR - Provision for Bad Debts

The Collection Fund account provides for bad debts on Council Tax and NNDR arrears as shown below:

	2017/18 £'000	2016/17 £'000
Council Tax		
Balance at 1 April 2017	536	461
Write-offs during the year	(257)	(166)
Contributions to provisions during the year	345	241
Net Increase/(Decrease) in Provision	88	75
Balance at 31 March 2018	<u>624</u>	<u>536</u>
NNDR		
Balance at 1 April 2017	465	734
Write-offs during the year	(292)	(1,239)
Contributions to provisions during the year	234	970
Net Increase/(Decrease) in Provision	(58)	(269)
Balance at 31 March 2018	<u>407</u>	<u>465</u>
Total		
Balance at 1 April 2017	1,001	1,195
Write-offs during the year	(549)	(1,405)
Contributions to provisions during the year	579	1,211
Net Increase/(Decrease) in Provision	30	(194)
Balance at 31 March 2018	<u>1,031</u>	<u>1,001</u>

The closing balances represent the impairment allowances for the estimated amounts that may become uncollectable in future.

5 Provision for Appeals

An estimate of the impact of business rate appeals, where businesses believe they have been overcharged and have made an appeal to the Valuation Office Agency (VOA), has been made, including for the effect of backdated appeals costs prior to 1 April 2017.

	2017/18 £'000	2016/17 £'000
Balance at 1 April 2017	5,940	7,607
Cost of Appeals settled during the year	(1,431)	(5,338)
Contributions to provisions during the year	2,437	3,671
Net Increase/(Decrease) in Provision	1,006	(1,667)
Balance at 31 March 2018	<u>6,946</u>	<u>5,940</u>

The net increase in appeals provision is due to higher rating values following the 2017 revaluation. Provision for appeals on 2017 rating list has been made at 4.7% of the net business rates payable.

NOTES TO THE COLLECTION FUND

6 City Deal Growth Disregard

From 2014/15, the Council is allowed to retain 100% of the growth in Business Rates in its Enterprise Area. The growth is transferred to the Council's General Fund before being pooled with other participating authorities (see Note 50 to the Main Financial Statements for full details).

7 Balance of Fund & Distribution

As at 31 March 2018, the balance on the Collection Fund stood at an overall deficit of £2.538m.

The credit balance for Council Tax, due to the Council, Police and Fire Authority, and the debit balance for Non-Domestic Rates, due from the Council, Central Government and the Fire Authority, is as follows:

	Council Tax	NNDR	Total
	£'000	£'000	£'000
Central Government	-	822	822
Bath & North East Somerset	154	1,473	1,627
West of England Combined Authority (WECA)	-	36	36
Avon & Somerset Police	22	-	22
Avon Fire Authority	7	24	31
	183	2,355	2,538

Surpluses declared by the Collection Fund are apportioned to the precepting bodies in subsequent financial years.
Deficits likewise are proportionately charged to the precepting bodies in following financial years.

PENSION FUND ACCOUNTS 2017/18

Fund Account

For the Year Ended 31 March 2018

	Notes	2017/18 £'000	2016/17 £'000
Dealings with members, employers and others directly involved in the fund			
Contributions Receivable	4	224,764	146,347
Transfers In		8,613	2,911
		<u>233,377</u>	149,258
Benefits Payable	5	163,014	159,775
Payments to and on account of Leavers	6	7,939	4,717
		<u>170,953</u>	164,492
Net additions / (withdrawals) from dealings with member		62,424	(15,234)
Management Expenses	7	26,374	24,498
		<u>36,050</u>	<u>(39,732)</u>
Net (withdrawals) / additions from dealings with members			
Returns on Investments			
Investment Income	8	28,008	29,425
Profits and losses on disposal of investments and change in value of investments	9	183,089	627,155
Net Returns on Investments		211,097	656,580
Net Increase in the net assets available for benefits during the year			
Opening Net Assets of the Fund		4,353,778	3,736,930
Closing Net Assets of the Fund		4,600,925	<u>4,353,778</u>

Net Assets Statement at 31 March 2018

	Notes	31 March 2018 £'000	%	Restated 31 March 2017 £'000	%
INVESTMENT ASSETS					
Equities		1,075,449	23.4	750,053	17.2
Unquoted Equity		840		0	-
Bonds		0	-	509,172	11.7
Pooled investment vehicles:					
- Property : Unit Trusts		172,109	3.7	135,309	3.1
: Unitised Insurance Policies		37,469	0.8	52,677	1.2
: Other Managed Funds		201,321	4.4	192,923	4.4
Property Pooled Investment vehicles		410,899		380,909	
- Non Property : Unitised Insurance		82,124	1.8	769,043	17.7
: Other Managed Funds (see below)		2,824,981	61.4	1,870,359	43.0
Non Property Pooled Investment Vehicles		2,907,105		2,639,402	
Cash Deposits		204,037	4.4	67,712	1.6
Other Investment balances		5,096	0.1	6,103	0.1
Derivative Contracts (Foreign Exchange hedge)		13,840	0.3	5,075	0.1
INVESTMENT LIABILITIES					
Derivative Contracts: FTSE Futures		(598)	-	(53)	-
Other Investment balances		(8,361)	(0.2)	(598)	-
TOTAL INVESTMENT ASSETS	10	<u>4,608,307</u>		4,357,775	
Net Current Assets					
Current Assets	12	11,961	0.3	11,255	0.3
Current Liabilities	12	(19,343)	(0.4)	(15,252)	(0.4)
Net assets of the scheme available to fund benefits at the period end		<u>4,600,925</u>	100.0	<u>4,353,778</u>	100.0

The restatement of the 31st March 2017 assets relates to the re-ordering of the assets. There has been no change in the asset values.

Analysis of Other Managed Funds

Diversified Growth Funds	602,103	375,391
Infrastructure	283,594	256,003
Liability Driven Investments	521,212	-
Multi Asset Credit	482,296	-
Derivative Contract: OTC Equity index Options	15,010	-
Other	920,766	1,238,965
	<u>2,824,981</u>	<u>1,870,359</u>

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2018. The actuarial present value of these liabilities is disclosed in note 15.

As at 31 March 2018 the Fund was transitioning assets between managers in line with the strategic policy which resulted in higher than normal Investment debtors and creditors at year end (at 31 March 2018 (£8.361m) compared to (£0.598m) at 31 March 2017). The net investment creditors at 31 March 2018 (£8.361m) is made up of £227.692m receivable from pending sales and £236.053m payable on pending purchases.

Notes to Accounts - Year Ended 31 March 2018

1 INTRODUCTION & STATEMENT OF ACCOUNTING POLICIES

1.1 Description of Fund

The Fund is administered by Bath & North East Somerset Council under arrangements made following the abolition of the former Avon County Council on 31 March 1996.

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of eligible designating and admission bodies. A list of employers with contributing scheme members can be found in note 25.

Employers' contributions are payable at the rate specified for each employing authority by the Fund's actuary. The employees' contribution rate is payable in accordance with the Local Government Pension Scheme Regulations 2013 as amended.

Introduction to the Statement of Accounts

1.2 This statement comprises the Statement of Accounts for the Avon Pension Fund (the Fund). The accounts cover the financial year from 1 April 2017 to 31 March 2018.

1.3 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2017/18 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis, except for certain transfer values as described at 'Statement of Accounting Policies' – item 2.7. They do not take account of liabilities to pay pensions and other benefits in the future.

1.4 Actuarial Valuations

As required by the Local Government Pension Scheme Regulations 2013 an actuarial valuation of the Fund was carried out as at 31 March 2016. The market value of the Fund's assets at the valuation date was £3,737m. The Actuary estimated that the value of the Fund was sufficient to meet 86% of its expected future liabilities of £4,355m in respect of service completed to 31 March 2016.

1.5 At the 2016 valuation the average deficit recovery period for the Fund overall was set at 16 years.

1.6 The 2016 actuarial valuation was carried out using the projected unit actuarial method. The main assumptions used to set employers' contributions, are set out in the table below:

	Past Service Liabilities	Future Service Liabilities
Rate of Discount	4.4% per annum	4.95% per annum
Rate of pensionable pay inflation	3.7% per annum	3.7% per annum
Rate of price inflation	2.2% per annum	2.2% per annum

1.7 The 2016 triennial valuation was completed during 2016/17 using market prices and membership data as at 31 March 2016. The 2016 valuation set the employer contribution rates for future service and deficit recovery payments (expressed as a monetary amount payable annually) with effect from 1 April 2017. Historically the discount rate used has been based on gilt yields. However, having taken advice from the Scheme Actuary, the discount rate used in the 2016 valuation is based on CPI plus a real investment return of 2.2% p.a. which better reflects the expected return of the investment portfolio in the long term compared to the gilts basis.

1.8 The Actuary has estimated that the funding level as at 31 March 2018 has risen to 96.2% from 95% at 31 March 2017 based on the 2016 valuation financial assumptions. The improvement is due to positive investment returns offsetting a slight increase in liabilities.

1.9 Note 15 to the accounts shows the actuarial present value of promised retirement benefits for the purposes of IAS26 using the assumptions and methodology of IAS 19. The discount rate referenced for IAS19 is the Corporate Bond yield. The discount rate used for the Actuarial Valuation references the Fund's investment strategy.

1.10 The Fund's Funding Strategy Statement can be found on the Fund's website www.avonpensionfund.org.uk (search Funding Strategy Statement) and is summarised within the Fund's Annual Report. The purpose of the Funding Strategy Statement is to set out a clear and transparent funding strategy that will identify how each employer's pension liabilities are to be met going forward.

Investment Strategy Statement

- 1.11 The Fund's Investment Strategy Statement (ISS) as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 can be found on the Fund's website www.avonpensionfund.org.uk (search Investment Strategy Statement) and is summarised within the Fund's Annual Report. The first statement was published for 1 April 2017 and it includes a statement on the Fund's approach to pooling its investment assets as required under the regulations. The ISS has since been updated as required.
- 1.12 The Fund's assets are currently managed externally by investment managers appointed and monitored by the Fund. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require funds to pool their investments assets from 1 April 2018. As a consequence the Fund is a member of Brunel Pension Partnership, a pool of 10 LGPS funds, which has established an FCA regulated company, Brunel Pension Partnership Limited (Brunel), to manage the assets of the pool. Each fund in the pool is a shareholder owning an equal share of the company. Brunel will be responsible for appointing and monitoring managers and other investment related operational aspects of the Fund. The Fund's assets will gradually transition to Brunel from 1 April 2018. The Investment Strategy Statement will be updated during this transition to reflect the changing responsibilities.
- 1.13 The Fund has implemented two investment strategies to manage specific risks within the asset portfolio. These strategies are held within a Qualified Investment Fund (QIF) managed by Blackrock.
- (i) A Liability Driven Investment strategy has been implemented to provide a hedge against changes in the value of the pension liabilities within the asset portfolio. This strategy consists of bonds (specifically Index link gilts) and derivatives such as gilt repurchase agreements and interest and inflation swaps, structured to achieve the desired hedge profile.
 - (ii) Additionally within the QIF is a strategy to lock in the gains in equity markets ahead of the 2019 actuarial valuation. Using Over The Counter (OTC) equity index option contracts this strategy protects the Fund's developed markets equity assets from a fall in global markets.

Statement of Accounting Policies

Basis of Preparation

- 1.14 Except where otherwise stated, the accounts have been prepared on an accruals basis, i.e. income and expenditure is recognised as it is earned or incurred, not as it is received or paid. The accounts have been prepared on a going concern basis.

Investments

- 1.15 Investments are shown in the accounts at market value, which has been determined as follows:
- i) Quoted Securities have been valued at 31 March 2018 by the Fund's custodian using internationally recognised pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Some UK property funds have been valued at mid price as opposed to bid price with unaudited valuations used as the latest available for the accounting date. Unquoted securities are included at fair value based on the Fund Manager's valuation. All these valuations are subject to the custodian's and fund manager's internal control reports and their external auditors.
 - ii) Fixed interest securities exclude interest earned but not paid over at the year end, which is included separately within investment debtors.
 - iii) Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2018. The basis of valuation is explained further in note 24.
 - iv) Foreign currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2018.
 - v) Open futures contracts are included in the Net Asset Statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.
 - vi) Over the Counter (OTC) Equity Index options are included in the Net Asset Statement at their fair market value, which is the unrealised profit or loss at the current value of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts
 - vii) Overseas properties are valued as at 31 December 2017 with adjustments made for any reduction or addition to the level of investment.
 - viii) Forward foreign exchange contracts outstanding at the year- end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. Foreign currency transactions are recorded at the prevailing rate at the date of transaction.
 - ix) The only Unquoted Equity is shares in Brunel Pension Partnership Ltd. As a newly formed company its' fair value is based on the initial cash transaction. The company is not aware of any reason to write down this initial investment for impairment.
 - x) Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.
 - xi) Investment debtors and creditors at the year- end are included in investment assets in accordance with the CIPFA code of practice on local authority accounting.
 - xii) The Fund's surplus cash is managed separately from the surplus cash of Bath and North East Somerset Council (B&NES) and is treated as an investment asset.

Contributions

- 1.16 Contributions represent those amounts receivable from the employing bodies in respect of their own and their pensionable employees' contributions. Employers' contributions are determined by the Actuary on the basis of triennial valuations of the Fund's assets and liabilities and take into account the Funding Strategy Statement set by the administering authority. The last such valuation was at 31 March 2016. Currently employer contribution rates range from 7.0% to 30.8%. Employees' contributions have been included at the rates prescribed by the Local Government Pension Scheme Regulations 2013. The employee contribution rates range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018.
- 1.17 Normal contributions both from members and the employer are accounted for on an accruals basis in the payroll period to which they relate. Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Benefits, Refunds of Contributions and Cash Transfer Values

- 1.18 From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is up-rated annually in line with the Consumer Prices Index.
- 1.19 Benefits payable and refunds of contributions have been brought into the accounts as they fall due.
- 1.20 Cash Transfer Values are those sums paid to or received from other pension schemes and relate to previous periods of pensionable employment. Cash Transfer Values have been included in the accounts on the basis of the cheque payment date or "Bath & North East Somerset Council cash office received" date. Accruals are only made when it is certain that a transfer is to take place.
- 1.21 Charges for splitting pensions on divorce are either invoiced to members or, on request, paid out of future benefits. In the case of payment from future benefits the charge against benefits and income to the Fund are both made in the current year. The charges are index linked to pension's increases to ensure that the Fund receives the full value.

Investment Income

- 1.22 Dividends and interest have been accounted for on an accruals basis, based on figures provided by the custodian. Some of the income on pooled investments is accumulated and reflected in the valuation of the units. Some of the income on pooled investments (mainly property) is distributed.

Investment Management & Administration

- 1.23 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 permit Bath & North East Somerset Council to charge administration costs to the Fund. A proportion of relevant Council costs has been charged to the Fund on the basis of time spent on Pension Fund business.
- 1.24 The fees of the Fund's external investment managers reflect their differing mandates. Fees are linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. Management fees are recognised in the year in which the management services are provided. A provision has been made for performance fees that have been incurred but are subject to phased payments or are not to be paid until the realisation of the related investments. These remain subject to change as a consequence of future performance. Fees are also payable to the Fund's global custodian and other advisors.

Taxation

- 1.25 The Fund is an exempt approved fund under the Income and Corporation Taxes Act 1988 and is therefore not liable to UK income tax on investment income or to capital gains tax. As Bath & North East Somerset Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses. For taxation of overseas investment income please see note 3 iv. in the Notes to the Accounts.

Assumptions made about the future and other major sources of estimation uncertainty

- 1.26 The Statement of Accounts contains estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking in to account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty actual results could be materially different from the assumptions and estimates.
- Estimates are used in the valuation of unquoted investments (see 2.2i) and in the actuarial valuation for the purposes of IAS 26 (note 15) in which the actuarial calculation of the liability is subject to the professional judgement of the actuary. The Fund's investments are stated at fair value. The subjectivity of the inputs used in making an assessment of fair value is explained in note 24.

Events After the Balance Sheet Date

- 1.27 The Statement of Accounts is adjusted to reflect events that occur after the end of the reporting period that provide evidence of conditions that existed at the end of the reporting period, should they occur. The Statement of Accounts is not adjusted to reflect events that are indicative of conditions that arose after the reporting period, but where material, disclosure is made in the notes of the nature and estimated financial effect of such events.

Financial Instruments

- 1.28 Financial Assets and Liabilities are recognised on the Balance Sheet when the Fund becomes a party to the contractual provisions of a financial instrument and are measured at fair value or amortised cost.

Critical Judgements in Applying Accounting Policies

- 1.29 The net pension fund liability is recalculated every three years by the appointed actuary. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 1.6 above.

These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Following consultation the judgement has been made that the Fund does not have significant influence over the Brunel Pensions Partnership and consequently it is not considered to be a joint venture.

PENSION FUND ACCOUNTS 2017/18

2 MEMBERSHIP

Membership of the Fund at the year-end was as follows:-

	31 March 2018	31 March 2017
Employed Members	36,479	36,213
Pensioners	30,734	29,464
Members entitled to Deferred Benefits	43,012	41,279
TOTAL	<u>110,225</u>	<u>106,956</u>

A further estimated 847 ex-members whose membership was for up to 2 years before 1 April 2004 or up to 3 months after that date are due refunds of contributions. It is not possible to put an exact value on this liability until these ex-members have been traced and their entitlement verified. The previous estimate of 491 has been revised following further investigation.

3 TAXATION

(i) **Value Added Tax**

The Fund's administering authority Bath & North East Somerset Council is reimbursed VAT by HM Revenue and Customs and the accounts are shown exclusive of VAT.

(ii) **Income Tax**

The Fund is a wholly exempt fund and some UK income tax is recoverable from HM Revenue and Customs. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax.

(iii) **Capital Gains Tax**

No capital gains tax is chargeable.

(iv) **Taxation of Overseas Investment Income**

The Fund receives interest on its overseas government bond portfolio gross, but a variety of arrangements apply to the taxation of interest on corporate bonds and dividends on overseas equities.

4 CONTRIBUTIONS RECEIVABLE

Contributions receivable are analysed below:-

	2017/18 £'000	2016/17 £'000
Employers' normal contributions		
Scheduled Bodies	71,831	69,518
Administering Authority	8,768	8,610
Admission Bodies	8,097	7,520
	<u>88,696</u>	<u>85,648</u>
Employers' deficit Funding		
Scheduled Bodies	76,439	14,022
Administering Authority	14,837	0
Admission Bodies	2,912	710
	<u>94,188</u>	<u>14,732</u>
Total Employer's normal & deficit funding	182,884	100,380
Employers' contributions - Augmentation		
Scheduled Bodies	3,089	6,265
Administering Authority	278	1,007
Admission Bodies	107	155
	<u>3,474</u>	<u>7,427</u>
Members' normal contributions		
Scheduled Bodies	30,998	31,126
Administering Authority	3,947	4,008
Admission Bodies	2,856	2,792
	<u>37,801</u>	<u>37,926</u>
Members' contributions toward additional benefits		
Scheduled Bodies	484	484
Administering Authority	92	104
Admission Bodies	29	26
	<u>605</u>	<u>614</u>
Total	<u>224,764</u>	<u>146,347</u>

Deficit funding contributions have been paid by employers in respect of the recovery of their deficit relating to past service.

The Members' contributions towards additional benefits above represent members' purchase of added years or additional benefits under the Scheme. Augmentation contributions are paid by employers to meet the cost of early retirements.

A further facility is provided whereby members can make Additional Voluntary Contributions, on a money purchase basis, which are invested in insurance policies with The Equitable Life Assurance Society or Friends Life on behalf of the individual members concerned. These contributions are not part of the Pension Fund and are not therefore reflected in the Fund's accounts. A statement of the value of these investments is given in note 18.

PENSION FUND ACCOUNTS 2017/18

5 BENEFITS PAYABLE

Analysis of Gross Benefits Payable by Type:-

	2017/18 £'000	2016/17 £'000
Retirement Pensions	135,003	129,796
Commutation of Pensions and Lump Sum Retirement Benefits	24,655	27,443
Lump Sum Death Benefits	3,356	2,536
	<u>163,014</u>	<u>159,775</u>

Analysis of Gross Benefits Payable by Employing Body:-

	2017/18 £'000	2016/17 £'000
Scheduled & Designating Bodies	134,704	131,452
Administering Authority	15,942	16,496
Admission Bodies	12,368	11,827
	<u>163,014</u>	<u>159,775</u>

6 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

Leavers

	2017/18 £'000	2016/17 £'000
Refunds to members leaving service	744	1,165
Individual Cash Transfer Values to other schemes	7,195	2,890
Group Transfers	0	662
	<u>7,939</u>	<u>4,717</u>

PENSION FUND ACCOUNTS 2017/18

7 MANAGEMENT EXPENSES

Costs incurred in the management and administration of the Fund are set out below.

	2017/18	2016/17
	£'000	£'000
Administrative Costs	1,829	1,774
Investment Management Expenses	23,109	21,409
Oversight & Governance Costs	1,436	1,315
	<u>26,374</u>	<u>24,498</u>
Further Analysis of Management Expenses:-		
Administrative Costs		
Management Costs	1,215	1,167
Administration and Processing	565	459
Service from Administrating Body	473	346
Fees and Income	(424)	(198)
	<u>1,829</u>	<u>1,774</u>
Investment Management Expenses		
Fund Manager Base Fees	13,449	15,490
Fund Manager Performance Fees	3,681	4,032
Investment Transaction Costs	5,896	1,760
Global custody	83	127
	<u>23,109</u>	<u>21,409</u>
Oversight & Governance Costs		
Management costs	527	550
Specialist advice and Governance	1,182	1,062
Actuarial recharges	(311)	(334)
Audit Fees	38	37
	<u>1,436</u>	<u>1,315</u>
	<u>26,374</u>	<u>24,498</u>

Specialist advice and Governance costs include £0.145m for The Fund's share of the development costs of Brunel Pensions Partnership and client group support and advice. This was in addition to the operating costs of Brunel Pensions Partnership Ltd once operational from July 2017 that were funded from the £0.84m share capital.

Fund Manager Performance Fees include fees that have been accrued but are subject to phased payment or not due to be paid until the realisation of the related assets. Unpaid fees remain subject to variation as a result of future performance. Total fund manager fees include management charges for pooled investments that are settled directly within the pooled vehicles in accordance with the investment management agreement.

Fees and Income includes £0.236m rebate of Brunel Pensions Partnership development costs that are included in Fund Manager Base Fees.

Transaction costs are paid as part of investment management fees and only disclosed where it has been possible to identify them separately. Where they are not separately identifiable they remain within the Fund manager fees. Investment transaction costs do not include the underlying transaction costs within pooled funds.

Management costs in Oversight & Governance Costs include investments, actuarial and accounting staff costs. Audit fees include: £0.029m external audit fee as set out in the Audit Plan (2016/17 £0.029m), £0.008m internal audit charge (2016/17 £0.008m) and £0.001m additional external fee relating to information provided to the actuary regarding individual employers' IAS19 disclosures (2016/17 £0.001m).

PENSION FUND ACCOUNTS 2017/18

8 INVESTMENT INCOME

	2017/18 £'000	2016/17 £'000
Dividends from equities	20,772	19,815
Income from Bonds	-	4,143
Income from pooled Property Investments	6,583	5,067
Income from other pooled investment vehicles	312	63
Interest on cash deposits	272	265
Other - stock lending	69	72
TOTAL	28,008	29,425

The Fund has an arrangement with its custodian (State Street Trust and Bank) to lend eligible securities from its portfolio to third parties in return for which the third parties pay fees to the fund. The third parties provide collateral to the Fund which is held during the period of the loan. The Fund may terminate any loan of securities by giving notice of not less than the standard settlement time for those securities.

The value of the stock on loan as at 31 March 2018 was £29.9m (31 March 2017 £10.3m), comprising of equities and sovereign debt. This was secured by collateral worth £32.4m comprising equities and sovereign debt. The Fund does not sell collateral unless there is a default by the owner of the collateral.

9 CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments	Value at	Purchases	Sales	Change in	Value at
	31/03/17 £'000	at Cost £'000	Proceeds £'000	Market Value £'000	31/03/18 £'000
Equities	750,053	2,090,656	(1,768,355)	3,095	1,075,449
Unquoted Equity		840			840
Bonds	509,172	5,745	(491,453)	(23,464)	-
Pooled Investments-					
- Property	380,909	101,446	(94,623)	23,167	410,899
- Non Property	2,639,401	2,383,505	(2,208,506)	92,705	2,907,105
Derivatives	5,023	45,790	(106,068)	68,498	13,243
Sub Total	4,284,558	4,627,982	(4,669,005)	164,001	4,407,536
Cash Deposits	67,712	601,694	(506,869)	41,500	204,037
Net Purchases & Sales		5,229,676	(5,175,874)	53,802	
Investment Debtors & Creditors	5,505			(8,771)	(3,266)
Total Investment Assets	4,357,775				4,608,307
Current Assets	(3,997)			(3,385)	(7,382)
Less Net Revenue of Fund				(64,058)	
Total Net Assets	4,353,778			183,089	4,600,925

The **Change in Market Value** of investments comprises all gains and losses on Fund investments during the year, whether realised or unrealised.

The **Change in Market Value** for cash deposits represents net gains on foreign currency deposits and foreign exchange transactions during the year.

Derivatives. The purchases and sales of derivatives are shown at the values of the realised profits and losses of the net derivatives transactions.

Liability Driven Investments and Equity Options. Elsewhere in the Statement of Accounts Liability Driven Investments and Equity Options have been shown separately for greater transparency. In the above table they are treated as all other pooled investment vehicles. They are both included as Non Property Pooled Investments.

The Net Revenue of Fund figure in the above table includes the investment transaction costs as specified below. These are the costs that it has been possible to identify. Additional costs will have been absorbed within pooled investments. The Net Revenue of Fund equals the Net Withdrawals / additions from dealings with members (£36,050k) plus Investment income (£28,008k) as shown in the Fund account.

PENSION FUND ACCOUNTS 2017/18

Change in Total Net Assets 2016/17

Change in Market Value of Investments	Value at	Purchases	Sales	Change in	Value at
	31/03/16	at Cost	Proceeds	Market Value	31/03/17
	£'000	£'000	£'000	£'000	£'000
Equities	598,344	326,609	(300,194)	125,294	750,053
Bonds	433,798	24,017	(18,586)	69,943	509,172
Pooled Investments-					
- Property	366,914	39,244	(51,767)	26,518	380,909
- Non Property	2,170,963	418,803	(446,451)	496,086	2,639,401
Derivatives	(40,459)	292,558	(135,312)	(111,764)	5,023
Sub Total	3,529,560	1,101,231	(952,310)	606,077	4,284,558
Cash Deposits	209,518	514,449	(658,837)	2,582	67,712
Net Purchases & Sales		1,615,680	(1,611,147)	4,533	
Investment Debtors & Creditors	3,354			2,151	5,505
Total Investment Assets	3,742,432				4,357,775
Current Assets	(5,502)			1,505	(3,997)
Less Net Revenue of Fund				10,307	
Total Net Assets	3,736,930			627,155	4,353,778

The Net Revenue of Fund figures in the above tables include the investment transaction costs as specified below. These are the costs that it has been possible to identify. Additional costs will have been absorbed within pooled investments.

Investment Transaction Costs

	2017/18	2016/17
	£'000	£'000
Commission	2,711	1,054
Tax	3,185	706
Total	5,896	1,760

10 INVESTMENT ASSETS

Further analysis of the market value of investments as set out in the Net Assets Statement is given below:-

	31 March	Restated
	2018	31 March
	£'000	2017
		£'000
UK Equities		
Quoted	342,303	331,898
Unquoted Equity	840	
Pooled Investments	30,188	202,152
FTSE Futures	(598)	(53)
	372,733	533,997
Overseas Equities		
Quoted	733,146	418,155
Pooled Investments	680,444	1,234,900
Equity Index Options	15,010	
	1,428,600	1,653,055
UK Bonds		
Quoted	-	509,172
Sterling Bonds (excluding Gilts)		
Pooled Investments	82,124	342,728
Diversified Growth Funds		
Overseas Pooled Investments	602,104	375,391
Infrastructure		
Overseas Pooled Investments	283,594	256,003
Liability Driven Investment		
UK Pooled Investments	521,212	-
Multi Asset Credit		
Overseas Pooled Investments	482,296	-
Hedge Funds		
Overseas Pooled Investments	210,133	228,228
Property		
UK Pooled Investments	209,579	187,986
Overseas Pooled Investments	201,320	192,923
Cash Deposits		
Sterling	185,001	55,506
Foreign Currencies	19,036	12,206
Investment Debtors/Creditors		
Investment Income	5,096	4,937
Sales of Investments	227,692	1,166
Foreign Exchange Hedge	13,840	5,075
Purchases of Investments	(236,053)	(598)
	10,575	10,580
TOTAL INVESTMENT ASSETS	4,608,307	4,357,775

PENSION FUND ACCOUNTS 2017/18

The Overseas Pooled Investments above are global mandates. Although they are predominantly Overseas assets they may include some UK assets.

The Liability Driven Investments pooled vehicle is structured to provide a hedge against changes in the value of the pension liabilities. The structure invests in Index linked gilts and derivatives to provide the desired hedge against the liabilities. At 31 March 2018 the net value of these assets was £521,212m.

OTC Equity Index Options are used to protect the developed equity assets from a fall in equity markets. At 31 March 2018 the unrealised gain on this strategy was £15m.

Both strategies are held within the same pooled vehicle, a Qualified Investment Fund (QIF) managed by Blackrock on a bespoke basis for the Fund; the QIF had a value of £536m at March 2018.

DERIVATIVES ANALYSIS

Open Forward Currency Contracts

Settlement	Currency Bought		Currency Sold		Asset Value £'000	Liability Value £'000
	Local Value 000		Local Value 000			
Up to one month	AUD	2,841	GBP	1,551	3	-
Up to one month	CAD	970	GBP	535	2	-
Up to one month	CHF	6,358	GBP	4,725	8	-
Up to one month	DKK	5,944	GBP	698	1	-
Up to one month	EUR	77,108	GBP	67,628	16	-
Up to one month	HKD	8,773	GBP	793	4	-
Up to one month	ILS	4,786	GBP	971	1	-
Up to one month	JPY	1,783,578	GBP	11,922	38	-
Up to one month	NOK	5,893	GBP	533	2	-
Up to one month	NZD	1,055	GBP	540	2	-
Up to one month	SEK	21,476	GBP	1,827	1	-
Up to one month	SGD	3,413	GBP	1,847	8	-
Up to one month	USD	193,399	GBP	137,399	329	-
Up to one month	GBP	3,055	AUD	5,601	-	(8)
Up to one month	GBP	991	CAD	1,802	-	(5)
Up to one month	GBP	9,467	CHF	12,715	1	-
Up to one month	GBP	1,382	DKK	11,752	-	(1)
Up to one month	GBP	78,406	EUR	88,475	788	-
Up to one month	GBP	398	HKD	4,387	-	(1)
Up to one month	GBP	486	ILS	2,395	-	-
Up to one month	GBP	14,460	JPY	2,167,534	-	(74)
Up to one month	GBP	1,042	NOK	11,433	4	-
Up to one month	GBP	1,054	NZD	2,054	-	(3)
Up to one month	GBP	3,632	SEK	42,477	17	-
Up to one month	GBP	926	SGD	1,706	-	(2)
Up to one month	GBP	154,668	USD	211,027	4,375	-
One to six months	EUR	27,258	GBP	24,200	-	(225)
One to six months	JPY	463,300	GBP	3,128	-	(14)
One to six months	USD	28,040	GBP	19,981	-	(86)
One to six months	GBP	274,778	EUR	310,603	1,398	-
One to six months	GBP	47,560	JPY	7,159,300	-	(576)
One to six months	GBP	629,308	USD	875,485	8,270	-
Six to twelve months	GBP	49,968	EUR	56,669	-	(92)
Six to twelve months	GBP	9,000	JPY	1,339,200	-	(32)
Six to twelve months	GBP	119,440	USD	169,489	-	(309)
Total					15,268	(1,428)
Net forward currency contracts at 31st March 2018						13,840
Open forward currency contracts at 31 March 2017						10,128
Net forward currency contracts at 31st March 2017						5,075

Equity Options

	Original Notional (GBP) £'000's	Gain/(Loss) at 31 March £'000's
S&P 500 Index Options	790,885	(19,259)
Nikkei 225 Index Options	157,262	3,532
FTSE 100 Index Options	395,692	17,309
EuroStoxx50 Index Options	236,732	13,429
Total	1,580,571	15,011
Equity Options at 31 March 2017	-	-

Exchange Traded Derivatives held at 31 March 2018:-

Contract Type	Expiration	Book Cost £'000	Unrealised Gain £'000
FTSE equity futures	June 2018	73,279	(598)

Exchange Traded Derivatives held at 31 March 2017:-

FTSE equity futures	June 2017	5,602	(53)
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A derivative is a financial contract between two parties, the value of which is determined by the underlying asset. Investment in derivatives may only be made if they contribute to a reduction of risks and facilitate efficient portfolio management.

The UK Equity futures contracts are held to facilitate efficient portfolio management for a passively managed investment where the costs of investing directly in UK equities would be significant.

Forward "over the counter" foreign exchange contracts are held to reduce the impact of fluctuations in the exchange rate between sterling and the other currency.

OTC Equity Index Options are used to protect the developed equity assets from a fall in equity markets.

PENSION FUND ACCOUNTS 2017/18

Investment Assets by Manager

The proportion of the market value of investment assets managed by each external manager and in house Treasury Management at the end of the financial year was:-

	31 March 2018		31 March 2017	
	£'000	%	£'000	%
Blackrock	1,471,348	31.9	1,060,113	24.3
Standard Life	240,709	5.2	236,903	5.4
Record	86,436	1.9	10,624	0.2
Jupiter Asset Management	196,870	4.3	199,834	4.6
Genesis Investment Management	113,788	2.5	196,601	4.5
Invesco Perpetual	-	-	388,073	8.9
State Street Global Advisors	-	-	160,461	3.7
Partners Group	218,347	4.7	201,487	4.6
Royal London Asset Management	-	-	262,242	6.0
Loomis (Natixis)	482,296	10.5	-	-
Ruffer	226,126	4.9	-	-
TT International	184,557	4.0	236,626	5.4
Gottex Asset Management	-	-	971	0.0
Signet Capital Management	1,633	0.0	1,162	0.0
IFM Investors	283,594	6.2	256,003	5.9
Pyrford International	135,269	2.9	138,487	3.2
Unigestion (UK) Ltd	107,920	2.3	223,160	5.1
Schroder Investment Management	578,585	12.6	539,380	12.4
JP Morgan	210,133	4.6	226,096	5.2
General Cash	61,427	1.3	7,497	0.2
In- house Unquoted Equity (Brunel Share Capital)	840	0.0	-	-
Treasury Management	8,429	0.2	12,055	0.3
TOTAL INVESTMENT ASSETS	4,608,307	100.0	4,357,775	100.0

11 SINGLE INVESTMENTS OVER 5% OF THE FUND

The following investments represent more than 5% of the net assets of the fund.

Investments	March 2018	Asset	March 2017	% of Net Asset
	£'000		£'000	
Blackrock Liability SOL Mutual Fund	536,222	11.63%	-	0.00%
NATIXIS Investment Solutions	482,296	10.46%	-	0.00%
Blackrock ACS World Low Carbon Equity	458,736	9.95%	-	0.00%
IMF Global Infrastructure (UK)	283,594	6.15%	256,003	5.87%
Standard Life Global Absolute	240,709	5.22%	236,903	5.44%
Unigestion Uni-Global – Equity Emerging Mkt SAC GBP	107,921	2.34%	223,160	5.12%
Invesco Perpetual Global ex UK Enhanced Index Fund	-	0.00%	388,073	8.91%
RLPPC UK Corporate Bond Fund (Royal London)	-	0.00%	262,242	6.02%

PENSION FUND ACCOUNTS 2017/18

12 CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2018. Debtors and creditors included in the accounts are analysed below:-

	31 March 2018 £'000		31 March 2017 £'000	
CURRENT ASSETS				
Contributions Receivable				
- Employers	6,801		6,784	
- Members	2,717		2,877	
Transfer Values Receivable	-		-	
Discretionary Early Retirement Costs	936		526	
Other Debtors	1,507	<u>11,961</u>	1,068	<u>11,255</u>
CURRENT LIABILITIES				
Management Fees	(2,339)		(1,638)	
Provision for Performance Fees	(14,248)		(10,567)	
Transfer Values Payable	-		-	
Lump Sum Retirement Benefits	(1,073)		(1,068)	
Other Creditors	(1,683)	<u>(19,343)</u>	(1,979)	<u>(15,252)</u>
NET CURRENT ASSETS		<u>(7,382)</u>		<u>(3,997)</u>

The provision for Performance Fees includes fees that have been incurred but are subject to phased payment or not due to be paid until the realisation of the related assets. They remain subject to variation as a result of future performance.

Analysis of Debtors and Creditors by Public Sector Bodies:-

	31 March 2018		31 March 2017	
	£'000	£'000	£'000	£'000
CURRENT ASSETS				
Local Authorities	7,465		5,034	
NHS Bodies	17			
Other Public Bodies	3,264		2,313	
Non Public Sector	1,215		3,908	
		<u>11,961</u>		<u>11,255</u>
CURRENT LIABILITIES				
Local Authorities	-		(21)	
Other Public Bodies	(1,613)		(1,569)	
Non Public Sector	(17,730)	<u>(19,343)</u>	(13,662)	<u>(15,252)</u>
NET CURRENT ASSETS		<u>(7,382)</u>		<u>(3,997)</u>

13 CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2018. (31 March 2017 = NIL)

14 EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after 31 March 2018 that require any adjustment to these accounts.

PENSION FUND ACCOUNTS 2017/18

15 ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS FOR THE PURPOSE OF IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2018 (the 31 March 2017 assumptions are included for comparison):

	31st March 2018	31st March 2017
Rate of return on investments (discount rate)	2.6% per annum	2.5% per annum
Rate of pay increases*	3.6% per annum	3.8% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) / Deferred revaluation	2.2% per annum	2.3% per annum
Rate of CPI Inflation / CARE Benefit revaluation	2.1% per annum	2.3% per annum

* includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields rose slightly, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.6% p.a. versus 2.5% p.a.). The expected long-term rate of CPI inflation decreased during the year, from 2.3% p.a. to 2.1%. Both of these factors served to decrease the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2017 was estimated as £6,459m. Interest over the year increased the liabilities by c£163m, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£88m (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a decrease in liabilities of £257m due to "actuarial gains" (i.e. the effect of changes in the actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2018 is therefore £6,453m.

16 TRANSFERS IN

During the year ending 31 March 2018 there were no group transfers in to the fund.

17 AGENCY SERVICES

The Fund makes payments with regard to added year benefits awarded by the Employer to Local Government Pension Scheme members, including related pension increases. The Fund also pays a small number of other pension supplements. These are not funded by the Fund and are recharged in full. They are not included in the Fund Account.

	2017/18	2016/17
	£'000	£'000
Benefits Paid and Recharged	5,895	6,024

The Fund also administers £21.8m pension payments on behalf of the Fire Service and the Teachers' pension schemes. (£25.7m in 2016/17, including a large number of Retirement Lump Sum payments). These are not funded by the Fund and are recharged in full. They are not included in the Fund Account. The Fire Service and Teachers' employers also pay for the cost of providing this service.

18 ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2017/18 were £55 (2016/17 - £55). Additional Voluntary Contributions received from employees and paid to Friends Life during 2017/18 were £288,295 (2016/17 - £272,810).

The total value of the assets invested, on a money purchase basis, with these AVC providers was:-

	31 March 2018	31 March 2017
	£'000	£'000
<u>Equitable Life</u>		
With Profits Retirement Benefits	352	369
Unit Linked Retirement Benefits	339	362
Building Society Benefits	-	-
	<u>691</u>	<u>731</u>
Death in Service Benefit	<u>53</u>	<u>53</u>
<u>Friends Life</u>		
With Profits Retirement Benefits	97	84
Unit Linked Retirement Benefits	4,114	4,094
Cash Fund	208	309
	<u>4,419</u>	<u>4,487</u>

AVC contributions are not included in the Fund's financial statements as they do not come under the requirements of Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016 regarding regulation 69(1)(a) of the Local Government Pension Scheme Regulations 2013.

PENSION FUND ACCOUNTS 2017/18

19 RELATED PARTIES

Committee Member Related:-

In 2017/18 £40,557 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (£37,780 in 2016/17). Six voting members and two non-voting member of the Avon Pension Fund Committee (including three B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2017/2018. (Five voting members and one non-voting member in 2016/2017, including two B&NES Councillor Members)

Independent Member Related:-

Three Independent Members were paid allowances of £14,908, £7,851 and £4,780 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. One Member was paid in respect of the full year, two were paid in respect of part of the year each. They are entitled to claim reasonable expenses which are included in the above allowances. The Independent Members are not eligible to join the Local Government Pension Scheme.

Employer Related:-

During the year 2017/18 the Fund paid B&NES Council £437,520 for administrative services (£265,428 in 2016/17). The increase was due to the cost of the Systems Support team that was previously within the Fund. B&NES Council paid the Fund £37,589 for administrative services (£35,269 in 2016/17). Various Employers paid the fund a total of £258,817 for pension related services including pension's payroll and compiling data for submission to the actuary (£224,272 in 2016/17).

Pension Board Related:-

The Pension Board came in to operation in July 2015. In 2017/18 £7,129 was charged to the Fund in respect of Allowances and expenses paid to the Members of the Pension Board (£7,067 in 2016/17). Five members of the Pension Board were members of the Local Government Pension Scheme during the financial year 2017/2018. (Five members in 2016/2017).

Officer and Manager related:-

The officers administering the Avon Pension Fund are all eligible to be members of the Avon Pension Fund.

The Fund is governed by Central Government regulation. There are no other related party transactions except as already disclosed elsewhere.

Brunel Pension Partnership Limited

Brunel Pensions Partnership Limited (BPP Ltd. Company number 10429110) was formed on the 14th October 2016 and will oversee the investment of pension fund assets for Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire Funds.

Each of the 10 local authorities, including Bath & North East Somerset Council own 10% of BPP Ltd. In 2017/18 the Pension Fund paid BPP £840,000 (2016/17 nil).

As part of our investment in BPP Ltd. We provided regulatory capital. This will be subject to regular review by the regulator that could result in additional calls for capital.

20 KEY MANAGEMENT REMUNERATION

Of Bath & North East Somerset Council's key management personnel, some of the remuneration costs were charged to the fund to reflect the time spent. These were unchanged since 2015/16 and consisted of:

- part of the Head of Business Finance and Pensions salary, fees and allowances £50,167 (2016/17 £50,167) and their employer's pension contributions £9,498 (2016/17 £9,498).
- part of the Divisional Director Risk and Assurance's salary, fees and allowances £10,600 (2016/17 nil) and their employer's pension contributions £2,000 (2016/17 nil). In 2016/17 £9,763 and £1,834 respectively were charged as part of the Divisional Director Business Support's salary).

21 OUTSTANDING COMMITMENTS

As at the 31 March 2018 the Fund had outstanding commitments relating to investments in property funds that will be drawn down in tranches by the Investment Managers totalling £113,752,557 (31 March 2017 £145,154,473).

PENSION FUND ACCOUNTS 2017/18

22 FINANCIAL INSTRUMENTS

The net assets of the Fund are made up of the following categories of Financial Instruments:

2017/18	Fair Value £'000	Loans & £'000	Financial liabilities £'000
Financial Assets			
Bonds	-		
Equities	1,075,449		
Unquoted Equities	840		
Pooled Investments (Non-Property)	2,370,883		
Liability Driven Pooled investments	521,212		
Pooled Property Investments	410,899		
Derivative Contracts FX Hedge	13,840		
Derivative Contracts Equity Options	15,010		
Cash		195,676	
Other investment balances	5,096		
Debtors		11,961	
Total Financial Assets	4,413,229	207,637	-
Financial Liabilities			
Derivative contracts	(598)		
Other investment balances			
Creditors			(19,343)
Total Financial Liabilities	(598)	-	(19,343)
Total Net Assets	4,412,631	207,637	(19,343)

2016/17	Fair Value £'000	Loans & £'000	Financial liabilities £'000
Financial Assets			
Bonds	509,172		
Equities	750,053		
Pooled Investments (Non-Property)	2,639,402		
Pooled Property Investments	380,909		
Derivative Contracts	5,075		
Cash		67,712	
Other investment balances	6,103		
Debtors		11,255	
Total Financial Assets	4,290,714	78,967	-
Financial Liabilities			
Derivative contracts	(53)		
Other investment balances	(598)		
Creditors			(15,252)
Total Financial Liabilities	(651)	-	(15,252)
Total Net Assets	4,290,063	78,967	(15,252)

Net gains and losses on Financial Instruments

31st March 2017 £'000		31st March 2018 £'000
	Financial assets	
717,841	Fair value through profit & loss	164,001
21,078	Loans & Receivables	19,088
	Financial Liabilities	
(111,764)	Fair value through profit & loss	
	Loans & Receivables	
627,155		183,089

23 FINANCIAL RISK MANAGEMENT DISCLOSURE

The primary objective of the Avon Pension Fund is to generate positive real investment return above the rate of inflation for a given level of risk to meet the liabilities as they fall due over time. The aim of the investment strategy and management structure is to minimise the risk of a reduction in the value of the assets and maximise the opportunity for asset gains across the portfolio of assets.

The Fund achieves this objective by investing across a diverse range of assets such as equities, bonds, property and other alternative investments in order to reduce exposure to a variety of financial risks including market risk (price, interest rate and currency risk), credit risk and liquidity risk.

The Fund's investments are managed by external Investment Managers who are required to invest in accordance with the terms of the agreed investment guidelines that set out the relevant benchmark, performance target, asset allocation ranges and any restrictions. The Avon Pension Fund Committee has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The Committee regularly monitors each investment manager and its Investment Consultant advises on the nature of the investments made and associated risks.

The Fund's investments are held by State Street Bank and Trust who acts as custodian on behalf of the Fund.

Because the Fund adopts a long term investment strategy, the high level risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes to the portfolio. The risk management process identifies and mitigates the risks arising from the Fund's investment strategy and policies which are reviewed regularly to reflect changes in market conditions.

(a) Market Risk

Market risk is the risk of loss from fluctuations in market prices, interest rates, credit spreads and currencies. The Fund is exposed through its investments portfolio to all these market risks. The level of risk exposure depends on market conditions, expectations of future price and yield movements and asset allocation. The objective of the investment strategy is to identify, manage and control market risk within acceptable parameters, while optimising the return.

Volatility in market risk is primarily managed through diversification across asset class and investment managers.

Market Price Risk

Market price risk represents the risk that the value of a financial instrument will fluctuate caused by factors other than interest rates or currencies. These changes can be caused by factors specific to the individual instrument, its issuer or factors affecting the market in general and will affect the assets held by the Fund in different ways.

All investments present a risk of loss of capital. By diversifying its investments across asset classes, geography and industry sectors, investment mandate guidelines and Investment Managers the Fund aims to reduce its exposure to price risk. Diversification seeks to reduce the correlation of price movements. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee against the strategic benchmark.

The Fund's largest allocation is to equities and therefore the fluctuation in equity prices is the largest market risk within the portfolio. The maturity profile of the Fund and strong underlying covenant underpins the allocation to equities which are expected to deliver higher returns over the long term.

The Fund has an equity hedging strategy in place to protect from a significant fall in equity values. The strategy was implemented to protect the improvement in the funding level since the 2016 valuation which has been primarily driven by the rise in equity values. Equity index options have been used to protect the downside and to cap the upside above a fully funded position based on the current funding plan.

Market Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of returns of the assets held within the Fund (provided by the Fund's advisors). The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the three years to 31 March 2018. This analysis assumes all other variables including interest rates and foreign currency exchange rates remain the same.

Movements in market prices could have increased or decreased the net assets available to pay benefits by the amounts shown below. However, the likelihood of this risk materialising in normal circumstances is low by virtue of the diversification within the Fund.

The equity hedge does not affect the expected volatility of the equity assets. The hedging strategy caps the upside for the equity assets to around 8.3% plus dividends and protects the equity assets if markets fall by more than 10% from the market level when the strategy was implemented. The unrealised gain/loss on the equity index options has been added to the Global Equities value in the table below.

The analysis for the year ending 31 March 2018:

Asset Type	Value	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
UK Equities	371,893	9.5%	407,223	336,563
Global Equities	1,206,893	10.2%	1,329,996	1,083,790
Emerging Market Equities	221,709	16.0%	257,182	186,235
UK Bonds	82,124	5.6%	86,723	77,525
Index Linked Gilts	-	12.3%	-	-
Liability Driven Investments	521,211	12.3%	585,320	457,102
Diversified Growth Funds	602,103	5.3%	634,015	570,192
Multi Asset Credit	482,296	3.8%	500,623	463,969
Property	410,899	2.2%	419,939	401,859
Fund of Hedge Funds	210,133	4.0%	218,539	201,728
Infrastructure	283,594	13.0%	320,461	246,727
Unquoted Equity	840	15.0%	966	714
Cash & Equivalents	214,612	0.1%	214,827	214,397
Total Investment Assets	4,608,307	8.0%	4,975,814	4,240,801

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The analysis for the year ending 31 March 2017 is shown below:

Asset Type	Value £'000	% Change	Value on Increase £'000	Value on Decrease £'000
UK Equities	533,997	9.0%	582,057	485,937
Overseas Equities	1,653,055	10.0%	1,818,361	1,487,750
UK Bonds	342,728	6.4%	364,662	320,793
Index Linked Gilts	509,172	12.6%	573,327	445,015
Pooled Multi Assets	375,391	6.1%	398,289	352,492
Property	380,909	2.6%	390,813	371,006
Fund of Hedge Funds	228,228	3.8%	236,901	219,556
Infrastructure	256,003	12.0%	286,723	225,282
Cash & Equivalents	78,292	0.0%	78,292	78,292
Total Investment Assets	4,357,775	8.5%	4,729,425	3,986,123

Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates which will affect the value of fixed interest and index linked securities ("bonds").

The Fund's exposure to interest rate movements on these investments is provided below. Cash includes the cash deposits held against futures contracts.

	31/03/2018 £'000	31/03/2017 £'000
Cash and Cash Equivalents	214,612	78,292
Bonds	603,335	851,900
Total	817,947	930,192

Interest Rate Risk - Sensitivity Analysis

Fluctuations in interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the bonds as at 31 March 2018 of a 100 basis point (1%) change in interest rates. The analysis assumes that all other variables including foreign currency exchange rates remain constant.

The Fund has implemented a strategy to better match or hedge its liabilities with bond assets (called "Liability Driven Investment"). The primary instruments used in this strategy to hedge the liabilities are physical index linked gilts and index-linked gilt repos, whilst other derivative instruments are used to manage the hedge profile.

An increase or decrease of 100 basis points (bps) in interest rates would have increased or decreased the net assets by the amount shown below.

	Change in net assets		
	Value £'000	+100 bps £'000	-100 bps £'000
Cash and Cash Equivalents	214,612	-	-
Bonds	603,335	(128,754)	128,754
Total	817,947	(128,754)	128,754

A 1% rise in interest rates will reduce the fair value of the relevant net assets and vice versa. Changes in interest rates do not impact the value of cash balances but they will affect the interest income received on those balances.

The same analysis for the year ending 31 March 2017 is shown below:

	Change in net assets		
	Value £'000	+100 bps £'000	-100 bps £'000
Cash and Cash Equivalents	78,292	-	-
Bonds	851,900	(132,619)	132,619
Total	930,192	(132,619)	132,619

PENSION FUND ACCOUNTS 2017/18

Currency Risk

Currency risk represents the risk that the fair value of financial instruments when expressed in Sterling will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on investments denominated in a currency other than Sterling. A significant proportion of the Fund's equity portfolio is invested in overseas stocks, overseas property, infrastructure and hedge funds (where the shares are denominated in US dollars). When sterling depreciates the sterling value of foreign currency denominated investments will rise and when sterling appreciates the sterling value for foreign denominated investments will fall. The Fund has a passive hedging arrangement in place which reduces the volatility of returns over the longer term (the hedging programme hedges the exposure to the US Dollar, Yen and Euro).

Where an investment manager chooses to hedge against foreign currency movements within their portfolio forward foreign exchange contracts are used.

The following tables summarise the Fund's currency exposures within the portfolio. For the global property funds the share class of the pooled funds held has been used.

Currency risk by asset class:

Currency Exposure - Asset Type	Asset value as at 31st March 2018	Asset value as at 31st March 2017
	£'000	£'000
Overseas Equities	1,206,893	1,653,055
Overseas Property	201,320	192,923
Fund of Hedge Funds	210,133	228,228
Infrastructure	283,594	256,003

Currency Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in foreign currency rates has been analysed using the volatility which is broadly consistent with a one-standard deviation movement in the main currencies over the 3 years to 31 March 2018. The analysis reflects the Fund's passive hedging policy of a 50% hedge ratio on the overseas equity assets, and a 100% hedge ratio on the overseas property, infrastructure and hedge fund assets. Therefore there is no currency exposure on the assets that are 100% hedged.

A strengthening / weakening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2018 would have increased / decreased the net assets by the amount shown in the tables below and vice versa:

Currency Risk by Asset Type:

Asset Type	Value £'000	% Change	Value on Increase £'000	Value on Decrease £'000
Overseas Equities	1,206,893	5.05%	1,267,841	1,145,945

The same analysis for the year ending 31 March 2017 is shown below:

Currency Risk by Asset Type:

Asset Type	Value (£) £'000	% Change	Value on Increase £'000	Value on Decrease £'000
Overseas Equities	1,653,055	7.00%	1,768,769	1,537,341

(b) Credit Risk

Credit risk is the risk that the counterparty to a financial instrument or transaction will fail to meet an obligation and cause the Fund to incur a financial loss. In addition, the market values of investments will reflect an assessment of creditworthiness in their pricing and therefore the risk of loss is implicitly provided for in the carrying value of the assets and liabilities.

The entire Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties including brokers, custodian and investment managers minimises credit risk that may occur though the failure to settle transactions in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. Credit risk on exchange-traded derivative contracts is minimised by the various insurance policies held by exchanges to cover defaulting counterparties. Over-the-counter (OTC) derivative contracts are bilateral agreements where the Fund faces the credit risk of the financial counterparty directly. This is the case for forward currency contracts where a line of credit is extended to the Fund in place of a collateral posting agreement (as is the case for exchange-traded contracts). The hierarchy and replacement of an OTC contract on default of one of the counterparties is detailed in the ISDA, which is a market standard legal document governing derivative contracts.

Forward currency contracts are entered into by the Fund's managers, especially the currency hedging manager, Record. These contracts are subject to credit risk in relation to the counterparties of the contracts. The responsibility for managing these contracts and counterparty risk rests with the managers. Counterparty management is evaluated as part of the due diligence process prior to appointing a manager.

The Fund's bond portfolios have significant credit risk through their underlying investments. This risk is managed through diversification across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds incorporate an assessment of credit quality in their valuation which reflects the probability of default (the yield of a bond will include a premium that will compensate for the risk of default).

Another source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion. Internally held cash is managed on the Fund's behalf by the Council's Treasury Management Team in line with the Fund's Treasury Management Policy which sets out the permitted counterparties and limits. Cash held by the Fund and managers is invested with the custodian in diversified money market funds rated AAA.

The cash held under the Treasury Management arrangements and by the custodian as at 31 March 2018 was £69.8m. This was held with the following institutions:

	31st March 2018		31st March 2017	
	Rating	Balance £'000	Rating	Balance £'000
Custodian's Liquidity Fund				
Bank of New York Mellon	AAA	-	AAA	7,495
State Street Global Services	AAA	61,427		-
Bank Call Accounts				
Handelsbanken	AA	10	AA	5,200
Bank of Scotland Corporate Deposit Account	A+	90	A+	3,210
Goldman Sachs Global Treasury Fund	AAA	20	AAA	2,720
Standard Life	AAA	7,570		-
Federated Investors	AAA	680		-
NatWest Special Interest Bearing Account	BBB+	-	BBB+	910
Bank Current Account				
NatWest	BBB+	15	BBB+	10

A securities lending programme is managed by the Fund's custodian State Street Bank and Trust who manage and monitor the counterparty risk, collateral risk and the overall lending programme. Through its securities lending activities, the Fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending upon the type of transaction. This level is assessed daily to ensure it takes account of market movements. The current collateral the Avon Pension Fund accepts is AAA rated supranational debt, AA rated sovereign debt and FTSE Equity DBV. Cash collateral is not permitted.

(c) Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's investment strategy and cash management policy ensure that the pension fund has adequate cash to meet its working requirements including pension payments. Cash flow forecasts are prepared to manage the timing of and changes to the Fund's cash flows. The Fund has access to an overdraft facility for short term cash needs which was not drawn on during the year.

The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. These are classed as liquid assets as they can be converted to cash within 3 months. The main liabilities of the Fund are the benefits payable as they fall due over a long period and the investment strategy reflects the long term nature of these liabilities. As a result the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property, infrastructure and fund of hedge funds which are subject to longer redemption periods and cannot be considered as liquid as the other investments. As at 31 March 2018 the value of the illiquid assets was £905m, or 19.6% of the total Fund assets (31 March 2017: £1,102m which represented 25.3% of the total Fund assets).

PENSION FUND ACCOUNTS 2017/18

24 FAIR VALUE HIERARCHY

Fair value is the value at which the investments could be realised within a reasonable timeframe. The Fund measures fair values using the following fair value hierarchy that reflects the subjectivity of the inputs used in making an assessment of fair value. This hierarchy is not a measure of investment risk but a reflection of the ability to value the investments at fair value. The hierarchy has the following levels:

- Level 1 – Asset and liabilities where the fair value is derived from unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – Assets and liabilities where quoted market prices are not available but uses inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. For example where an instrument is traded in a market that is not considered to be active, or where valuation techniques based significantly on observable market data are used to determine fair value.
- Level 3 – assets and liabilities where at least one unobservable input used to measure fair value could have a significant effect on the valuation and the Fund's holding in these pooled funds is not immediately realisable at the net asset value.

Fair Value Hierarchy

The basis of the valuation of each class of investment asset is set out below.

Description of Asset	Fair Value Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published closing bid price ruling at year end.	Not required.	Not required.
Exchange traded futures and forward currency contracts	Level 1	Published exchange prices at the year end.	Not required.	Not required.
Pooled equity, credit, bond funds	Level 2	Closing bid price where bid and offer prices are published; closing single price where single price published.	NAV based pricing set on a forward looking basis.	Not required.
Diversified Growth Funds and Multi Asset Funds	Level 2	Closing bid price where bid and offer prices are published; closing single price where single price published.	NAV based pricing set on a forward looking basis.	Not required.
Pooled property funds	Level 2	Closing bid price where bid and offer prices are published; closing single price where single price published.	NAV based pricing set on a forward looking basis.	Not required.
Over the counter Equity Index Options	Level 2	Valued using formula reflecting quoted market and index prices	Inputs to the formula are market prices of quoted securities and derivatives; time value of the contract.	Not required.
Hedge Funds	Level 3	Closing bid price where bid and offer prices are published; closing single price where single price published.	NAV based pricing set on a forward looking basis.	Valuations can be affected by material events between the date of the financial accounts provided and the pension fund's own reporting date, by changes to expected cash flows and by any differences between the audited and unaudited accounts.
Limited Partnerships and closed ended funds	Level 3	Valued using a number of different market and income valuation methods as well as comparable market transactions prices.	Market transactions; market outlook; cash flow projections; last financings; multiple projections.	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows and any differences between audited and unaudited accounts.
Infrastructure funds	Level 3	Infrastructure investments are valued at the end of each quarter by independent valuation firms. The valuation method is employed for each asset at the discretion of the appointed independent valuer but must fall within the standards prescribed under AASB 139, US GAAP ASC 820 and ASC 825 (formerly FAS 157 and 159), as appropriate.	Infrastructure investments are typically valued on a discounted cash flow approach, utilising cash flow forecasts. Valuations are cross-checked with public market information and recent transactions.	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows, significant increases and decreases in the discount rate and any differences between audited and unaudited accounts.
Unquoted Equity	Level 3	Brunel Share Capital is valued at book cost	Earnings and revenue multiples; discount for lack of marketability; control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows and any differences between audited and unaudited accounts.

PENSION FUND ACCOUNTS 2017/18

The following sets out the Fund's financial assets and liabilities measured at fair value according to the fair value hierarchy at 31 March 2018.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities - Quoted	1,075,449	725,643	-	1,801,092
Unquoted Equity	-	-	840	840
Bonds - Quoted	-	82,124	-	82,124
Pooled Investments:-				
Liability Driven Investments	-	521,212	-	521,212
Fund of Hedge Funds	-	-	210,133	210,133
Diversified Growth Funds	-	602,103	-	602,103
Multi Asset Credit	-	482,296	-	482,296
Property	-	209,579	201,320	410,899
Infrastructure	-	-	283,595	283,595
Cash	204,037	-	-	204,037
Derivatives: Forward FX	13,840	-	-	13,840
Derivatives: Futures	(598)	-	-	(598)
Investment Debtors/Creditors	(3,266)	-	-	(3,266)
	1,289,462	2,622,957	695,888	4,608,307

The fair value hierarchy as at 31 March 2017 (restated) was:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities - Quoted	750,053	1,437,052	-	2,187,105
Bonds - Quoted	509,172	342,728	-	851,900
Pooled Investments:-				
Fund of Hedge Funds	-	-	228,228	228,228
Diversified Growth Funds	-	375,391	-	375,391
Property	-	187,986	192,923	380,909
Infrastructure	-	-	256,003	256,003
Cash	67,712	-	-	67,712
Derivatives: Forward FX	5,075	-	-	5,075
Derivatives: Futures	(53)	-	-	(53)
Investment Debtors/Creditors	5,505	-	-	5,505
	1,337,464	2,343,157	677,154	4,357,775

There has been one re-classification of assets between levels of the hierarchy between 31 March 2017 and 31 March 2018 with the transfer of the open ended pooled property funds from level 3 to level 2 following a review of the inputs to valuation techniques used to measure the fair value. Closed-end property funds remain at Level 3. The fair value hierarchy as at 31 March 2017 has been restated with £187.9m property being moved from level 3 to level 2.

Level 1 and level 2 assets were sold to fund the investment in Multi Asset Credit and the increase in the allocation to Diversified Growth Funds.

Reconciliation of Fair Value measurements within Level 3

Level 3	Market Value 01 April 2017 £'000	Transfer into Level 2 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Unrealised gains / losses £'000	Realised gains / losses £'000	Market value 31 March 2018 £'000
Fund of Hedge Funds	228,228	-	-	-	(18,095)	-	210,133
Property	192,923	-	-	-	8,397	-	201,320
Infrastructure	256,003	-	-	-	27,592	-	283,595
Unquoted Equity	-	-	840	-	-	-	840
	677,154	-	840	-	17,894	-	695,888

PENSION FUND ACCOUNTS 2017/18

Sensitivity of assets valued at Level 3

Having consulted its investment advisor, and having analysed historical data and market trends, the Fund has determined that the valuation methods used for Level 3 assets are likely to be accurate to within the following ranges on the closing value of the investments held at 31 March 2018:

	Assessed valuation range +/-	Value at 31 March 2018 £'000	Value on increase £'000	Value on decrease £'000
Property	10%	201,321	221,452	181,188
Fund of Hedge Funds	10%	210,133	231,147	189,120
Infrastructure	15%	283,594	326,133	241,055
Unquoted Equity	15%	840	966	714
Total		695,888	779,698	612,077

The same analysis for 31 March 2017 (restated):

	Assessed valuation range +/-	Value at 31 March 2017 £'000	Value on increase £'000	Value on decrease £'000
Property	10%	192,923	212,213	173,631
Fund of Hedge Funds	10%	228,228	251,051	205,405
Infrastructure	15%	256,003	294,403	217,603
Total		677,154	757,667	596,639

25 EMPLOYING BODIES

As at 31 March 2018 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Principal Councils and Service Providers

Avon Fire and Rescue Service	North Somerset Council
Bath & North East Somerset Council	South Gloucestershire Council
Bristol City Council	West of England Combined Authority

Further & Higher Education Establishments

Bath Spa University	St. Brendan's Sixth Form College
Bath College	University of the West of England
City of Bristol College	Weston College
South Gloucestershire & Stroud College	

Education Establishments

Abbeywood Community School	Fairlawn Primary School
Abbot Alphege Academy	Farnborough Primary School
Ashcombe Primary School	Farrington Gurney C of E Primary School
Aspire Academy	Filton Avenue Primary School
Backwell C of E Junior School	Filton Hill Primary School
Backwell School	Fishponds C of E Academy
Bannerman Road Community Academy	Fosse Way School
Barton Hill Academy	Four Acres Academy
Bath Community Academy	Frome Vale Academy
Bathampton Primary School	Gordano School
Batheaston Church School	Greenfield E-ACT Primary Academy
Bathwick St Mary Church School	Hanham Woods Academy
Becket Primary School	Hans Price Academy
Bedminster Down School	Hareclive E-ACT Academy
Beechen Cliff School	Hayesfield Girls School
Begbrook Primary Academy	Haywood Village Academy
Birdwell Primary School	Headley Park Primary School
Bournville Primary Academy	Henbury Court Primary Academy
Bradley Stoke Community School	Henbury School
Bridge Learning Campus	Henleaze Junior School
Bristol Cathedral School Trust	Heron's Moor Academy
Bristol Free School	High Down Infant School
Bristol Futures Academy	High Down Junior School
Bristol Technology & Engineering Academy	High Littleton C of E Primary School
Broadlands Academy	Hotwells Primary School
Broadoak Mathematics & Computing College	Hutton C of E Primary School
Cabot Learning Federation	IKB Academy
Callicroft Primary School	Ilminster Avenue E-ACT Academy
Chandag Infant School	Inspirational Futures Trust
Chandag Junior School	Kings Oak Academy
Charborough Road Primary School	Kingshill Church School
Charfield Primary School	Knowle DGE Academy
Chew Stoke Church School	Lansdown Park Academy
Chew Valley School	Little Mead Primary Academy
Christ Church C of E Primary School (Bristol)	Locking Primary School
Christ Church C of E Primary School (WSM)	Longvernal Primary School
Churchill Academy	Lyde Green Primary School
City Academy	Mangotsfield School
Clevedon School	Marksbury C of E Primary School
Clutton Primary School	Marlwood School
Colston's Girls' School	Mary Elton Primary School
Colston's Primary School	Mead Vale Community Primary School
Combe Down C of E Primary School	Meadowbrook Primary School
Cotham School	Merchants' Academy
Court de Wyck Church School	Midsomer Norton Primary School
Crockerne C of E Primary School	Midsomer Norton Schools Partnership
Digitech Studio School	Milton Park Primary School
Diocese of Bristol Academy Trust	Minerva Primary Academy
Downend School	Moorlands Infant School
Dundry C of E Primary School	Moorlands Junior School
Easton C of E Academy	Nailsea School
Elmlea Junior School	North Somerset Enterprise & Technology College
Endeavour Academy Trust	Northleaze C of E Primary School
Fairfield High School	Notton House Academy

PENSION FUND ACCOUNTS 2017/18

Oasis Academy Bank Leaze
Oasis Academy Brightstowe
Oasis Academy Brislington
Oasis Academy Connaught
Oasis Academy John Williams
Oasis Academy Long Cross
Oasis Academy Marksbury Road
Oasis Academy New Oak
Oldfield Park Infant School
Oldfield Park Junior School
Oldfield School
Oldmixon Primary School
Olympus Academy Trust
Orchard School Bristol
Parson Street Primary School
Patchway Community School
Peasedown St John Primary School
Perry Court E-ACT Academy
Portishead Primary School
Priory Community School
Ralph Allen School
Redfield Educate Together Primary Academy
Redland Green School
Saltford C of E Primary School
Severn Beach Primary School
Sir Bernard Lovell Academy
Somerdale Educate Together Primary Academy
St Andrew's Church School
St Bede's Catholic College
St Georges Church School
St John the Evangelist Church School
St John's C of E Primary School (MSN)
St John's C of E VC Primary School (Keynsham)
St Katherine's School
St Mark's Ecumenical Anglican/Methodist Primary School
St Martin's Garden Primary School
St Martin's C of E Primary School
St Mary Redcliffe C of E Primary School
St Mary's C of E VA Primary School
St Matthias Academy
St Nicholas Chantry C of E VC Primary School
St Nicholas of Tolentine Catholic Primary School
St Patrick's Catholic Primary School
St Peter's C of E Primary School

St Philip's C of E Primary School
St Saviours Infant Church School
St Saviours Junior Church School
St Stephen's Primary Church School
St Teresa's Catholic Primary School
St Ursula's E-ACT Primary Academy
Steiner Academy Bristol
Stoke Bishop C of E Primary School
Stoke Lodge Primary School
Summerhill Academy
The Bath Studio School
The Castle School
The Dolphin School
The Kingfisher School
The Meadows Primary School
Three Ways School
Tickenham C of E Primary School
Trinity Anglican Methodist Primary School
Trinity Church School
Trust in Learning
Venturers' Academy
Victoria Park Primary School
Walliscote Primary School
Wallscourt Farm Academy
Waycroft Academy
Wellsway School
Welton Primary School
West Leigh Infant School
West Town Lane Academy
Westbury Park Primary School
Westbury-on-Trym C of E Academy
Weston All Saints C of E Primary School
Wicklea Academy
Widcombe C of E Junior School
Widcombe Infant School
Windwhistle Primary School
Winterbourne International Academy
Woodlands Academy
Worle Community School
Worle Village Primary School
Writhlington School
Yate Academy
Yeo Moor Primary School

Designating Bodies

Almondsbury Parish Council
Backwell Parish Council
Bath Tourism Plus Ltd.
Bristol Waste Company
Bradley Stoke Town Council
Charter Trustees of the City of Bath
Clevedon Town Council
Congresbury Parish Council
Destination Bristol
Dodington Parish Council
Downend & Bromley Heath Parish Council
Emersons Green Town Council
Filton Town Council
Frampton Cotterell Parish Council
Hanham Abbots Parish Council
Hanham Parish Council
Keynsham Town Council
Midsomer Norton Town Council
Nailsea Town Council
Oldland Parish Council
Patchway Town Council
Paulton Parish Council
Peasedown St John Parish Council
Pill & Eastern Gordano Parish Council
Portishead Town Council
Radstock Town Council
Saltford Parish Council
Stoke Gifford Parish Council
Thornbury Town Council
Westerleigh Parish Council
Westfield Parish Council
Weston Super Mare Town Council
Whitchurch Parish Council
Winterbourne Parish Council
Yate Town Council
Yatton Parish Council

PENSION FUND ACCOUNTS 2017/18

Community Admission Bodies

Alliance Homes
Ashley House Hostel
Bristol Music Trust
Clifton Suspension Bridge Trust
Disability Equality Forum
The Holburne Museum
Learning Partnership West Limited
Merlin Housing Society Ltd.
Merlin Housing Society Ltd. (New Staff)

Sirona Care & Health CIC
Southwest Grid for Learning Trust
The Care Quality Commission
The Park Community Trust Ltd.
University Of Bath
Vision North Somerset CIO
West of England Sport Trust
Writhlington Trust

Transferees Admitted Bodies

ABM Catering Limited
Action For Children
Active Community Engagement Ltd
Agilisys Ltd
Agilytis Ltd 2015
Alliance in Partnership Ltd - Westbury on Trym C of E Academy
Alliance Living Care Ltd
Aspens Services Ltd - Abbeywood Community School
Aspens Services Ltd - Bannerman Road Community Academy
Aspens Services Ltd - Barrs Court Primary School
Aspens Services Ltd - Beacons Rise Primary School
Aspens Services Ltd - Begbrook Primary Academy
Aspens Services Ltd - Blackhorse Primary School
Aspens Services Ltd - Bradley Stoke Community School
Aspens Services Ltd - Castle School
Aspens Services Ltd - Charborough Primary School
Aspens Services Ltd - Charfield School
Aspens Services Ltd - Cherry Garden Primary School

Aspens Services Ltd - Christchurch Hanham C of E Primary School
Aspens Services Ltd - Culverhill School
Aspens Services Ltd - Downend School
Aspens Services Ltd - Elmlea Academy
Aspens Services Ltd - Frampton Cottrell School
Aspens Services Ltd - Frome Vale Academy
Aspens Services Ltd - Hanham Abbots Junior School
Aspens Services Ltd - Hanham Woods Academy
Aspens Services Ltd - Kings' Forest Primary School
Aspens Services Ltd - King's Oak Academy
Aspens Services Ltd - Longwell Green Primary School
Aspens Services Ltd - Mangotsfield School
Aspens Services Ltd - Marlwood School
Aspens Services Ltd - Meadowbrook Primary School
Aspens Services Ltd - Minerva Academy
Aspens Services Ltd - New Horizons Learning Centre
Aspens Services Ltd - Patchway Community College
Aspens Services Ltd - Redland Green Academy
Aspens Services Ltd - Shirehampton Primary School
Aspens Services Ltd - St Barnabus C of E Primary School
Aspens Services Ltd - Staple Hill Primary School
Aspens Services Ltd - Stoke Lodge and Callicroft
Aspens Services Ltd - Summerhill Academy
Aspens Services Ltd - The Tynings School
Aspens Services Ltd - Warmley Park Primary School
Ategi Ltd
BAM Construct UK Ltd

Bespoke Cleaning Services Ltd - Charborough Road Primary School
Bespoke Cleaning Services Ltd - Filton Hill Primary School
Bespoke Cleaning Services Ltd - Stoke Lodge Primary School
Brunelcare CIC
Churchill Contract Services Ltd - Golden Valley Primary School
Churchill Contract Services Ltd - South Gloucestershire & Stroud College
Churchill Contract Services - Westhaven School

Circadian Trust
Compass Contract Services (UK) Ltd - Ashton Park School
Compass Contract Services (UK) Ltd - Bristol Cathedral Choir School
Compass Contract Services (UK) - Bristol City Council
Compass Contract Services (UK) Ltd - Cathedral Schools Trust
Compass Contract Services (UK) Ltd - Compass Point South Street
Compass Contract Services (UK) Ltd - Diocese of Bristol Academies Trust
Compass Contract Services (UK) Ltd - Luckwell Primary School
Compass Contract Services (UK) Ltd - Nova Primary School
Compass Contract Services (UK) Ltd - Sea Mills Primary School
Compass Contract Services (UK) Ltd - South Gloucestershire and Stroud College
Compass Contract Services (UK) Ltd - St Bede's Academy
Compass Contract Services (UK) Ltd - St Bernards Catholic Primary School
Compass Contract Services (UK) Ltd - St Patrick's Catholic Primary School
Compass Contract Services (UK) Ltd - St Teresa's Catholic Primary School
Compass Contract Services (UK) Ltd - Westbury Park Primary School
Creative Youth Network (East) - Hillfields Youth Centre
Dolce Ltd - Filton Hill Primary School

Dolce Ltd - Mangotsfield School
Direct Cleaning Services (South West) Ltd (Newbridge Primary School)
Edwards and Ward Ltd (Chew Stoke Primary Academy)
Edwards and Ward Ltd (Henleaze Academy)
Eurotaxi Ltd
Fit For Sport - St Peter's CofE Primary School
Future Cleaning Services Ltd - Ashton Park School
Glen Cleaning Company Ltd
Glen Cleaning Company Ltd (Begbrook Academy)
Greenwich Leisure Ltd - Bath & North East Somerset Council
Greenwich Leisure Ltd - North Somerset Council
Interserve Catering Services Ltd - St Helens CofE Primary School
ISS Mediclean Ltd - Bristol City Council
ISS Mediclean Ltd - Cabot Learning Federation
KGB Cleaning (South West) Ltd - Backwell Academy
Learning Partnership West (Lot 1) - Brentry Youth Centre
Learning Partnership West (Lot 3) - The Mill
Learning Partnership West (Lot 7) - Hareclive Youth Centre
Lex Leisure C.I.C.
Liberata UK Ltd
Notaro Homecare Ltd
Prestige Cleaning & Maintenance Ltd
Relyon Cleaning Services - Colston's Primary Academy
Ridge Crest Cleaning Ltd - Bristol City Council
Ridge Crest Cleaning Ltd - Sir Bernard Lovell School
Shaw Healthcare - The Granary
SITA Holdings UK Ltd

Skanska Rashleigh Weatherfoil Ltd
SLM Community Leisure Trust
SLM Fitness & Health Ltd
Sodexo Ltd
Taylor Shaw Ltd

The Brandon Trust
Virgin Care Services Ltd

ANNUAL GOVERNANCE STATEMENT 2017/18

1. SCOPE OF RESPONSIBILITY

Bath & North East Somerset Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its services are delivered in terms of economy, efficiency and effectiveness in order to demonstrate 'Best Value'.

In meeting its responsibilities, the Council must ensure that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk. The Council's system of internal control is designed to manage risk to a reasonable level rather than eliminate the risk of failure to achieve organisational objectives. Therefore the Annual Governance Statement only provides reasonable assurance around effectiveness.

The Council has adopted a Local Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'. A copy of the Code is accessible through the Council's website at www.bathnes.gov.uk.

This Statement explains how the Council has complied with the Code and also meets the requirements of regulation 6 of the Accounts and Audit Regulations 2015 in relation to the publication of an Annual Governance Statement.

2. DELIVERING GOOD GOVERNANCE - THE PURPOSE OF A GOVERNANCE FRAMEWORK

Good governance enables Bath & North East Somerset Council to effectively achieve its intended outcomes, whilst acting in the public interest at all times and the following diagram illustrates how good governance is integral to supporting the delivery of our priorities.



The governance framework has been in place at B&NES Council for the year ended 31 March 2018 and up to the date of approval of the Statement of Accounts.

3. THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the Council's governance framework are described below. Further details in relation to each element can be viewed through the Council's website <http://www.bathnes.gov.uk> or can be requested from the Council, e-mail: councilconnect@bathnes.gov.uk

1) Legal & Constitutional Governance

a) Constitution

The Council's Constitution sets out: how the Council legally operates, how formal decisions are made, and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. Some matters addressed in the Constitution are required by the law, while others are a matter for the Council to choose.

Key roles and responsibilities are detailed which align to a scheme of delegation which is put in place to ensure accountability is clear. Full Council has responsibility for setting what is called the Policy and Budget Framework. This is a collection of plans, strategies and policies (including the Council's Budget) which describe how services are to be provided.

The agendas and minutes of all the public meetings of the Council and its Committees are available on the Council's website and all follow a standard process as set out by the Constitution. For example, each agenda for a Council or business meeting contains an item requiring members at the outset of the meeting to declare any relevant interests.

Updates and revisions to the Constitution are normally carried out annually but can be tabled as an agenda item at any Council meeting. During 2017/18, amendments were agreed at the July 2017, November 2017 and May 2018.

b) Council Structure & Leadership

The Council operates under a Leader and Cabinet structure with Cabinet Members responsible for individual portfolios. The cabinet portfolios changed on three occasions during 2017/18 and the current portfolios of responsibilities (recorded below) were agreed by the Leader of the Council on the 11th January 2018.

Leader of the Council
Finance & Efficiency
Adult Care, Health & Wellbeing
Children & Young People
Transformation & Customer Services
Development & Neighbourhoods
Economic & Community Regeneration
Transport & Environment

The Cabinet can only make decisions which are in line with the Council's overall Policy and Budget Framework. If it wishes to make a decision which is contrary to the Policy and Budget Framework, it must be referred to the full Council (65 Councillors) to decide. It should be noted that an electoral review (the first review since 1997) by the Local Government Boundary Commission for England (LGBCE) took place and a planned reduction down to 59 Councillors was reported to Council in May 2017.

The Cabinet collectively make recommendations to the Council about the policy framework and take decisions that ensure services are provided within the framework. Council will decide whether to allocate decision making responsibilities to individual members of the Cabinet. If the Council decides to allocate these powers, it will also determine the scope of those powers and the range of service responsibilities allocated to each Cabinet Member.

For most "key" decisions made by the Cabinet, by Cabinet Members or by Officers, the Council is required to publish in advance information about:

- (a) the matter to be decided;
- (b) who will be making the decision, and
- (c) the date or timescale for the decision and the place where the decision will be made.

Most day to day service decisions are taken by Council Officers. The Council appoints Committees with power to carry out non-executive and other functions (e.g. planning and licensing where there is a statutory requirement for the Council to maintain committees). Non-executive functions are those which the Cabinet does not have the power to carry out.

c) Budget & Resource Setting

The Council is required to set a balanced budget on an annual basis under the Policy & Budget framework. The budget sets out how much money will be spent on services, invested in projects and the level of Council Tax for individual residents. This also includes the tax required by the Police, Fire Authorities and Parishes, although it has no control over the amount set by these bodies.

The budget process follows a set path each year involving proposals from Cabinet, scrutiny by Policy Development and Scrutiny Panels and final approval at Full Council.

d) Code of Corporate Governance

In May 2018 the Council approved a revised Local Code of Corporate Governance. The 'local' Code sets out the framework of delivering good governance, the importance of maintaining a culture of good governance, the Principles of Good Governance and the behaviours and actions that demonstrate good governance.

2) Democratic Governance & Scrutiny

The Council has Committees, Panels and Boards to carry out non-executive and other functions. The Terms of Reference for Committees, Panels and Boards are approved at Full Council and this was last considered at the 10th May 2018 Council Meeting.

a) Policy Development & Scrutiny Panels - B&NES Members

The Panels monitor the activity of the Cabinet and also assist them in developing policy. They can hold public inquiries into some matters of local concern and these can lead to reports and recommendations to the Cabinet and the Council as a whole on its policies, budget and service delivery (including contracts with third parties). The following Policy Development and Scrutiny Panels were in place for the year commencing 1st April 2016:

- * Children & Young People
- * Communities, Transport & Environment
- * Planning, Housing & Economic Development
- * Resources
- * Health & Wellbeing Select Committee (Statutory health scrutiny panel)

b) Partnership Boards

1) **B&NES Health & Wellbeing Board** – The Purpose of the Board is to reduce health inequalities and improve health and wellbeing in Bath and North East Somerset. Membership includes B&NES Councillors (6), and representatives from the Clinical Commissioning Group (2), Healthwatch B&NES (1), Avon & Somerset Police (1), Avon Fire & Rescue (1), Housing Provider (1), Higher & Further Education (3), Health & Social Care Providers (3) & NHS England (1).

2) **Joint Health Scrutiny Committee** – The Purpose is to work across Local Authority Boundaries. Membership will be dependent on the review being undertaken. This Committee has not convened to date.

West of England Combined Authority (WECA)

3) **Joint Committee** – B&NES Council represented by the Leader of the Council

4) **WECA Overview & Scrutiny Committee** – functions primarily relate to scrutinising the work of the WECA and making appropriate recommendations as to the discharge of its function. Appointments are made on an annual basis and B&NES Council have two Councillors, Bristol City Council six and South Gloucestershire three.

5) **WECA Audit Committee** – This Committee will have a membership of twelve, eleven Councillors from the three Councils (in the same proportion as the Overview & Scrutiny Committee) and an independent lay member.

In addition to the above, a Parishes Liaison Meeting takes place normally three meetings per year. Parish and Town Councils are each entitled to send their nominated representative and Clerk to the meetings. The Local Councils Association for the Council's area will be entitled to send representation to the meetings in their own right. The Liaison meeting is usually chaired by the Chair of Council and, depending on the agenda items, Cabinet Members may attend to represent their portfolio.

c) Regulatory

Standards Committee - The purpose of this committee is to promote and maintain high standards of ethical conduct by councillors, co-opted members and church and parent representatives on school governing bodies including the review of codes of conduct and any formal complaints on the conduct of individual members.

Corporate Audit Committee - The purpose of the Committee is to oversee all aspects of the Council's Corporate and Financial governance arrangements, including delegated authority to approve the Council's Annual Accounts; oversee the delivery of Audit plans (External and Internal); and, to consider the implementation of actions recommended (External and Internal).

Development Management Committee - The Committee will act in accordance with the Local Plan and Local Development Framework elements of the Council's Policy Framework.

Employment Committee - To exercise all powers and duties of the Council under section 112 of the Local Government Act, 1972 relating to its role as an employer, except those reserved to the Restructuring Implementation Committee.

Restructuring Implementation Committee - To determine all necessary arrangements for implementing a senior management structure, including deciding on numbers of 1st and 2nd Tier officers and the span of work responsibility allocations for those officers.

Licensing Committee - The purpose is to discharge the local authority's licensing functions.

Regulatory Access Committee - The Committee is granted delegated authority to exercise all the Council's powers and duties in respect of:
(1) Modification Orders, Reclassification Orders and Public Path Orders where the matters are contentious.
(2) Commons Registration (including Town and Village Greens).

Charitable Trust Board – The purpose of the Charitable Trust Board is to facilitate the management of the Charitable Trust for which the Council is the sole trustee; independently, in accordance with their governing documents and in the best interests of the charity. There are Trusts where the Council is the sole trustee (Alice Park & Free Field – Rainbow Woods) or where the Council is responsible (e.g. Weston Recreation Ground).

Alice Park Trust Sub Committee – Linked to the Charitable Trust Board this sub-committee is to discharge the Council's functions in accordance with Trust's objectives and the duties it owes pursuant to the Charities legislation. It reports to the Board annually.

Pension Fund – Council is the Administering Body for the Avon Pension Fund and administer the following: 1) Avon Pension Fund Committee, 2) Avon Pension Fund Investment Panel and 3) Avon Pension Fund Board. During the year the Council, along with each of the three key pension bodies reviewed arrangements related to 'Project Brunel' and the creation of a new company for all Pension Fund related investments.

Education School Appeal Panels - To hear and to determine appeals under the School Standards and Framework Act 1998, School Admissions (Appeal Arrangements) (England) regulations 2012, School Admissions Code 2012, Education Act 2002 as amended by Education Act 2011, School Discipline (Pupil Exclusions and Reviews) (England) Regulations 2012 and Education and Inspections Act 2006 relating to school admission, exclusion and reinstatement matters as applicable, within the general framework contained in the Code of Practice on Procedure produced by the local authority associations.

ANNUAL GOVERNANCE STATEMENT 2017/18

3) Organisational Governance

a) Management Structure

A management structure is in place to operate the Council's services through the Policy and Budget Framework.

The organisation for the period commencing 1st April 2017 was led by a Chief Executive and three Strategic Directors with each Director having their own management structure to deliver their functions.

An organisational re-structure is on-going with a 'Senior Management and Wider Service Restructure 2018-2020' Exempt report presented to full Council on 22nd March 2018.

b) Head of Paid Service

The Chief Executive is designated as Head of Paid Service and has overall corporate management and operational responsibility (including overall management responsibility for and authority over all officers). She / he provides professional advice to all parties in the decision making process; and, together with the Monitoring Officer, is responsible for the system of record keeping for all Council's decisions. She / he represents the Council on partnership and external bodies as required by statute or by the Council.

c) Monitoring Officer

The Head of Legal and Democratic Services is designated as the Council's Monitoring Officer in accordance with section 5 of the Local Government and Housing Act 1989 (as amended by Schedule 5 paragraph 24 of the Local Government Act 2000). The Monitoring Officer has responsibility for ensuring compliance with established policies, procedures, laws and regulations, and reporting any actual or potential breaches of the law or maladministration to the full Council and/or to the Cabinet. The Monitoring Officer has the specific duty to ensure that the Council, its officers, and its Elected Councillors, maintain the highest standards of conduct in all they do. This includes the maintenance and monitoring of registers of interests, gifts and hospitality. Any breaches of ethical standards and laws will be reported to the relevant authorities including the Police and external regulators.

d) S151 Officer

The Divisional Director Business Support was designated as Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972 up to 13th July 2017. The S151 role was held by the Strategic Director of Resources from 13th July to 10th May 2018 when Council agreed to transfer the role to the Director of Finance.

The S151 Officer has responsibility for establishing sound financial management within the Council and ensuring adherence to the Council's own financial standards and rules including the Budget Management Scheme, Financial Regulations and Contract Standing Orders. Contract Standing Orders helps to ensure Officers consider legislation linked to procurement of services and goods from external providers such as the Bribery Act 2010 and Modern Slavery Act 2015.

The Council has put in place an Operational Plan to support the aims of the Corporate Plan and a system of regular in-year reporting of its financial position and performance.

As part of the review process it was confirmed that the Council's financial management arrangements conform to the requirements set out in the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015).

e) Internal Audit

Internal Audit is delivered by a partnership service – Audit West – hosted by Bath & North East Somerset which operates to the Public Sector Internal Audit Standards.

Audit West operates completely independently in delivering its services and the Head of Audit West has direct access to the Chief Executive as necessary. An Internal Audit function Quality Assurance and Improvement Programme is in place and this has been subject to both internal and external review during 2017/18.

The Head of Audit West reported to the Corporate Audit Committee on the 24th April 2018 and stated that based on the Internal Audit work during 2017/18 it was his opinion that the Council's internal control framework and systems to manage risk are reasonable. The April 2018 report also reported on the delivery of the 2017/18 Internal Audit Plan and other work carried out by the service.

f) Strategic Procurement

The role and responsibilities of the Strategic Procurement team includes: establishing and implementing the Council's Procurement Strategy; ensuring that the Council complies with related rules and regulations; managing the Council's E-Procurement systems; and, providing technical support to all Council services. Through the support and assistance it provides assurance to the Council and Statutory Officers on managing the risks

g) Counter Fraud & Corruption Arrangements

The Council has an Anti-Fraud and Corruption Policy that demonstrates its commitment to tackling fraud and corruption whether within or external to the Council. It details:

- * The key principles of the policy;
- * The roles and responsibilities of Members and Officers;
- * Investigation procedures to be followed in a suspected case of fraud.

The Council's Whistleblowing Policy is a component of the Anti-Fraud & Corruption Policy.

ANNUAL GOVERNANCE STATEMENT 2017/18

4) Planning & Policy Framework

a) Corporate Strategy

The Corporate Strategy 2016 – 2020 represents the Council's vision and priorities for its administration.

The 2020 Vision is:

'Bath and North East Somerset will be internationally renowned as a beautifully inventive and entrepreneurial 21st century place with a strong social purpose and a spirit of wellbeing, where everyone is invited to think big – a 'connected' area ready to create an extraordinary legacy for future generations.'

To deliver this Vision the Council will focus on four priorities:

- * A strong economy and growth.
- * A focus on prevention.
- * A new relationship with customers and communities.
- * An efficient business.

b) Operational Plan 2018/19

The Operational Plan is an important part of the Council's strategic planning and budget framework and it replaced the three Directorate Plans produced in previous years. It sets out the key activities and projects that the Council plans to deliver. The Plan was developed on behalf of the Cabinet to inform the 2018/19 budget setting process and it was considered by Policy Development and Scrutiny Panels in January / February 2018.

5) Performance Management Framework

a) Performance Management

A system of performance management is in place in the authority to monitor and manage performance from a Corporate to Service to an individual perspective. It is designed to help tell the story about delivery of the Council's Corporate Strategy and our Cabinet's manifesto priorities.

This is formally reported to the Council's Senior Management Team, whilst Cabinet Members receive updates on remedial actions linked to any areas previously reported as requiring improvement. The Council will continue to review its performance management process based on the on-going restructuring.

In addition to monitoring its own performance the Council receives and responds to external assessments / reports including peer reviews, past examples include Customer Service Excellence accreditation and the 2016 Highways Project review.

b) Financial Management

The Council has in place a detailed framework of financial and budgetary management as a result of its responsibilities under the Policy and Budget framework.

As well as preparation and approval of the Budget it has a number of other key elements –

- * Creation and adoption of Financial Regulations and a Budget Management Scheme;
- * Monthly financial dashboards which provide a detailed analysis of each individual service's financial performance; which
 1. identify the latest position, current issues or potential risks to meeting service budgets as well as a forecast to the end of the financial year;
 2. provide a view of revenue and capital budgets with individual commentaries on major projects or initiatives using a RAG status;
- * The Accounts themselves are based on the financial ledger used by the Council's Agresso Financial Management System;
- * This system is managed and monitored by the Council's Finance Service and has sufficient controls to manage the risk of fraud and corruption, for example –
 - a) authorisation limits for individual officers;
 - b) controlled access to the system;
 - c) reconciliation processes to balance control accounts
- * The Council's Finance Service contains appropriate skilled and experienced staff to manage the production of the accounts as well as providing support for staff in Services to use the financial ledger appropriately.

c) Risk Management

The Council's Risk Management Strategy is reviewed on an ongoing basis and sets out the framework to manage risk in terms of –

- * Objectives
- * Processes
- * Systems
- * Reporting

Significant corporate risks are monitored by senior management and service related risks are being actively managed by operational staff and managers to effectively and efficiently deliver services. Strategic and Divisional Directors review Service risk management processes periodically e.g. the maintenance of Service or Project risk registers.

An example of risk management and the development of a control framework related to managing data and the safe collection, storage, use and sharing of personal data, e.g. data sharing agreements in place with partners and organisations with whom the Council is contracted. Significant work has been required in 2017/18 and 2018/19 related to the Data Protection Act 2018 (GDPR). The Council's response to the 2018 regulations have been scrutinised by the Council's Senior Management Team, the Council's Monitoring Officer and Internal Audit.

Internal Audit provides an overview of the risk management framework and will carry out a review of the Council's risk management strategy in 2018/19.

The Corporate Audit Committee monitors Council risk management arrangements.

d) Training & Development

Every officer is entitled to an annual appraisal where their performance is reviewed and development needs identified. For managers the appraisal process includes an evaluation against the council's leadership standards.

The appraisal is accompanied by a training and development plan. A range of mechanisms are in place to meet officer's individual training and development needs including a suite of e-learning activities as well as face to face learning.

The Council puts on a programme of training and development for Members which is accessible at any time whilst newly elected Members receive more intensive support.

6) Partnership Governance

a) Public Services Board

The Public Services Board brings together senior representatives from local public service agencies and other key partners. It is responsible for maintaining an overview of all of our partnership arrangements as well as setting a high level strategic vision for the area.

b) Health & Social Care Services

As stated above the Council works with partners on the Health & Wellbeing Board. It's responsible for preparing a Joint Health and Wellbeing Strategy and reviewing and reporting on health and social care commissioning. One of the key partners which is represented on the Board is the local Clinical Commissioning Group which is made up of individuals elected by 26 practices in Bath and North East Somerset.

The Health & Wellbeing Board adopted a Joint Health & Wellbeing Strategy on the 25th March 2015 with three themes linked to eleven priorities. The themes are:

- 1) Preventing ill health by helping people to stay healthy,
- 2) Improving the quality of people's lives,
- 3) Tackling health inequality by creating fairer life chances.

c) Economic Regeneration - West of England Local Enterprise Partnership & West of England Combined Authority

Functions carried out by B&NES Council as the Accountable Body for the Local Enterprise Partnership (LEP) were transferred to the West of England Combined Mayoral Authority (WECA) on 1st February 2017.

WECA represents Bath and North East Somerset Council, Bristol City Council and South Gloucestershire Council and a WECA Mayor was elected on the 4th May 2017.

The Committees of WECA and B&NES representation is recorded in Section 2 above.

7) Stakeholder Governance - Feedback & Review

a) Corporate Feedback/Complaints

The Council has a Customer Feedback Policy (June 2017) and Procedure which describes how the Council expects to manage and respond to customer feedback, whether suggestions, compliments, or complaints. The main purpose of the customer feedback policy is to enable any matters raised by customers to be received and resolved quickly at the initial point of contact.

For complaints specifically, the Council has adopted a two stage approach to ensure that if the complainant is dissatisfied with the outcome of Stage 1 they can request a Stage 2 review. This review is carried out internally by officers independent of the service area to which the complaint was received. If the complainant is still dissatisfied they can request that their complaint is examined by the Local Government Ombudsman.

b) Stakeholder Communication

The Council has an established Communications Strategy to engage with citizens and the Community which includes consultation exercises with stakeholders, through either one off consultations on specific subjects, or through the Voicebox satisfaction survey. The main methods of stakeholder communication used are:

- * **'Your Local Council Spending & Council Tax Guide'** including an A-Z of Council Services is sent to all Bath & North East Somerset Council households. As well as providing statutory information relating to the Council Tax and budget setting process it provides full detail of the Council's Vision & Priorities and a review of progress.
- * **The Council Website**, which is updated daily, and provides information about the Council & online access to services;
- * **The 'e-connect' newsletter**, which is sent weekly via email to all subscribers providing detailed news stories;
- * **'Connect Magazine'** is produced quarterly and sent to all households within Bath & North East Somerset.
- * **Council use of Social Media** – In addition to the Facebook & Twitter Accounts to provide instant access to on-going events and incidents, the Council also uses You Tube, Instagram, Linked-In, Google+, Pinterest and Flickr.

c) External Audit / Inspectorates

The Council maintains an objective and professional relationship with external auditors and statutory inspectors to seek assurance that the Council is providing efficient, effective and economic services and are proactive in securing continuous improvement in the way its functions are exercised, e.g. the implementation of agreed actions responding to reported issues / weaknesses.

ANNUAL GOVERNANCE STATEMENT 2017/18

4. REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting an annual review of the effectiveness of its governance framework including the system of internal control. In accordance with best practice, the Council has adopted a methodology (Process & Assurance Framework) to formally review the governance framework for the purposes of this Statement. The components are as follows:

Management Assurance -

- * A review of compliance with the adopted Local Code of Corporate Governance.
- * A review of the implementation of the Risk Management Strategy
- * A review of Internal Audit Report findings and recommendations.
- * A review of fraud and special investigations completed during the year by Internal Audit.
- * Meetings with 'Key' Corporate Officers to specific areas including: Performance; Finance; Legal; Information Governance; Human Resources; Health & Safety; Corporate Complaints and Internal Audit. The objective of these meetings was to identify issues for further discussion with Divisional Directors.

Statutory Officer Assurance

- * Meeting with the Council's Statutory Officers (Head of Paid Service, Monitoring Officer and Chief Financial Officer) to discuss their roles and responsibilities and issues identified during the year.

Service Assurance -

- * Meetings with Divisional Directors to capture their input using a standard Service Assurance framework.
- * The Service Governance Framework consisted of the following components: Governance, Service Planning, Financial Management, Risk Management, Information Governance, Internal Control, Procurement, Project Management, Partnerships, Human Resource Management; Health & Safety, Corporate Equality; Environmental Sustainability & Climate Change and Public Interest.

Performance Management -

- * A review of performance management reporting
- * A review of financial management reporting

External Review Assurance -

- * An examination of external inspection reports.
- * An examination of external audit reports
- * A review of complaints considered by the Local Government Ombudsman.

Other Sources -

- * An examination of the work of the Corporate Audit Committee.
- * An examination of Standards Committee and Policy Development & Scrutiny Panels minutes.
- * A review of the adequacy of the complaints procedure including monitoring and reporting outcomes.
- * A review of Strategic Director / Senior Management Team meeting reports / minutes.

5. PRODUCTION OF THE ANNUAL GOVERNANCE STATEMENT

The publication of the Annual Governance Statement represents the end result of the review of the effectiveness of the governance framework. Corporate involvement in the production of the Statement included:

- * **Strategic & Divisional Directors** – Divisional Directors were interviewed as part of the review process to assist obtaining corporate involvement.
- * **Statutory Officers** – The S151 Officer and Monitoring Officer were consulted on the review process and their roles and responsibilities and the Head of Paid Service consulted on the outcome of the review.
- * **Corporate Audit Committee** – A report was presented to the Committee on 8th February 2018 to update them on the process of the review.
- * **Leader of the Council & Chief Executive** – The Annual Governance Statement 2017/18 is signed by the Leader of the Council and the Chief Executive.

ANNUAL GOVERNANCE STATEMENT 2017/18

6. SIGNIFICANT GOVERNANCE ISSUES 2016/17

Summary of Significant Issue for 2016/17	Commentary & Mitigating actions for 2017/18	Update Position through 2017/18
<p>Financial Challenge</p> <p>As detailed last year the significant issue identified around the financial challenge continues to be ever more severe.</p> <p>The Council has responded positively with over £42M of savings already delivered, however at least £30M of additional savings still need to be identified over the remaining period.</p> <p>The Council's financial sustainability is being challenged and its outturn position for 2016/17 resulted in a £2.2M overspend with again the major challenges and spend pressures being in Adult Social Care and Children's Services.</p> <p>Whilst again no significant governance failures have occurred, the Council acknowledge that the level of grant reductions from central government are a significant issue.</p> <p>Nationally the pressures in Social Care have started to be recognised and some temporary funding has been provided for future years. However this does not close the gap and increased health and social care integration and transformation continues to be necessary.</p> <p>This puts additional strain on being able to meet the challenge and entails making difficult choices. We therefore need robust governance and sensible plans to enable services to deliver against these challenges.</p>	<p>As with last year the Council has already set out many of its plans to deliver services into the future against the backdrop of these significant financial reductions. Actions will again include –</p> <ul style="list-style-type: none"> - Using the Corporate Plan to help focus services on doing the right things for the Community; - Using the Medium Term Financial Plan to enable sensible prioritisation of resources in the right areas and transparency on savings to be achieved; - More regular monitoring of delivery against the annual revenue budget, alongside sensible utilisation and management of its reserves; - Working effectively with Key Partners, especially those in the West of England and in Health to support the most vulnerable in the community; - Adopting a range of innovative tools such as the use of council owned companies, commercialisation, increases in digital provision, asset rationalisation, shared services and invest to save initiatives; - Reviewing the Capital Programme to reduce risk and improve management capacity and a number of specific actions in relation to Adult Care to re-assess demand management and contract management; - Instituting a range of new stringent cost control mechanisms on staff costs, goods, works & services; 	<p>As previously advised, the council's financial performance is reviewed, assessed and challenged by the senior management team on a monthly basis.</p> <p>Early in 2017/18 an over budget position of £5.1m was predicted and as a result of this the following actions were put in place:-</p> <ul style="list-style-type: none"> • Reviewing all vacancies to hold or remove; • Introducing a three month turnover saving before a vacancy can be filled; • Buying leave option for staff; • Bringing forward planned savings; • Regular updates to the Transformation Group; • Reviewing all income streams; • Reviewing all spend above £10k. <p>In addition specific measures within Social Care:-</p> <ul style="list-style-type: none"> • Additional capacity for project management, transformation, and contract management; • Improvements to IT in processing and reporting; • Approval panels set up for care packages; • Support planning and brokerage of placements. <p>These actions resulted in a reduced over budget position including carry forwards of £1.3m.</p> <p>The key areas of overspend were Adult Social Care £1.1m (after use of reserves of £1.4m) and Children's Services £1.5m. Both of these budget areas have been rebased for 2018/19 with £3.9M added to Adult Social Care and £3.0M added to Children's Services to realign both budgets.</p> <p>One-off mitigations of £2.5m were identified to meet the overspend in 2017/18 – as the year-end position has improved £1.2m can now be added to the Severance Reserve £0.3m and Transformation Reserve £0.9m to support the budget in 2018/19.</p> <p>The overspend in Children's relates to demand driven pressures mainly relating to children's social care placement costs due to a significant increase in expenditure for supporting individual children, in particular, the support for residential placements, support for fostered (including independent fostering) and court directed parent and baby placements, along with direct payments for clients at risk of care and Inter-agency adoption placements.</p> <p>In relation to Adults the overspend relates to continued pressure arising from demographic change, with increasing levels of complexity and acuity of need impacting on the cost of individual packages of care / placements, despite enhanced control measures.</p> <p>Whilst there were many one-off reductions the in-year mitigations will not change the council's strategic approach set out in the corporate plan, which will continue to progress the council onto more sustainable solutions which are aligned with our aims and ambitions.</p>

ANNUAL GOVERNANCE STATEMENT 2017/18

7. SIGNIFICANT GOVERNANCE ISSUES 2017/18

Issue in 2017/18	Commentary & Mitigating actions for 18/19
<p>Financial Challenge</p> <p>As detailed for the last two years the significant issue identified around the financial challenge continues to be severe, with public sector austerity and a range of economic challenges likely to last well beyond 2020.</p> <p>The Council has responded positively with over £55M of savings already delivered, however at least £11.7M of additional savings still need to be identified over the remaining period. Therefore the Council has been actively planning to meet this challenge with new savings initiatives already being worked on for the current and future years.</p> <p>Despite this the Council's financial sustainability is being challenged and its outturn position for 2017/18 in two of its largest service areas resulted in overspends of £1.5M in Children's Services and £1.1M in Adult Services.</p> <p>Whilst again no significant governance failures have occurred, the Council acknowledge that the level of grant reductions from central government are a significant issue and represent the most significant set of challenges it has faced in being able to continue to deliver excellent services to the whole community at all times.</p> <p>Nationally the pressures in Social Care and Children's Services have started to be recognised and some temporary funding has been provided for future years. However this does not close the gap and increased health and social care integration and service transformation continues to be necessary.</p> <p>This puts additional strain on being able to meet the challenge not just in Social Care and Children's Services but across all services and entails making difficult choices. We therefore need robust governance and sensible plans to enable services to deliver against all of these challenges</p>	<p>As with previous years the Council has already set out many of its plans to deliver services into the future against the backdrop of significant financial reductions. One of the key principles of the 2018/19 budget was to provide growth of £6.9M to meet existing and new demands in relation to social care and children's services in order to improve and robustness and sustainability of the budget.</p> <p>The budget also includes £16.9m of savings that will need to be delivered in order to achieve a balanced budget including significant staff reductions. Overseeing delivery against this agenda is a key role for the Cabinet and Senior Management and they will continue to be pro-active in working to ensure that significant risks to the organisation are appropriately mitigated & controlled.</p> <p>The Council has a range of plans and actions in Adults and Children's which include –</p> <ul style="list-style-type: none"> - Utilisation of the Improved Better Care Fund using the Adult Social Care precept along with a co-ordinated change programme for Adult Social Care and Children's Services which includes allocating £3.9M of additional growth in Social Care and £3M for Children's within the medium term financial plan; - Improvements to Children's social care and SEND services to develop additional capacity and redesigning Youth Connect services; - Reviewing care package assessments and the single point of access (SPA) to help reduce demand and enable people to live in their own homes; - Reviewing service provision for high cost learning disability placements, opportunities within Direct Payment provision and in-house Fostering.; - Reviewing Nursery Provision, Children's Centres and preventive services; - Working effectively with Key Partners, especially those in Health, Virgin Care and across the West of England to support the most vulnerable; <p>Continuing the stringent cost control mechanisms on staff costs, goods, works and services at an operational level whilst using the Corporate Plan and Medium Term Financial Plan to help focus services at a strategic level on doing the right things for the Bath & North East Somerset Community.</p>

8. CONCLUSION - DECLARATION & CERTIFICATION

We have been advised on the results of the review of the effectiveness of the governance framework and are satisfied that existing arrangements are adequate and can certify the Annual Governance statement on behalf of the organisation. We will ensure the issues identified are monitored by the Audit Committee and independently reviewed by our Internal Auditor's as part of the process for producing next years' governance statement.

SIGNED BY:



TIM WARREN
LEADER OF THE COUNCIL



ASHLEY AYRE
CHIEF EXECUTIVE

DATE: 30th July 2018

STATEMENT OF RESPONSIBILITIES FOR THE ACCOUNTS

The Council is required to:

- * Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. The Council has made the Director of Finance responsible for financial administration.
- * Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- * Approve the statement of accounts for the year.

Director of Finance responsibilities:

The Director of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

In preparing this Statement of Accounts, the Director of Finance has:

- * Selected suitable accounting policies and then applied them consistently
- * Made judgements which were reasonable and prudent
- * Complied with the local authority Code of Practice

The Director of Finance has also:

- * Kept proper and up to date accounting records.
- * Taken reasonable steps for the prevention and detection of fraud and other irregularities

Statement of the Director of Finance

I hereby certify that this statement of accounts presents a true and fair view of the financial position of the Council at the accounting date and the income and expenditure for the year ended 31 March 2018.

SIGNED:



Director of Finance (s.151 Officer)

DATE: 30th July 2018

Donna Parham

Approval of Accounts

In accordance with the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts was approved by the Audit Committee on 30th July 2018.

SIGNED:



Chair, Corporate Audit Committee

DATE: 30th July 2018

Councillor Brian Simmons

The Statement of Accounts were Authorised for Issue on 30th July 2018.

GLOSSARY OF TERMS

Accounting Policies

Rules and practices adopted by the Council that dictate how transactions and events are shown or costed.

Accruals

Income and expenditure are recognised as they are earned or incurred not as money is received or paid.

Actuary

An independent professional who advises on the position on the Pension Fund.

Actuarial Valuation

The Actuary reviews the assets and liabilities of the pension fund every three years.

Appropriation

The assignment of revenue for a specific purpose.

Balance Sheet

Statement of recorded assets and liabilities and other balances at the end of the accounting period.

Capital Charges

A charge made to service revenue accounts, for depreciation to reflect the cost of fixed assets used in the provision of services.

Capital Expenditure

Expenditure on new fixed assets such as land and buildings or on enhancement of existing assets so as to significantly prolong their useful life or increase their market value.

Capital Receipts

Income received from the disposal of land, buildings and other capital assets.

Collection Fund

A fund operated by the billing authority into which all receipts of Council tax and National Non-Domestic Rates (NNDR) are paid.

Contingent Liabilities

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the organisation's control, or a present obligation that arises from past events but is not recognised because it is not probable that a transfer of economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Council Tax

A tax on domestic properties introduced 1st April 1993 to replace the community charge.

Creditors

Amounts owed by the Council for goods and services received on or before 31st March.

GLOSSARY OF TERMS

Debtors

Amounts owed to the Council for goods and services provided on or before 31st March.

Deferred Charges

Items for which expenditure is charged to capital, but there is no tangible asset.

Depreciation

The loss in value of an asset due to age, wear and tear, deterioration and obsolescence.

Earmarked Reserves

Amounts set aside for a specific purpose or a particular service or type of expenditure.

Fixed Assets

Tangible assets that result in benefits to the local authority and the services it provides for more than a year.

Fixed Asset Restatement Account

Balance of surpluses or deficits arising on periodic revaluation of fixed assets.

General Fund

The account that summarises the revenue costs of providing services that are met by the Council's demand on the Collection Fund, specific government grants and other income.

Gross Expenditure

Total expenditure before deducting income.

Infrastructure Assets

Fixed assets that cannot be easily disposed of, expenditure on which is only recovered by continued use of assets.

Minimum Revenue Provision

The minimum amount the Council must charge to its revenue account to provide for repayment of debt.

National Non-Domestic Rates (NNDR)

A flat rate in the pound set by government and levied on businesses in the Council area.

Net Expenditure

Gross expenditure less income.

GLOSSARY OF TERMS

Operating Lease

A lease under which the asset is not the property of the lessee.

Outturn

Actual income and expenditure for the financial year.

Precept

The charge made by one authority to another to finance its net expenditure.

Private Finance Initiative (PFI)

Government initiative under which councils buy the services of the private sector to design, build, finance and operate a public facility.

Provision

Amounts set aside for any liability or loss that is likely to be incurred, but where the exact amount and date is uncertain.

Rateable Value

The value of a property for rating purposes set by the inland revenue. Business rates payable are calculated by multiplying the rateable value of the property by the rate in the pound set by government.

Reserves

The amount held in balances and funds that are free from specific liabilities or commitments.

Revenue Expenditure

The regular day-to-day running costs incurred in providing services.

Revenue Support Grant (RSG)

The main grant paid by central government to a local authority towards the cost of all its services.

Statement of Recommended Practice (SORP)

Recommendations on accounting practices issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) with which the Council must comply.

Support Services

Activities of a professional, technical and administrative nature, which are not local authority services in their own right, but support the front line service.

Trading Accounts

The profit and loss account of any trading organisation that needs to be disclosed separately in the Council's account.